

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENTS AUDIT REPORT

CITY OF MARION MUNICIPAL UTILITIES

GRANT COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED

12/20/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Julie L. Flores	01-01-16 to 12-31-18
Mayor	Jess Alumbaugh	01-01-16 to 12-31-19
President of the Utility Service Board	Robert J. Logan	01-01-16 to 12-31-18
President of the Board of Public Works and Safety	Bryan K. Harris	01-01-16 to 01-24-16
	Joselyn M. Whitticker (interim)	01-25-16 to 04-17-16
	Alex D. Huskey	04-18-16 to 12-31-16
	Adam Binkerd	01-01-17 to 06-19-17
	(Vacant)	06-20-17 to 07-02-17
	Cindy Cunningham	07-03-17 to 12-31-17
President of the Common Council	Linda Wilk	01-01-18 to 12-31-18
	James Brunner	01-01-16 to 12-31-17
	Brad Luzzader	01-01-18 to 12-31-18
Utilities Director	John C. Binkerd	01-01-16 to 12-31-18
Utility Office Manager	Mendy S. Cox	01-01-16 to 08-14-17
Executive Director/ Administrative Manager	Misty D. Humphries	11-20-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF MARION MUNICIPAL UTILITIES, GRANT COUNTY, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the City of Marion Municipal Utilities (Utilities), departments of the City of Marion (City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Qualified Opinion

Management has not included the net pension liability, and the related deferred outflows of resources, deferred inflows of resources, pension expense, and note disclosures in the Utilities' financial statements for the pension benefits provided to its employees. Accounting principles generally accepted in the United States of America requires the measuring and recognizing of liabilities, deferred outflows of resources, and deferred inflows of resources, and expense for pension benefits provided to employees, which would increase assets, liabilities, and have an impact on net position and operating income. The amount by which this departure would affect the assets, liabilities, net position, and operating income of the major funds of the Utilities has not been determined.

Qualified Opinion


In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major funds of the Utilities, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Utilities are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City, as of December 31, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Management has omitted the Management Discussion and Analysis, Schedule of Changes in the Utilities Net Pension Liability and Related Ratios, and Schedule of Utilities Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Paul D. Joyce, CPA
State Examiner

November 8, 2018

BASIC FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the Utilities. The financial statements and notes are presented as intended by the Utilities.

CITY OF MARION MUNICIPAL UTILITIES
STATEMENT OF NET POSITION
December 31, 2016

<u>Assets</u>	Water Utility	Wastewater Utility	Storm Water Utility	Solid Waste Utility
Current assets:				
Cash and cash equivalents	\$ 389,220	\$ 425,894	\$ 382,449	\$ 380,890
Accounts receivable (net of allowance)	431,522	463,427	447,874	172,473
Inventories	129,773	7,599	15,851	-
Prepaid items	26,951	36,429	11,340	10,833
Loan receivable	250,000	100,000	-	-
Other receivables	4,081	5,850	1,600	-
Total current assets	1,231,547	1,039,199	859,114	564,196
Noncurrent assets:				
Restricted cash and cash equivalents:				
Depreciation cash and cash equivalents	872,402	220,495	34,731	-
Bond and interest cash and cash equivalents	-	1,496,565	186,885	-
Bond and interest reserve cash and cash equivalents	-	608,513	429,920	-
Construction cash and cash equivalents	431,109	522,187	438,917	-
Customer deposits cash and cash equivalents	271,640	232,206	-	47,118
Quail Hollow cash and cash equivalents	21,700	-	-	-
LTCP cash and cash equivalents	-	3,033,759	-	-
Equipment reserve cash and cash equivalents	-	-	144,255	-
Capital lease cash and cash equivalents	-	-	-	179,379
H2O community cash and cash equivalents	-	7	-	-
Interest receivable	-	3,495	-	-
Loan receivable	300,000	950,000	100,000	-
Total restricted assets	1,896,851	7,067,227	1,334,708	226,497
Capital assets:				
Land and construction in progress	448,742	1,647,666	46,356	-
Other capital assets (net of accumulated depreciation)	23,967,217	28,188,415	11,279,663	1,855,178
Total capital assets	24,415,959	29,836,081	11,326,019	1,855,178
Total noncurrent assets	26,312,810	36,903,308	12,660,727	2,081,675
Total assets	27,544,357	37,942,507	13,519,841	2,645,871
Liabilities				
Current liabilities:				
Accounts payable	70,250	45,868	13,141	32,231
Wages payable	21,764	27,560	11,753	7,787
Taxes payable	28,595	14,226	828	639
Compensated absences payable	108,622	160,742	93,859	29,478
Current liabilities payable from restricted assets:				
Accounts payable	-	77,954	-	-
Contracts payable	36,280	-	-	-
Customer deposits	271,640	232,206	-	47,118
Interest payable	3,495	-	-	55,644
Bonds payable	-	335,000	-	-
Capital lease payable	-	-	-	172,087
Loan payable	-	-	373,397	-
Total current liabilities	540,646	893,556	492,978	344,984
Noncurrent liabilities:				
Bonds payable (net of unamortized premium and discount)	-	8,356,524	-	-
Capital lease payable	-	-	-	1,834,861
Loan payable	-	-	384,385	-
Total noncurrent liabilities	-	8,356,524	384,385	1,834,861
Total liabilities	540,646	9,250,080	877,363	2,179,845
Net position				
Net investment in capital assets	24,415,959	21,144,557	10,568,237	(151,770)
Restricted for debt service	-	2,105,078	616,805	-
Unrestricted	2,587,752	5,442,792	1,457,436	617,796
Total net position	\$ 27,003,711	\$ 28,692,427	\$ 12,642,478	\$ 466,026

The notes to the financial statements are an integral part of this statement.

CITY OF MARION MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
As Of And For The Year Ended December 31, 2016

	Water Utility	Wastewater Utility	Storm Water Utility	Solid Waste Utility
Operating revenues:				
Measured revenue:				
Residential	\$ 2,023,697	\$ 2,685,093	\$ 606,689	\$ 1,555,484
Industrial	186,210	313,452	274,257	-
Commercial	586,988	1,003,580	666,263	-
Institutional	432,731	790,911	315,423	-
Other	37,438	222,102	2,415	13,807
Fire protection revenue	763,652	-	-	-
Forfeited discounts	32,028	104,732	32,759	-
Other	<u>59,899</u>	<u>102,920</u>	<u>13,629</u>	<u>6,954</u>
Total operating revenues	<u>4,122,643</u>	<u>5,222,790</u>	<u>1,911,435</u>	<u>1,576,245</u>
Operating expenses:				
Wells - operation	91,394	-	-	-
Wells - maintenance	108,473	-	-	-
Treatment plant - operation	940,582	1,073,929	-	-
Treatment plant - maintenance	508,957	1,113,628	-	-
Distribution - operation	87,376	-	-	-
Distribution - maintenance	784,752	-	-	-
Storm Water - operation	-	-	70,633	-
Storm Water - maintenance	-	-	579,202	-
Solid Waste - operation	-	-	-	481,629
Solid Waste - maintenance	-	-	-	354,565
Laboratory expenses	-	300,300	-	-
Customer accounts	254,949	258,611	70,115	55,560
Administration and general	556,587	667,793	208,014	219,630
Depreciation	1,077,287	1,306,278	372,137	206,131
Taxes	<u>45,820</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>4,456,177</u>	<u>4,720,539</u>	<u>1,300,101</u>	<u>1,317,515</u>
Operating income (loss)	<u>(333,534)</u>	<u>502,251</u>	<u>611,334</u>	<u>258,730</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	3,929	23,496	3,091	1,128
Miscellaneous revenue	90,913	100,000	-	-
Gain on disposal of capital assets	-	13,500	-	-
Interest expense	<u>(2,998)</u>	<u>(716)</u>	<u>(27,472)</u>	<u>(65,627)</u>
Total nonoperating revenues (expenses)	<u>91,844</u>	<u>136,280</u>	<u>(24,381)</u>	<u>(64,499)</u>
Income (loss) before contributions and transfers	<u>(241,690)</u>	<u>638,531</u>	<u>586,953</u>	<u>194,231</u>
Capital contributions	604,280	183,225	342,570	-
Transfers in	-	-	1,405,620	-
Transfers out	<u>-</u>	<u>(1,405,620)</u>	<u>-</u>	<u>-</u>
Change in net position	362,590	(583,864)	2,335,143	194,231
Total net position - beginning	<u>26,641,121</u>	<u>29,276,291</u>	<u>10,307,335</u>	<u>271,795</u>
Total net position - ending	<u>\$ 27,003,711</u>	<u>\$ 28,692,427</u>	<u>\$ 12,642,478</u>	<u>\$ 466,026</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARION MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2016

	Water Utility	Wastewater Utility	Storm Water Utility	Solid Waste Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 4,060,443	\$ 5,213,141	\$ 1,844,956	\$ 1,563,314
Payments to suppliers and contractors	(1,645,558)	(1,561,015)	(417,961)	(625,057)
Payments to employees for wages and benefits	(1,676,459)	(1,837,875)	(522,609)	(541,374)
Net cash provided by operating activities	<u>738,426</u>	<u>1,814,251</u>	<u>904,386</u>	<u>396,883</u>
Cash flows from noncapital financing activities:				
Interfund loans	(300,000)	500,000	-	(200,000)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(27,102)	(6,484,027)	(402,934)	(54,361)
Proceeds from sale of capital assets	-	13,500	-	-
Principal paid on capital debt	-	-	(362,724)	-
Interest paid on capital debt	(4,563)	(274,229)	(27,472)	(11,101)
Nonoperating receipts	90,913	100,000	-	-
Net cash used by capital and related financing activities	<u>59,248</u>	<u>(6,644,756)</u>	<u>(793,130)</u>	<u>(65,462)</u>
Cash flows from investing activities:				
Interest received	3,929	26,180	3,091	1,128
Net increase (decrease) in cash and cash equivalents	501,603	(4,304,325)	114,347	132,549
Cash and cash equivalents, January 1	<u>1,484,468</u>	<u>10,843,951</u>	<u>1,502,810</u>	<u>474,838</u>
Cash and cash equivalents, December 31	<u>\$ 1,986,071</u>	<u>\$ 6,539,626</u>	<u>\$ 1,617,157</u>	<u>\$ 607,387</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (333,534)	\$ 502,251	\$ 611,334	\$ 258,730
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	1,077,287	1,306,278	372,137	206,131
(Increase) decrease in assets:				
Accounts receivable	(13,453)	(4,668)	(64,879)	(12,931)
Inventories	(1,136)	11,145	9,871	-
Prepaid items	3,927	(11,051)	1,752	(10,833)
Other receivables	(2,926)	(5,350)	(1,600)	-
Increase (decrease) in liabilities:				
Accounts payable	(35,929)	(26,224)	1,004	(71,632)
Wages payable	3,741	7,534	3,288	2,187
Taxes payable	9,922	14,226	828	639
Compensated absences payable	8,439	23,377	21,049	12,335
Accounts payable - restricted	-	77,954	(8,148)	-
Contracts payable - restricted	13,400	(78,527)	(42,250)	-
Customer deposits	8,688	(560)	-	12,257
Due to H2O community fund	-	(2,134)	-	-
Total adjustments	<u>1,071,960</u>	<u>1,312,000</u>	<u>293,052</u>	<u>138,153</u>
Net cash provided by operating activities	<u>\$ 738,426</u>	<u>\$ 1,814,251</u>	<u>\$ 904,386</u>	<u>\$ 396,883</u>
Noncash investing, capital and financing activities:				
Borrowing under capital lease	\$ -	\$ -	\$ -	\$ 2,006,948
Contributions of capital assets	604,280	183,225	342,570	-
Capital asset transfers	-	(1,405,620)	1,405,620	-
Capitalized interest	-	264,455	-	-

The notes to the financial statements are an integral part of this statement.

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the City of Marion Municipal Utilities (Utilities) and are not intended to present fairly the position of the City of Marion (City). The Utilities, whose operations are controlled by the City, represent all of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

All inventories are valued at cost using the first in/first out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants.

The financial statements report assets restricted by bond covenants of \$2,105,078 and \$616,805 for the Wastewater and Storm Water Utilities, respectively, of which \$2,105,078 and \$616,805 are restricted for Wastewater and Storm Water by enabling legislation.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 5,000	Straight-line	50 years
Infrastructure	5,000	Straight-line	50 years
Machinery and equipment	5,000	Straight-line	5-10 years
Transportation equipment	5,000	Straight-line	10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 7 days per year. Unused sick leave may be accumulated to a maximum of 37 days. Accumulated sick leave is not paid to employees upon termination, but is paid through cash payments upon retirement.
- b. Annual Leave – Utility employees earn annual leave at rates from 11 days to 31 days per year based upon the number of years of service. Annual leave may be accumulated to a

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

maximum of the current year's entitlement. Accumulated annual leave is paid to employees through cash payments upon termination or retirement.

Sick leave and annual leave is accrued when incurred and reported as a liability.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2016, the depository balances of cash and equivalents were \$1,986,071, \$6,539,626, \$1,617,157, and \$607,387 for the Water, Wastewater, Storm Water, and Solid Waste Utilities, respectively.

The depository balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Loans Receivable

At December 31, 2016, the Utilities had loans receivable from the City of Marion (City) of \$1,700,000 (Water Operating \$250,000; Water Construction \$300,000; Wastewater Operating \$100,000; Wastewater Depreciation \$100,000; Wastewater Construction \$350,000; Wastewater Long Term Control Plan \$500,000; Storm Water Construction \$100,000). No payments were made on these loans during fiscal year 2016.

The Wastewater Utility loaned \$600,000 to the Water Utility in 2014. \$300,000 of this loan was paid during fiscal year 2015 and the remaining \$300,000 was paid during fiscal year 2016. This loan was fully repaid as of December 31, 2016.

C. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Water Utility:</u>				
Capital assets, not being depreciated:				
Land	\$ 340,174	\$ -	\$ -	\$ 340,174
Construction in progress	103,318	5,250	-	108,568
Total capital assets, not being depreciated	<u>443,492</u>	<u>5,250</u>	<u>-</u>	<u>448,742</u>
Capital assets, being depreciated:				
Buildings	13,451,767	-	-	13,451,767
Infrastructure	36,019,545	626,131	-	36,645,676
Machinery and equipment	1,697,148	-	-	1,697,148
Transportation equipment	865,626	-	-	865,626
Totals	<u>52,034,086</u>	<u>626,131</u>	<u>-</u>	<u>52,660,217</u>
Less accumulated depreciation for:				
Buildings	(6,207,194)	(265,068)	-	(6,472,262)
Infrastructure	(19,688,011)	(614,859)	-	(20,302,870)
Machinery and equipment	(1,125,878)	(143,922)	-	(1,269,800)
Transportation equipment	(594,630)	(53,438)	-	(648,068)
Totals	<u>(27,615,713)</u>	<u>(1,077,287)</u>	<u>-</u>	<u>(28,693,000)</u>
Total capital assets, being depreciated, net	<u>24,418,373</u>	<u>(451,156)</u>	<u>-</u>	<u>23,967,217</u>
Total capital assets, net	<u>\$ 24,861,865</u>	<u>\$ (445,906)</u>	<u>\$ -</u>	<u>\$ 24,415,959</u>
<u>Wastewater Utility:</u>				
Capital assets, not being depreciated:				
Land	\$ 28,535	\$ -	\$ -	\$ 28,535
Construction in progress	1,471,771	1,089,330	941,970	1,619,131
Total capital assets, not being depreciated	<u>1,500,306</u>	<u>1,089,330</u>	<u>941,970</u>	<u>1,647,666</u>
Capital assets, being depreciated:				
Buildings	24,077,006	-	-	24,077,006
Infrastructure	26,777,593	1,799,272	7,930	28,568,935
Machinery and equipment	1,431,101	3,579,455	-	5,010,556
Transportation equipment	726,640	-	23,850	702,790
Totals	<u>53,012,340</u>	<u>5,378,727</u>	<u>31,780</u>	<u>58,359,287</u>
Less accumulated depreciation for:				
Buildings	(14,919,025)	(452,179)	-	(15,371,204)
Infrastructure	(12,718,051)	(371,380)	(7,930)	(13,081,501)
Machinery and equipment	(660,736)	(464,845)	-	(1,125,581)
Transportation equipment	(598,562)	(17,874)	(23,850)	(592,586)
Totals	<u>(28,896,374)</u>	<u>(1,306,278)</u>	<u>(31,780)</u>	<u>(30,170,872)</u>
Total capital assets, being depreciated, net	<u>24,115,966</u>	<u>4,072,449</u>	<u>-</u>	<u>28,188,415</u>
Total capital assets, net	<u>\$ 25,616,272</u>	<u>\$ 5,161,779</u>	<u>\$ 941,970</u>	<u>\$ 29,836,081</u>

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Storm Water Utility:

Capital assets, not being depreciated:				
Construction in progress	\$ 29,384	\$ 16,972	\$ -	\$ 46,356
Capital assets, being depreciated:				
Infrastructure	14,390,816	2,079,330	9,363	16,460,783
Machinery and equipment	250,225	-	-	250,225
Transportation equipment	<u>1,227,212</u>	<u>54,822</u>	<u>43,259</u>	<u>1,238,775</u>
Totals	<u>15,868,253</u>	<u>2,134,152</u>	<u>52,622</u>	<u>17,949,783</u>
Less accumulated depreciation for:				
Infrastructure	(5,561,492)	(267,841)	(9,363)	(5,819,970)
Machinery and equipment	(218,019)	(8,175)	-	(226,194)
Transportation equipment	<u>(571,094)</u>	<u>(96,121)</u>	<u>(43,259)</u>	<u>(623,956)</u>
Totals	<u>(6,350,605)</u>	<u>(372,137)</u>	<u>(52,622)</u>	<u>(6,670,120)</u>
Total capital assets, being depreciated, net	<u>9,517,648</u>	<u>1,762,015</u>	<u>-</u>	<u>11,279,663</u>
Total capital assets, net	<u>\$ 9,547,032</u>	<u>\$ 1,778,987</u>	<u>\$ -</u>	<u>\$ 11,326,019</u>

Solid Waste Utility

Capital assets, being depreciated:				
Machinery and equipment	\$ -	\$ 652,667	\$ -	\$ 652,667
Transportation equipment	<u>-</u>	<u>1,408,642</u>	<u>-</u>	<u>1,408,642</u>
Totals	<u>-</u>	<u>2,061,309</u>	<u>-</u>	<u>2,061,309</u>
Less accumulated depreciation for:				
Machinery and equipment	-	(65,267)	-	(65,267)
Transportation equipment	<u>-</u>	<u>(140,864)</u>	<u>-</u>	<u>(140,864)</u>
Totals	<u>-</u>	<u>(206,131)</u>	<u>-</u>	<u>(206,131)</u>
Total capital assets, net	<u>\$ -</u>	<u>\$ 1,855,178</u>	<u>\$ -</u>	<u>\$ 1,855,178</u>

Depreciation expense was charged to functions/programs of the Utilities as follows:

Water	\$ 1,077,287
Wastewater	1,306,278
Storm Water	372,137
Solid Waste	<u>206,131</u>
Total depreciation expense	<u>\$ 2,961,833</u>

D. Construction Commitments

Construction work in progress is composed of the following:

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Project</u>	2016	
	Expended to December 31,	Committed
Water Utility:		
CUSI SOFTWARE MILESTONES	\$ 108,568	\$ 125,878
Wastewater Utility:		
CUSI SOFTWARE MILESTONES	\$ 129,413	\$ 150,288
CIP WW00-15-01 AERATION IMPROV	7,676	100,000
CIP 06-15-10 1300 WASH ST IMPROV	561,985	566,200
CIP 06-15-30 AERATION UPGRADES	155,814	333,300
CIP 06-15-28 1400 N WASHINGTON	396,819	750,000
CIP 06-17-02 BLOWER PROJECT	11,799	750,000
CAPITALIZED INTEREST	355,625	355,625
Totals	\$ 1,619,131	\$ 3,005,413
Stormwater Utility:		
CUSI SOFTWARE MILESTONES	\$ 46,356	\$ 53,833

E. Operating Lease

The Water Utility entered into operating leases having initial or remaining noncancelable terms exceeding one year for a mailing system. The first lease was entered into in 2011 and had a 5 year term expiring in 2016. Rental expenditures for this lease were \$2,064. The second leases was entered into in 2016 for 63 months with payments starting in 2017. The following is a schedule by years of future minimum rental payments as of December 31, 2016:

	Water Utility
2017	\$ 1,931
2018	1,931
2019	1,931
2020	1,931
2021	1,931
2022	483
Total	\$ 10,138

F. Long-Term Liabilities

1. Changes in Long-Term Liabilities

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Wastewater Utility:					
Revenue bonds payable	\$ 8,610,000	\$ -	\$ -	\$ 8,610,000	\$ 335,000
Storm Water Utility:					
Loan payable	\$ 1,120,506	\$ -	\$ 362,724	\$ 757,782	\$ 373,397
Solid Waste Utility:					
Capital lease payable	\$ -	\$ 2,006,948	\$ -	\$ 2,006,948	\$ 172,087

2. Bonds Payable

The Wastewater Utility issued bonds to be paid by income derived from the acquired or constructed asset. Revenue bonds outstanding at year end are as follows:

	Interest	Balance at 12/31/16	Plus/Minus Unamortized Bond Premium/ Discount	Amount
2015 Sewage Works Revenue Bonds	3% to 3.5%	\$ 8,610,000	\$ 81,524	\$ 8,691,524

Revenue bonds debt service requirements to maturity are as follows:

	Wastewater Utility	
	Principal	Interest
2017	\$ 335,000	\$ 136,756
2018	335,000	263,463
2019	340,000	253,413
2020	350,000	243,213
2021	355,000	232,713
2022-2026	1,930,000	997,812
2027-2031	2,255,000	688,025
2032-2036	2,710,000	290,150
Totals	<u>\$ 8,610,000</u>	<u>\$ 3,105,545</u>

3. Loan Payable

The Storm Water Utility has entered into a State Revolving Fund loan. Annual debt service requirements to maturity for the loan, including interest of \$22,135 are as follows:

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Storm Water Utility	
	Principal	Interest
2017	\$ 373,397	\$ 10,988
2018	384,385	11,147
Totals	\$ 757,782	\$ 22,135

4. Capital Lease Payable

The Solid Waste Utility entered into a 10 year capital lease on February 29, 2016 in the amount of \$2,006,948 for transfer station equipment. Annual debt service requirements to maturity for the capital lease are as follows:

	Solid Waste Utility	
	Principal	Interest
2017	\$ 172,087	\$ 66,774
2018	178,486	60,375
2019	184,359	54,502
2020	190,425	48,436
2021	196,691	42,170
2022-2026	1,084,900	109,405
Totals	\$ 2,006,948	\$ 381,662

G. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	Water Utility	Wastewater Utility	Storm Water Utility	Solid Waste Utility
Customer deposits	\$ 271,640	\$ 232,206	\$ -	\$ 47,118
Bond and interest	-	1,496,565	186,885	-
Bond and interest reserve	-	608,513	429,920	-
Internally restricted	1,625,211	4,729,943	717,903	179,379
Total restricted assets	\$ 1,896,851	\$ 7,067,227	\$ 1,334,708	\$ 226,497

H. Revenues Pledged

The Storm Water Utility has pledged future operating revenues, net of specified operating expenditures, to repay the State Revolving Fund loan received in 2001. Proceeds from the loan

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

provided financing for storm water infrastructure improvements. The loan is payable solely from net operating revenues and is payable through 2018. Annual principal and interest payments are expected to require less than 20 percent of net revenues.

The Wastewater Utility has pledged future operating revenues, net of specified operating expenditures, to repay revenue bonds issued in 2015. Proceeds from the bonds provided financing for wastewater improvement projects. The bonds are payable solely from net operating revenues and are payable through 2036. Annual principal and interest payments are expected to require less than 12 percent of net revenues.

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past 3 years. There were no significant reductions in insurance by major category of risk.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 30, 2005. The Utility has approximately 10,761 customers.

2. Wastewater Utility

The current rate structure was approved by the City of Marion Common Council on February 15, 2011. The rate structure has a rate increase built in each year from 2011 to 2026. The average increase for 2016 was approximately 7.0 percent. The Utility has approximately 11,002 customers.

3. Storm Water Utility

The current rate structure was approved by the City of Marion Common Council on November 16, 1994. The Utility has approximately 11,901 customers.

4. Solid Waste Utility

The current rate structure was approved by the City of Marion Common Council on December 2, 2014. The Utility has approximately 9,121 customers.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. On July 1, 2013, PERF changed from an agent multiple-employer to a cost-sharing multiple-employer retirement plan. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capitol Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is available and can be obtained by contacting INPRS.

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.