

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, 2017 to December 31, 2017



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	01-01-17 to 12-31-18
Mayor	Jess Alumbaugh	01-01-16 to 12-31-19
President of the Utility Service Board	Robert J. Logan	01-01-17 to 12-31-18
President of the Board of Public Works and Safety	Adam Binkerd (Vacant) Cindy Cunningham Linda Wilk	01-01-17 to 06-19-17 06-20-17 to 07-02-17 07-03-17 to 12-31-17 01-01-18 to 12-31-18
President of the Common Council	James Brunner Brad Luzzader	01-01-17 to 12-31-17 01-01-18 to 12-31-18
Utilities Director	John C. Binkerd	01-01-17 to 12-31-18
Utility Office Manager	Mendy S. Cox	01-01-17 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, 2017, 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 an opinion 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, 2017, 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, 2017, 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, 2017

<u>Assets</u>	Water Utility	Wastewater Utility	Storm Water Utility	Solid Waste Utility
Current assets:				
Cash and cash equivalents	\$ 435,279	\$ 224,388	\$ 207,144	\$ 259,654
Accounts receivable (net of allowance)	471,334	570,761	525,666	196,878
Inventories	130,928	7,343	18,392	-
Prepaid items	26,382	33,156	12,539	9,663
Loan receivable	250,000	100,000	-	-
Due from other funds	-	150,000	-	-
Other receivables	395	12,345	3,030	1,160
Total current assets	1,314,318	1,097,993	766,771	467,555
Noncurrent assets:				
Restricted cash and cash equivalents:				
Depreciation cash and cash equivalents	206,539	160,407	186,733	307,974
Bond and interest cash and cash equivalents	-	485,147	-	-
Bond and interest reserve cash and cash equivalents	-	608,513	-	-
Construction cash and cash equivalents	479,779	322,522	748,870	-
Customer deposits cash and cash equivalents	261,157	242,939	-	75,164
Quail Hollow cash and cash equivalents	21,700	-	-	-
LTCP cash and cash equivalents	-	3,005,237	-	-
Equipment reserve cash and cash equivalents	-	-	424,238	-
Capital lease cash and cash equivalents	-	-	-	197,394
H2O community cash and cash equivalents	-	250	-	-
Loan receivable	300,000	950,000	100,000	-
Total restricted assets	1,269,175	5,775,015	1,459,841	580,532
Capital assets:				
Land and construction in progress	340,174	2,623,067	-	-
Other capital assets (net of accumulated depreciation)	24,724,300	28,838,882	11,212,938	1,671,080
Total capital assets	25,064,474	31,461,949	11,212,938	1,671,080
Total noncurrent assets	26,333,649	37,236,964	12,672,779	2,251,612
Total assets	27,647,967	38,334,957	13,439,550	2,718,967
Liabilities				
Current liabilities:				
Accounts payable	378	5,969	-	4,301
Wages payable	23,254	53,940	20,835	12,622
Taxes payable	31,129	15,773	-	731
Compensated absences payable	118,999	170,121	94,935	35,882
Due to other funds	-	-	-	150,000
Current liabilities payable from restricted assets:				
Customer deposits	261,157	242,939	-	75,164
Interest payable	3,495	-	-	50,312
Bonds payable	-	335,000	-	-
Capital lease payable	-	-	-	182,390
Total current liabilities	438,412	823,742	115,770	511,402
Noncurrent liabilities:				
Bonds payable (net of unamortized premium and discount)	-	8,012,465	-	-
Capital lease payable	-	-	-	1,647,614
Total noncurrent liabilities	-	8,012,465	-	1,647,614
Total liabilities	438,412	8,836,207	115,770	2,159,016
Net position				
Net investment in capital assets	25,064,474	23,114,484	11,212,938	(158,924)
Restricted for debt service	-	1,093,660	-	-
Unrestricted	2,145,081	5,290,606	2,110,842	718,875
Total net position	\$ 27,209,555	\$ 29,498,750	\$ 13,323,780	\$ 559,951

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, 2017

	Water Utility	Wastewater Utility	Storm Water Utility	Solid Waste Utility
Operating revenues:				
Measured revenue:				
Residential	\$ 1,838,762	\$ 2,709,436	\$ 580,200	\$ 1,531,454
Industrial	180,969	316,906	278,290	-
Commercial	576,906	1,031,069	680,204	-
Institutional	428,486	866,380	314,330	-
Other	136,216	253,048	-	-
Fire protection revenue	583,756	-	-	-
Forfeited discounts	23,981	81,085	23,222	33,726
Other	<u>266,319</u>	<u>122,600</u>	<u>12,565</u>	<u>35,608</u>
Total operating revenues	<u>4,035,395</u>	<u>5,380,524</u>	<u>1,888,811</u>	<u>1,600,788</u>
Operating expenses:				
Wells - operation	82,525	-	-	-
Wells - maintenance	57,191	-	-	-
Treatment plant - operation	793,341	1,052,010	-	-
Treatment plant - maintenance	559,655	939,812	-	-
Distribution - operation	31,202	-	-	-
Distribution - maintenance	652,617	-	-	-
Storm Water - operation	-	-	20,281	-
Storm Water - maintenance	-	-	560,052	-
Solid Waste - operation	-	-	-	395,208
Solid Waste - maintenance	-	-	-	499,745
Laboratory expenses	-	274,382	-	-
Customer accounts	226,163	284,638	77,773	57,557
Administration and general	622,357	807,358	310,686	161,126
Depreciation	1,107,232	1,525,707	408,164	202,056
Taxes	<u>38,679</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>4,170,962</u>	<u>4,883,907</u>	<u>1,376,956</u>	<u>1,315,692</u>
Operating income (loss)	<u>(135,567)</u>	<u>496,617</u>	<u>511,855</u>	<u>285,096</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	5,645	19,358	5,048	2,310
Miscellaneous revenue	29,602	80,000	-	-
Loss on disposal of capital assets	(17,831)	-	-	(132,041)
Interest expense	<u>-</u>	<u>-</u>	<u>(10,987)</u>	<u>(61,440)</u>
Total nonoperating revenues (expenses)	<u>17,416</u>	<u>99,358</u>	<u>(5,939)</u>	<u>(191,171)</u>
Income (loss) before contributions	<u>(118,151)</u>	<u>595,975</u>	<u>505,916</u>	<u>93,925</u>
Capital contributions	<u>323,995</u>	<u>210,348</u>	<u>175,386</u>	<u>-</u>
Change in net position	<u>205,844</u>	<u>806,323</u>	<u>681,302</u>	<u>93,925</u>
Total net position - beginning	<u>27,003,711</u>	<u>28,692,427</u>	<u>12,642,478</u>	<u>466,026</u>
Total net position - ending	<u>\$ 27,209,555</u>	<u>\$ 29,498,750</u>	<u>\$ 13,323,780</u>	<u>\$ 559,951</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, 2017

	Water Utility	Wastewater Utility	Storm Water Utility	Solid Waste Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 3,960,591	\$ 5,266,977	\$ 1,809,585	\$ 1,575,224
Payments to suppliers and contractors	(1,470,548)	(1,450,799)	(295,437)	(562,621)
Payments to employees for wages and benefits	(1,657,324)	(1,973,968)	(680,902)	(538,398)
Net cash provided by operating activities	<u>832,719</u>	<u>1,842,210</u>	<u>833,246</u>	<u>474,205</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(1,516,183)	(2,681,798)	(119,696)	(150,000)
Proceeds from sale of capital assets	66,600	-	-	-
Principal paid on capital debt	-	(335,000)	(757,782)	(176,943)
Due from/to other funds	-	(150,000)	-	150,000
Interest paid on capital debt	-	(268,488)	(10,988)	(66,773)
Nonoperating receipts	29,602	80,000	-	-
Net cash used by capital and related financing activities	<u>(1,419,981)</u>	<u>(3,355,286)</u>	<u>(888,466)</u>	<u>(243,716)</u>
Cash flows from investing activities:				
Interest received	5,645	22,853	5,048	2,310
Net increase (decrease) in cash and cash equivalents	(581,617)	(1,490,223)	(50,172)	232,799
Cash and cash equivalents, January 1	1,986,071	6,539,626	1,617,157	607,387
Cash and cash equivalents, December 31	<u>\$ 1,404,454</u>	<u>\$ 5,049,403</u>	<u>\$ 1,566,985</u>	<u>\$ 840,186</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ (135,567)	\$ 496,617	\$ 511,855	\$ 285,096
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	1,107,232	1,525,707	408,164	202,056
(Increase) decrease in assets:				
Accounts receivable	(39,812)	(107,334)	(77,792)	(24,405)
Inventories	(1,155)	256	(2,541)	-
Prepaid items	569	3,273	(1,199)	1,170
Other receivables	3,686	(6,495)	(1,430)	(1,160)
Increase (decrease) in liabilities:				
Accounts payable	(69,872)	(39,899)	(13,141)	(28,311)
Wages payable	1,490	26,380	9,082	4,835
Taxes payable	2,534	1,547	(828)	93
Compensated absences payable	10,377	9,379	1,076	6,404
Other liabilities - restricted	-	(77,954)	-	-
Contracts payable - restricted	(36,280)	-	-	-
Customer deposits	(10,483)	10,733	-	28,427
Total adjustments	<u>968,286</u>	<u>1,345,593</u>	<u>321,391</u>	<u>189,109</u>
Net cash provided by operating activities	<u>\$ 832,719</u>	<u>\$ 1,842,210</u>	<u>\$ 833,246</u>	<u>\$ 474,205</u>
Noncash investing, capital and financing activities:				
Borrowing under capital lease	\$ -	\$ -	\$ -	\$ 590,000
Contributions of capital assets	323,995	210,348	175,386	-
Capitalized interest	-	259,429	-	-
Trade-in allowance on acquisition	-	-	-	440,000

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

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017

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.

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017
(Continued)

2. Inventories and Prepaid Items

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 \$1,093,660 for the Wastewater Utility, which is restricted 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.

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017
(Continued)

- 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 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, 2017, the depository balances of cash and equivalents were \$1,404,454, \$5,049,403, \$1,566,985, and \$840,186 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, 2017, 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 2017.

The Wastewater Utility loaned \$150,000 to the Solid Waste Utility in 2017. This entire amount of this loan was outstanding as of December 31, 2017.

C. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Water Utility:</u>				
Capital assets, not being depreciated:				
Land	\$ 340,174	\$ -	\$ -	\$ 340,174
Construction in progress	108,568	16,465	125,033	-
Total capital assets, not being depreciated	<u>448,742</u>	<u>16,465</u>	<u>125,033</u>	<u>340,174</u>
Capital assets, being depreciated:				
Buildings	13,451,767	1,130,332	-	14,582,099
Infrastructure	36,645,676	323,995	-	36,969,671
Machinery and equipment	1,697,148	142,396	-	1,839,544
Transportation equipment	865,626	352,023	170,761	1,046,888
Totals	<u>52,660,217</u>	<u>1,948,746</u>	<u>170,761</u>	<u>54,438,202</u>
Less accumulated depreciation for:				
Buildings	(6,472,262)	(287,675)	-	(6,759,937)
Infrastructure	(20,302,870)	(621,268)	-	(20,924,138)
Machinery and equipment	(1,269,800)	(128,271)	-	(1,398,071)
Transportation equipment	(648,068)	(70,018)	(86,330)	(631,756)
Totals	<u>(28,693,000)</u>	<u>(1,107,232)</u>	<u>(86,330)</u>	<u>(29,713,902)</u>
Total capital assets, being depreciated, net	<u>23,967,217</u>	<u>841,514</u>	<u>84,431</u>	<u>24,724,300</u>
Total capital assets, net	<u>\$ 24,415,959</u>	<u>\$ 857,979</u>	<u>\$ 209,464</u>	<u>\$ 25,064,474</u>
<u>Wastewater Utility:</u>				
Capital assets, not being depreciated:				
Land	\$ 28,535	\$ -	\$ -	\$ 28,535
Construction in progress	1,619,131	1,822,613	847,212	2,594,532
Total capital assets, not being depreciated	<u>1,647,666</u>	<u>1,822,613</u>	<u>847,212</u>	<u>2,623,067</u>
Capital assets, being depreciated:				
Buildings	24,077,006	738,967	-	24,815,973
Infrastructure	28,568,935	730,620	41,918	29,257,637
Machinery and equipment	5,010,556	684,846	-	5,695,402
Transportation equipment	702,790	21,741	-	724,531
Totals	<u>58,359,287</u>	<u>2,176,174</u>	<u>41,918</u>	<u>60,493,543</u>
Less accumulated depreciation for:				
Buildings	(15,371,204)	(474,350)	-	(15,845,554)
Infrastructure	(13,081,501)	(500,370)	(41,918)	(13,539,953)
Machinery and equipment	(1,125,581)	(534,757)	-	(1,660,338)
Transportation equipment	(592,586)	(16,230)	-	(608,816)
Totals	<u>(30,170,872)</u>	<u>(1,525,707)</u>	<u>(41,918)</u>	<u>(31,654,661)</u>
Total capital assets, being depreciated, net	<u>28,188,415</u>	<u>650,467</u>	<u>-</u>	<u>28,838,882</u>
Total capital assets, net	<u>\$ 29,836,081</u>	<u>\$ 2,473,080</u>	<u>\$ 847,212</u>	<u>\$ 31,461,949</u>

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Storm Water Utility:</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 46,356	\$ 7,260	\$ 53,616	\$ -
Capital assets, being depreciated:				
Buildings	-	59,858	-	59,858
Infrastructure	16,460,783	225,819	2,607	16,683,995
Machinery and equipment	250,225	55,762	-	305,987
Transportation equipment	1,238,775	-	-	1,238,775
Totals	17,949,783	341,439	2,607	18,288,615
Less accumulated depreciation for:				
Buildings	-	(2,607)	-	(2,607)
Infrastructure	(5,819,970)	(301,085)	(2,607)	(6,118,448)
Machinery and equipment	(226,194)	(13,751)	-	(239,945)
Transportation equipment	(623,956)	(90,721)	-	(714,677)
Totals	(6,670,120)	(408,164)	(2,607)	(7,075,677)
Total capital assets, being depreciated, net	11,279,663	(66,725)	-	11,212,938
Total capital assets, net	\$ 11,326,019	\$ (59,465)	\$ 53,616	\$ 11,212,938
<u>Solid Waste Utility</u>				
Capital assets, being depreciated:				
Machinery and equipment	\$ 652,667	\$ -	\$ -	\$ 652,667
Transportation equipment	1,408,642	590,000	635,602	1,363,040
Totals	2,061,309	590,000	635,602	2,015,707
Less accumulated depreciation for:				
Machinery and equipment	(65,267)	(65,267)	-	(130,534)
Transportation equipment	(140,864)	(136,789)	(63,560)	(214,093)
Totals	(206,131)	(202,056)	(63,560)	(344,627)
Total capital assets, net	\$ 1,855,178	\$ 387,944	\$ 572,042	\$ 1,671,080

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

Water	\$ 1,107,232
Wastewater	1,525,707
Storm Water	408,164
Solid Waste	202,056
Total depreciation expense	\$ 3,243,159

D. Construction Commitments

Construction work in progress is composed of the following:

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017
(Continued)

<u>Project</u>	<u>2017</u>	
	<u>Expended to December 31,</u>	<u>Committed</u>
Wastewater Utility:		
Admin Traffic Reroute	\$ 350,391	\$ 350,391
Aeration Improvements	7,676	100,000
Rehab Stonecrest	40,945	83,000
4th St Storm Swr Ext	86,473	250,000
Home Ave CSO	9,685	1,500,000
1400 Washington St Improvements	521,308	750,000
Capitalized Interest	615,055	615,055
Blower project	962,999	962,999
	<u> </u>	<u> </u>
Totals	<u>\$ 2,594,532</u>	<u>\$ 4,611,445</u>

E. Operating Lease

The Water Utility entered into an operating lease having initial or remaining noncancelable terms exceeding one year for a mailing system. The lease 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, 2017:

	<u>Water Utility</u>
2018	\$ 1,931
2019	1,931
2020	1,931
2021	1,931
2022	483
	<u> </u>
Total	<u>\$ 8,207</u>

F. Long-Term Liabilities

1. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

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NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Wastewater Utility:					
Revenue bonds payable	\$ 8,610,000	\$ -	\$ 335,000	\$ 8,275,000	\$ 335,000
Storm Water Utility:					
Loan payable	\$ 757,782	\$ -	\$ 757,782	\$ -	\$ -
Solid Waste Utility:					
Capital lease payable	\$ 2,006,948	\$ 590,000	\$ 766,944	\$ 1,830,004	\$ 182,390

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:

Purpose	Interest Rates	Balance at 12/31/17	Plus/Minus Unamortized Bond Premium/ Discount	Amount
2015 Sewage Works Revenue Bonds	3% to 3.5%	\$ 8,275,000	\$ 72,465	\$ 8,347,465

Revenue bonds debt service requirements to maturity are as follows:

	Wastewater Utility	
	Principal	Interest
2018	\$ 335,000	\$ 131,731
2019	340,000	253,413
2020	350,000	243,213
2021	355,000	232,713
2022	365,000	222,063
2023-2027	1,985,000	939,912
2028-2032	2,335,000	617,438
2033-2036	2,210,000	196,575
Totals	\$ 8,275,000	\$ 2,837,058

3. Loan Payable

The Storm Water Utility entered into a State Revolving Fund loan in 2001. The remaining principal outstanding as of December 31, 2016 of \$757,782 was paid off during fiscal year 2017.

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017
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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 and a 10 year lease in 2017 in the amount of \$590,000 for transfer station equipment. The 2017 lease replaced certain equipment that was leased as part of the 2016 capital lease and as such restructured the 2016 lease to reduce the principal owed by \$590,000. Annual debt service requirements to maturity for the capital leases are as follows:

	Solid Waste Utility	
	Principal	Interest
2018	\$ 182,390	\$ 54,712
2019	171,550	65,552
2020	178,292	58,810
2021	185,305	51,798
2022	192,598	44,504
2023-2027	919,869	102,429
Totals	\$ 1,830,004	\$ 377,805

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	\$ 261,157	\$ 242,939	\$ -	\$ 75,164
Bond and interest	-	485,147	-	-
Bond and interest reserve	-	608,513	-	-
Internally restricted	1,008,018	4,438,416	1,459,841	505,368
Total restricted assets	\$ 1,269,175	\$ 5,775,015	\$ 1,459,841	\$ 580,532

H. Revenues Pledged

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.

CITY OF MARION MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017
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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 2017 was approximately 6.55 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

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

CITY OF MARION MUNICIPAL UTILITIES
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For the Fiscal Year Ended December 31, 2017
(Continued)

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/>.