

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT
OF

LEBANON UTILITIES
CITY OF LEBANON
BOONE COUNTY, INDIANA

January 1, 2004 to December 31, 2005



FILED
08/25/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Auditor's Report.....	3
Statement of Net Assets.....	4
Statement of Revenues, Expenses and Changes in Fund Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-24
Supplementary Information: Schedule of Funding Progress	25
Exit Conference	26

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Ottinger	01-01-04 to 12-31-07
Mayor	James Acton	01-01-04 to 12-31-07
President of the Board of Public Works	James Acton	01-01-04 to 12-31-07
President of the Common Council	John W. Lasley	01-01-04 to 12-31-06
General Manager of Utilities	Michael Martin	01-01-04 to 12-31-06
Manager of Financial Services and Human Resources	Sandra Morgan	01-01-04 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE LEBANON UTILITIES, CITY OF LEBANON, BOONE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Lebanon Utilities, departments of the City of Lebanon, as of and for the years ended December 31, 2004 and 2005. These financial statements are the responsibility of the Utility's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Lebanon Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City of Lebanon as of December 31, 2004 and 2005, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Lebanon Utilities, as of December 31, 2004 and 2005, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The Schedules of Funding Progress as listed in the table of contents are not required parts of the basis financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Lebanon Utilities have not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

July 19, 2006

LEBANON UTILITIES
CITY OF LEBANON
STATEMENT OF NET ASSETS
December 31, 2004 And 2005

Assets	2004				2005			
	Electric Utility	Water Utility	Wastewater Utility	Tele-communications Utility	Electric Utility	Water Utility	Wastewater Utility	Tele-communications Utility
Current assets:								
Cash and investments	\$ 3,149,271	\$ 1,010,003	\$ 460,507	\$ -	\$ 3,022,632	\$ 1,338,057	\$ 616,913	\$ 18,357
Cash with fiscal agent	-	17,153	-	-	-	17,153	-	-
Interest receivable	13,624	9,083	2,107	-	49,679	18,452	10,057	-
Accounts receivable (net of allowance)	985,721	175,166	273,319	-	1,078,407	181,403	273,756	-
Other accounts receivable	66,554	-	-	-	673,284	-	-	-
Interfund receivables:								
Interfund loans	-	2,915,102	-	-	-	2,580,239	-	-
Inventories	205,050	81,066	13,471	-	235,638	78,696	19,996	-
Prepaid items	1,965	2,510	1,784	-	28,324	21,920	21,151	2,381
Total current assets	4,422,185	4,210,083	751,188	-	5,087,964	4,235,920	941,873	20,738
Noncurrent assets:								
Restricted cash and cash equivalents:								
Availability fund	-	59,066	1,600	-	-	469,365	-	-
Depreciation reserve fund	-	1,626,801	-	-	-	1,734,241	-	-
Improvement fund	-	-	894,690	-	-	-	765,076	-
Debt service fund	-	-	152,003	-	-	-	416,000	-
Project fund	-	-	-	42,766	-	-	-	148,269
Bond and interest fund	-	-	78,686	-	-	-	136,727	-
Construction fund	-	-	1,255,619	-	-	-	4,085,659	-
Renew and replacement fund	1,060,261	-	-	-	1,281,630	-	-	-
Customer deposits	1,050	275	-	-	175	25	-	-
Restricted Investments:								
Renewal and replacement fund	4,624,285	-	-	-	4,627,590	-	-	-
Depreciation reserve fund	-	2,000,000	339,085	-	-	2,000,000	339,085	-
Total restricted assets	5,685,596	3,686,142	2,721,683	42,766	5,909,395	4,203,631	5,742,547	148,269
Deferred charges	-	-	155,558	-	-	-	266,959	-
Capital assets:								
Land, improvements to land and construction in progress	625,449	1,046,178	2,522,245	100,932	127,273	300,218	3,950,318	-
Goodwill	-	-	-	-	-	-	-	73,228
Other capital assets (net of accumulated depreciation)	3,495,088	11,829,647	18,504,950	-	3,852,271	12,627,796	18,666,776	282,889
Total capital assets	4,120,537	12,875,825	21,027,195	100,932	3,979,544	12,928,014	22,617,094	356,117
Total noncurrent assets	9,806,133	16,561,967	23,904,436	143,698	9,888,939	17,131,645	28,626,600	504,386
Total assets	14,228,318	20,772,050	24,655,624	143,698	14,976,903	21,367,565	29,568,473	525,124
Liabilities								
Current liabilities:								
Accounts payable	1,461,892	24,293	44,408	-	1,732,233	21,525	41,593	13,793
Accrued wages payable	16,242	3,891	5,313	-	24,579	15,825	19,936	1,112
Interfund payables:								
Interfund loans	-	-	2,915,102	-	-	-	2,580,239	-
Contracts payable	2,976	976	976	-	-	-	-	-
Taxes payable	44,534	6,963	-	-	50,449	7,680	-	-
Matured unpaid bonds and coupons	-	17,153	-	-	-	17,153	-	-
Current liabilities payable from restricted assets:								
Customer deposits	1,050	275	-	-	175	25	-	-
Revenue bonds payable	-	-	245,000	-	-	-	310,000	-
Total current liabilities	1,526,694	53,551	3,210,799	-	1,807,436	62,208	2,951,768	14,905
Noncurrent liabilities:								
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	-	-	4,945,297	-	-	-	9,070,549	-
Notes payable	-	-	-	150,000	-	-	-	600,000
Compensated absences	130,140	165,533	184,786	-	142,907	178,689	188,030	-
Total noncurrent liabilities	130,140	165,533	5,130,083	150,000	142,907	178,689	9,258,579	600,000
Total liabilities	1,656,834	219,084	8,340,882	150,000	1,950,343	240,897	12,210,347	614,905
Net Assets								
Invested in capital assets, net of related debt	4,120,537	12,875,825	15,836,898	100,932	3,979,544	12,928,014	13,432,642	356,117
Restricted for debt service	5,685,596	3,686,142	2,721,683	42,766	5,909,395	4,203,631	5,742,547	148,269
Unrestricted	2,765,351	3,990,999	(2,243,839)	(150,000)	3,137,621	3,995,023	(1,817,063)	(594,167)
Total net assets	\$12,571,484	\$20,552,966	\$ 16,314,742	\$ (6,302)	\$13,026,560	\$21,126,668	\$ 17,358,126	\$ (89,781)

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

LEBANON UTILITIES
CITY OF LEBANON
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Years Ended December 31, 2004 And 2005

	2004				2005			
	Electric Utility	Water Utility	Wastewater Utility	Tele-communications Utility	Electric Utility	Water Utility	Wastewater Utility	Tele-communications Utility
Operating revenues:								
Unmetered water revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Metered water revenue:								
Residential	-	1,004,709	-	-	-	1,173,333	-	-
Commercial	-	365,588	-	-	-	411,756	-	-
Industrial	-	160,441	-	-	-	165,963	-	-
Residential sales	-	-	-	-	4,652,077	-	-	-
Commercial and industrial sales	-	-	-	-	8,264,940	-	-	-
Public street and highway lighting	260,682	-	-	-	254,763	-	-	-
Fire protection revenue	-	212,586	-	-	-	-	-	-
Penalties	65,335	11,661	62,868	-	69,323	13,168	76,092	-
Other water revenue	-	-	-	-	-	-	-	-
Flat rate revenues	-	12,713	75,518	-	-	224,710	327,990	-
Measured revenue:								
Residential	4,086,951	-	1,595,932	-	-	-	2,108,539	10,855
Commercial	7,198,577	-	956,156	-	-	-	1,186,296	7,502
Other	17,070	87,918	113,326	-	144,683	480,118	84,043	-
Total operating revenues	11,628,615	1,855,616	2,803,800	-	13,385,786	2,469,048	3,782,960	18,357
Operating expenses:								
Water treatment expense - operations and maintenance	-	294,900	-	-	-	337,826	-	-
Transmission and distribution	864,282	164,159	-	-	781,919	208,163	-	-
Collection system - operations and maintenance	-	-	442,897	-	-	-	458,894	-
Pumping - operations and maintenance	-	-	48,441	-	-	-	25,067	-
Treatment and disposal - operations and maintenance	-	-	350,226	-	-	-	381,814	-
Customer accounts	58,649	161,532	70,329	-	60,916	138,114	75,862	-
Administration and general	312,405	262,605	231,670	1,390	328,532	240,411	240,417	11,295
Employee pensions and benefits	349,652	305,754	406,167	-	406,953	325,927	406,860	1,783
Purchased power	8,972,270	-	-	-	10,462,317	-	-	-
Contractual services	82,170	145,158	220,725	-	116,024	110,568	116,747	34,408
Transportation expenses	-	1,408	-	-	-	2,902	-	-
Insurance expense	53,639	46,443	42,906	-	41,989	43,865	29,097	-
Taxes	237,965	135,120	40,042	-	247,556	138,337	40,042	-
Bad debt expense	116,454	18,770	28,183	-	133,955	24,820	37,886	-
Depreciation expense	221,029	266,077	499,679	-	233,129	275,756	508,017	8,668
Miscellaneous expenses	160,843	112,559	104,909	5,119	263,391	198,606	153,499	44,354
Total operating expenses	11,429,358	1,914,485	2,486,174	6,509	13,076,681	2,045,295	2,474,202	100,508
Operating income (loss)	199,257	(58,869)	317,626	(6,509)	309,105	423,753	1,308,758	(82,151)
Nonoperating revenues (expenses):								
Interest and investment revenue	116,314	63,571	33,795	207	202,251	137,000	110,971	2,864
Miscellaneous revenue	16,790	21,393	14,493	-	5,776	12,952	5,668	-
Interest expense	-	-	(275,519)	-	-	-	-	(4,192)
Amortization expense	-	-	(12,319)	-	-	-	(14,472)	-
Loss on sale of assets	(26,208)	(44,638)	(3,150)	-	(62,047)	-	(367,541)	-
Miscellaneous expense	(88)	-	-	-	(9)	(3)	-	-
Total nonoperating revenues (expenses)	106,808	40,326	(242,700)	207	145,971	149,949	(265,374)	(1,328)
Change in net assets	306,065	(18,543)	74,926	(6,302)	455,076	573,702	1,043,384	(83,479)
Total net assets - beginning	12,265,419	20,571,509	16,239,816	-	12,571,484	20,552,966	16,314,742	(6,302)
Total net assets - ending	\$ 12,571,484	\$ 20,552,966	\$ 16,314,742	\$ (6,302)	\$ 13,026,560	\$ 21,126,668	\$ 17,358,126	\$ (89,781)

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

LEBANON UTILITIES
CITY OF LEBANON
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Years Ended December 31, 2004 And 2005

	2004				2005			
	Electric Utility	Water Utility	Wastewater Utility	Tele-communications Utility	Electric Utility	Water Utility	Wastewater Utility	Tele-communications Utility
Cash flows from operating activities:								
Receipts from customers and users	\$ 11,427,093	\$ 1,816,773	\$ 2,727,457	\$ -	\$ 12,552,415	\$ 2,437,992	\$ 3,744,638	\$ 18,358
Payments to suppliers and contractors	(10,243,134)	(711,891)	(773,478)	(6,510)	(11,666,821)	(790,219)	(752,120)	(67,351)
Payments to employees	(710,093)	(906,368)	(1,148,757)	-	(806,213)	(949,727)	(1,187,995)	(11,965)
Net cash provided (used) by operating activities	473,866	198,514	805,222	(6,510)	79,381	698,046	1,804,523	(60,958)
Cash flows from noncapital financing activities:								
Repayments under temporary loans	-	84,898	(84,898)	-	-	334,863	(334,863)	-
Cash flows from capital and related financing activities:								
Proceeds from capital debt	-	-	-	150,000	-	-	4,415,400	450,000
Amortization of bond issue costs	-	-	-	-	-	-	(127,118)	-
Amortization of goodwill	-	-	-	-	-	-	-	(73,228)
Acquisition and construction of capital assets	(708,459)	(939,457)	(1,753,106)	(100,932)	(92,136)	(327,945)	(2,165,356)	(190,625)
Principal paid on capital debt	-	-	(230,000)	-	-	-	(245,000)	-
Interest paid on capital debt	-	-	(254,423)	-	-	-	(346,445)	(4,193)
Rental and miscellaneous Income	(9,506)	21,393	14,493	-	5,766	12,948	5,688	-
Loss on sale of capital assets	-	-	(3,150)	-	(62,048)	-	-	-
Proceeds from sales of capital assets	33,660	-	113,332	-	-	-	67,440	-
Net cash provided (used) by capital and related financing activities	(684,305)	(918,064)	(2,112,854)	49,068	(148,418)	(314,997)	1,604,589	181,954
Cash flows from investing activities:								
Proceeds from sales and maturities of investments	3,000,000	4,000,000	339,085	-	8,974,446	-	-	-
Purchase of investments	(3,064,132)	(4,000,000)	(339,085)	-	(9,000,000)	-	-	-
Interest received	127,397	70,960	33,362	208	188,446	127,632	103,021	2,864
Net cash provided by investing activities	63,265	70,960	33,362	208	162,892	127,632	103,021	2,864
Net increase (decrease) in cash and cash equivalents	(147,174)	(563,692)	(1,359,168)	42,766	93,855	845,544	3,177,270	123,860
Cash and cash equivalents, January 1	4,357,756	3,276,989	4,202,273	-	4,210,582	2,713,297	2,843,105	42,766
Cash and cash equivalents, December 31	\$ 4,210,582	\$ 2,713,297	\$ 2,843,105	\$ 42,766	\$ 4,304,437	\$ 3,558,841	\$ 6,020,375	\$ 166,626
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:								
Operating income (loss)	\$ 199,257	\$ (58,869)	\$ 317,626	\$ (6,510)	\$ 309,106	\$ 423,753	\$ 1,308,759	\$ (82,150)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:								
Depreciation expense	221,029	266,077	499,679	-	233,129	275,756	508,017	8,668
Bad debt expense	116,454	18,770	28,183	-	133,955	24,820	37,886	-
(Increase) decrease in assets:								
Accounts receivable	(106,098)	(30,593)	(61,781)	-	(659,349)	145	3,779	-
Allowance for uncollectible accounts	(95,424)	(8,251)	(14,562)	-	(174,022)	(31,201)	(42,102)	-
Inventories	10,153	1,643	1,327	-	(30,588)	2,370	(6,525)	-
Prepaid items	11,005	10,378	10,422	-	(26,359)	(19,410)	(19,367)	(2,381)
Increase (decrease) in liabilities:								
Accounts payable	97,674	(6,843)	(505)	-	270,341	(2,768)	(2,815)	13,793
Wages payables	16,242	3,891	5,313	-	8,337	11,934	14,623	-
Contracts payable	2,871	(9,277)	(4,115)	-	(2,976)	(976)	(976)	-
Taxes payable	2,634	(48)	-	-	5,915	717	-	-
Compensated absence payable	11,349	14,286	23,635	-	12,767	13,156	3,244	1,112
Customer deposits	(13,280)	(2,650)	-	-	(875)	(250)	-	-
Total adjustments	274,609	257,383	487,596	-	(229,725)	274,293	495,764	21,192
Net cash provided (used) by operating activities	\$ 473,866	\$ 198,514	\$ 805,222	\$ (6,510)	\$ 79,381	\$ 698,046	\$ 1,804,523	\$ (60,958)

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

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Lebanon (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; 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.

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. The activity has been classified Class (A or B), requiring full accrual accounting records, by the National Association of Regulatory Utility Commissioners.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utility's 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 Utility 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.

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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 assets balance sheet because their use is limited by applicable bond covenants.

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:

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 5,000	Straight-line	45 to 67 years
Improvements other than buildings	5,000	Straight-line	10 to 67 years
Machinery and equipment	5,000	Straight-line	10 to 67 years
Water collection systems	5,000	Straight-line	10 to 100 years
Wastewater distribution and collection systems	5,000	Straight-line	10 to 100 years
Electric Utility	750	Straight-line	10 to 75 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. The total interest expense incurred by the Utility during the current year was \$0.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 5 to 25 days per year. Sick leave does not accumulate from year to year.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 6 days to 10 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 120 days. Accumulated vacation leave is paid to employees through cash payments upon retirement.
- c. Personal Leave – Utility employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

Sick leave is accrued when incurred.

No liability is reported for vacation and personal leave.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial Credit Risk is the risk that in the event of bank failure, the Utilities 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 principle office or branch that qualifies to receive public fund of the political subdivision. At December 31, 2005, bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. The Lebanon Utility Service Board has not established an investment policy for the Lebanon Utilities. As of December 31, 2005, the Lebanon Utilities had the following investments:

Investment Type	Primary Government Market Value	Investment Maturities (in Years)		
		Less Than 1	1-2	More Than 2
U.S. Treasuries and securities	\$ 1,386,391	\$ -	\$ 1,040,180	\$ 346,211
U.S. Agencies	224,003	-	-	224,003
Repurchase agreements	13,490,434	13,490,434	-	-
Totals	<u>\$ 15,100,828</u>	<u>\$ 13,490,434</u>	<u>\$ 1,040,180</u>	<u>\$ 570,214</u>

Investment Policies

Indiana Code 5-13-9 authorizes the Lebanon Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal investment company act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Lebanon Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one (1) day.

Additionally, the Lebanon Utilities may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity on one (1) day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure or the counterparty to a transaction, a government will not be able to recover the value of investment of collateral securities that are in the possession of an outside party. The Lebanon Utilities does not have a formal investment policy for custodial credit risk for investments. At December 31, 2005, the Lebanon Utilities held investments in U.S. Treasury Notes, Government Sponsored Enterprises, and Nonnegotiable Certificates of Deposit in the amount of \$20,457,109. Of these investments \$15,118,024 were held by the Counterparty's trust department or agent, but not held in the Lebanon Utilities name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Lebanon Utilities must follow state statute and limit the stated final maturities of the investments to no more than two years. The Lebanon Utilities do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Standard and Poor's Rating	Government Sponsored Enterprise
AAA	<u>\$ 13,714,435</u>

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Lebanon Utilities do not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement. More than 5% of the Utilities investments were in government sponsored enterprises, in the amount of \$13,714,435. These investments represent 67.04% of the total investments of the Utilities.

B. Capital Assets

Capital asset activity for the years ended December 31, 2004, and December 31, 2005, was as follows:

	2004			
	Beginning Balance	Increases	Decreases	
<u>Primary Government</u>				
Business-type activities:				
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 19,500	\$ 99,164	\$ 160	\$ 118,504
Construction in progress	<u>462,263</u>	<u>303,838</u>	<u>259,156</u>	<u>506,945</u>
Total capital assets, not being depreciated	<u>481,763</u>	<u>403,002</u>	<u>259,316</u>	<u>625,449</u>
Capital assets, being depreciated:				
Improvements other than buildings	3,048,034	107,445	19,466	3,136,013
Buildings	127,517	194,847	-	322,364
Transportation equipment	354,748	147,615	12,907	489,456
Machinery and equipment	<u>2,020,917</u>	<u>114,867</u>	<u>53,390</u>	<u>2,082,394</u>
Totals	<u>5,551,216</u>	<u>564,774</u>	<u>85,763</u>	<u>6,030,227</u>
Less accumulated depreciation for:				
Improvements other than buildings	1,376,044	93,396	2,270	1,467,170
Buildings	57,076	6,379	-	63,455
Transportation equipment	106,005	40,090	11,454	134,641
Machinery and equipment	<u>827,087</u>	<u>81,164</u>	<u>38,378</u>	<u>869,873</u>
Totals	<u>2,366,212</u>	<u>221,029</u>	<u>52,102</u>	<u>2,535,139</u>
Total capital assets, being depreciated, net	<u>3,185,004</u>	<u>343,745</u>	<u>33,661</u>	<u>3,495,088</u>
Total capital assets, net	<u>\$ 3,666,767</u>	<u>\$ 746,747</u>	<u>\$ 292,977</u>	<u>\$ 4,120,537</u>

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

	2004			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Primary Government</u>				
Business-type activities:				
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 2,000	\$ 98,827	\$ -	\$ 100,827
Construction in progress	<u>434,373</u>	<u>691,602</u>	<u>180,624</u>	<u>945,351</u>
Total capital assets, not being depreciated	<u>436,373</u>	<u>790,429</u>	<u>180,624</u>	<u>1,046,178</u>
Capital assets, being depreciated:				
Improvements other than buildings	11,728,620	140,279	-	11,868,899
Buildings	3,017,954	24,156	-	3,042,110
Transportation equipment	237,973	5,741	8,215	235,499
Machinery and equipment	<u>1,079,763</u>	<u>819,421</u>	<u>760,895</u>	<u>1,138,289</u>
Totals	<u>16,064,310</u>	<u>989,597</u>	<u>769,110</u>	<u>16,284,797</u>
Less accumulated depreciation for:				
Improvements other than buildings	2,439,888	144,999	-	2,584,887
Buildings	1,448,470	60,731	-	1,509,201
Transportation equipment	76,505	20,790	8,216	89,079
Machinery and equipment	<u>288,737</u>	<u>39,557</u>	<u>56,311</u>	<u>271,983</u>
Totals	<u>4,253,600</u>	<u>266,077</u>	<u>64,527</u>	<u>4,455,150</u>
Total capital assets, being depreciated, net	<u>11,810,710</u>	<u>723,520</u>	<u>704,583</u>	<u>11,829,647</u>
Total capital assets, net	<u>\$ 12,247,083</u>	<u>\$ 1,513,949</u>	<u>\$ 885,207</u>	<u>\$ 12,875,825</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 117,025	\$ 65,370	\$ -	\$ 182,395
Construction in progress	<u>1,024,349</u>	<u>1,401,606</u>	<u>86,105</u>	<u>2,339,850</u>
Total capital assets, not being depreciated	<u>1,141,374</u>	<u>1,466,976</u>	<u>86,105</u>	<u>2,522,245</u>
Capital assets, being depreciated:				
Improvements other than buildings	14,253,872	229,407	46,367	14,436,912
Buildings	5,641,466	-	-	5,641,466
Transportation equipment	352,487	3,686	76,742	279,431
Machinery and equipment	<u>5,977,000</u>	<u>629,590</u>	<u>605,717</u>	<u>6,000,873</u>
Totals	<u>26,224,825</u>	<u>862,683</u>	<u>728,826</u>	<u>26,358,682</u>

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

	2004			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Primary Government</u>				
Business-type activities (continued):				
Electric Utility (continued):				
Less accumulated depreciation for:				
Improvements other than buildings	1,467,170	95,322	22,470	1,540,022
Buildings	63,455	8,270	-	71,725
Transportation equipment	134,641	44,097	32,874	145,864
Machinery and equipment	869,873	85,440	-	955,313
Totals	<u>2,535,139</u>	<u>233,129</u>	<u>55,344</u>	<u>2,712,924</u>
Total capital assets, being depreciated, net	<u>3,495,088</u>	<u>419,231</u>	<u>62,048</u>	<u>3,852,271</u>
Total capital assets, net	<u>\$ 4,120,537</u>	<u>\$ 630,632</u>	<u>\$ 771,625</u>	<u>\$ 3,979,544</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 100,827	\$ 941	\$ -	\$ 101,768
Construction in progress	945,351	536,822	1,283,723	198,450
Total capital assets, not being depreciated	<u>1,046,178</u>	<u>537,763</u>	<u>1,283,723</u>	<u>300,218</u>
Capital assets, being depreciated:				
Improvements other than buildings	\$ 11,868,899	538,177	-	12,407,076
Buildings	3,042,110	505,422	-	3,547,532
Transportation equipment	235,499	-	6,124	229,375
Machinery and equipment	1,138,289	30,306	-	1,168,595
Totals	<u>16,284,797</u>	<u>1,073,905</u>	<u>6,124</u>	<u>17,352,578</u>
Less accumulated depreciation for:				
Improvements other than buildings	2,584,887	146,935	-	2,731,822
Buildings	1,509,201	62,583	-	1,571,784
Transportation equipment	89,079	20,335	6,124	103,290
Machinery and equipment	271,983	45,903	-	317,886
Totals	<u>4,455,150</u>	<u>275,756</u>	<u>6,124</u>	<u>4,724,782</u>
Total capital assets, being depreciated, net	<u>11,829,647</u>	<u>798,149</u>	<u>-</u>	<u>12,627,796</u>
Total capital assets, net	<u>\$ 12,875,825</u>	<u>\$ 1,335,912</u>	<u>\$ 1,283,723</u>	<u>\$ 12,928,014</u>

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	2004			
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities (continued):				
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 182,395	\$ -	\$ -	\$ 182,395
Construction in progress	<u>2,339,850</u>	<u>2,165,356</u>	<u>737,283</u>	<u>3,767,923</u>
Total capital assets, not being depreciated	<u>2,522,245</u>	<u>2,165,356</u>	<u>737,283</u>	<u>3,950,318</u>
Capital assets, being depreciated:				
Improvements other than buildings	14,436,912	485,424	-	14,922,336
Buildings	5,641,466	-	-	5,641,466
Transportation equipment	279,431	21,153	6,124	294,460
Machinery and equipment	<u>6,000,873</u>	<u>163,266</u>	<u>-</u>	<u>6,164,139</u>
Totals	<u>26,358,682</u>	<u>669,843</u>	<u>6,124</u>	<u>27,022,401</u>
Less accumulated depreciation for:				
Improvements other than buildings	3,302,438	201,648	-	3,504,086
Buildings	3,337,128	111,542	-	3,448,670
Transportation equipment	133,664	23,033	6,124	150,573
Machinery and equipment	<u>1,080,502</u>	<u>171,794</u>	<u>-</u>	<u>1,252,296</u>
Totals	<u>7,853,732</u>	<u>508,017</u>	<u>6,124</u>	<u>8,355,625</u>
Total capital assets, being depreciated, net	<u>18,504,950</u>	<u>161,826</u>	<u>-</u>	<u>18,666,776</u>
Total capital assets, net	<u>\$ 21,027,195</u>	<u>\$ 2,327,182</u>	<u>\$ 737,283</u>	<u>\$ 22,617,094</u>
Telecommunications Utility:				
Capital assets, not being depreciated:				
Construction in progress	\$ 100,932	\$ -	\$ 100,932	\$ -
Capital assets, being depreciated:				
Goodwill	-	73,228	-	73,228
Improvements other than buildings	-	258,142	-	258,142
Machinery and equipment	<u>-</u>	<u>33,415</u>	<u>-</u>	<u>33,415</u>
Totals	<u>-</u>	<u>364,785</u>	<u>-</u>	<u>364,785</u>

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

	2004			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Primary Government</u>				
Business-type activities (continued):				
Telecommunications Utility (continued):				
Less accumulated depreciation for:				
Goodwill	-	1,471	-	1,471
Improvements other than buildings	-	6,799	-	6,799
Machinery and equipment	-	398	-	398
Totals	-	8,668	-	8,668
Total capital assets, being depreciated, net	-	356,117	-	356,117
Total capital assets, net	<u>\$ 100,932</u>	<u>\$ 356,117</u>	<u>\$ 100,932</u>	<u>\$ 356,117</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2005	Committed	Required Future Funding
Electric Utility:				
Fiber Optic Project	\$ 8,496	\$ 6,093	\$ 2,403	\$ -
Spill Containment	29,900	1,925	-	27,975
Water Utility:				
South Side Facilities	327,100	44,442	1,650	281,008
Sam Ralston Road	15,250	10,043	36	5,171
Fiber Optic Project	8,497	6,093	2,404	-
South Side Well	153,630	137,872	-	15,758
Wastewater Utility:				
Northside Sewer	2,039,445	2,026,669	12,776	-
Headworks Project 05	4,320,000	1,712,070	609,402	1,998,528
Fiber Optic Project	8,496	6,095	2,401	-
Sam Ralston Road Project	15,250	10,043	37	5,170
Chadwick Liftstation	31,000	13,046	7,504	10,450
Totals	<u>\$ 6,957,064</u>	<u>\$ 3,974,391</u>	<u>\$ 638,613</u>	<u>\$ 2,344,060</u>

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2005, is as follows:

<u>Due To</u>	<u>Due From</u> <u>Wastewater</u> <u>Utility</u>
Water Utility	<u>\$ 2,580,239</u>

Interfund balances resulted from the time lag between the dates that interfund loans are repaid.

E. Long-Term Liabilities

1. Revenue Bonds

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

Purpose	Interest Rates	Amount
\$2,880,000 1997 Wastewater improvement bond	4.0% to 6.4%	\$ 1,575,000
\$3,520,000 2002 Wastewater Utility bonds	3.75% to 4.5%	3,520,000
\$4,460,000 2005 Wastewater revenue bonds	3.5% to 4.3%	<u>4,460,000</u>
 Total		 <u>\$ 9,555,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2006	\$ 310,000	\$ 413,958
2007	325,000	399,349
2008	340,000	383,782
2009	355,000	366,361
2010	380,000	344,910
2011-2015	2,165,000	1,458,281
2016-2020	2,685,000	962,440
2021-2025	<u>2,995,000</u>	<u>328,590</u>
 Totals	 <u>\$ 9,555,000</u>	 <u>\$ 4,657,671</u>

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Segment Information

The Wastewater Utility issued revenue bonds to finance a wastewater treatment plant. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for the Lebanon Wastewater Utility at December 31, 2005, is presented below:

Condensed Statement of Net Assets	
Assets:	
Current assets	\$ 941,873
Restricted assets	5,742,547
Deferred charges	266,959
Capital assets	<u>22,617,094</u>
Total assets	<u>\$ 29,568,473</u>
Liabilities:	
Current liabilities	\$ 2,641,768
Due to other funds	
Current liabilities payable from restricted assets	310,000
Noncurrent liabilities	<u>9,258,579</u>
Total liabilities	<u>\$ 12,210,347</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 13,432,642
Restricted	5,742,547
Unrestricted	<u>(1,817,063)</u>
Total net assets	<u>\$ 17,358,126</u>

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Charges (pledged against bonds)	\$ 3,782,960
Depreciation expense	508,017
Other operating expenses	<u>1,966,185</u>
Operating income	1,308,758
Nonoperating revenues (expenses):	
Investment earnings	110,971
Amortization expense	(14,472)
Loss on sale of assets	(367,541)
Others	<u>5,668</u>
Change in net assets	1,043,384
Beginning net assets	<u>16,314,742</u>
Ending net assets	<u>\$ 17,358,126</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:	
Operating activities	\$ 1,804,523
Noncapital financing activities	(334,863)
Capital and related financing activities	1,604,589
Investing activities	<u>103,021</u>
Net increase	3,177,270
Beginning cash and cash equivalents	<u>2,843,105</u>
Ending cash and cash equivalents	<u>\$ 6,020,375</u>

G. Restricted Assets

The balances of restricted asset accounts at December 31, 2005, are as follows:

Improvement and debt service reserve fund accounts	\$ 11,918,183
Revenue bond construction account	<u>4,085,659</u>
Total restricted assets	<u>\$ 16,003,842</u>

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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 three years. There were no significant reductions in insurance by major category of risk.

During 1990, the Utility joined together with other governmental entities to form the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for approximately 515 member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses and injuries. The Utilities pay an annual premium to the risk pool for its job related illnesses and injuries coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Rate Structure

1. Electric Utility

The current rate structure was approved by the Utility on January 25, 1995.

2. Water Utility

The current rate structure was approved by the Utility on October 25, 2004.

3. Wastewater Utility

The current rate structure was approved by the Utility on July 25, 2005.

C. Pension Plan

1. Single-Employer Defined Benefit Pension Plan

Utility Pension

Plan Description

The Utilities have a defined benefit pension benefit plan covering eligible employees. An employee becomes a participant on a voluntary basis upon completion of three years of service. State statute (IC 9-1.5-3-7) provided for the establishment of the plan and authorized employee contributions. Covered employees may retire with full benefits (determined in accordance with the plan agreement) at age 62 with 30 years service of 65. Benefits vest at ten years of service. Employee benefits are based on one and one fourth (1 ¼) percent multiplied by years of service multiplied by monthly plan compensation. The plan also provides for death benefits.

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members have been actuarially determined under the modified aggregate cost method. The Utilities contributions to the plan for the years ending December 31, 2004, and December 31, 2005, was \$134,107 and \$173,704, respectively.

Actuarial Information for the Above Plan

	Utility Pension
Annual required contribution	\$ 124,107
Interest on net pension obligation	(457)
Adjustment to annual required contribution	511
Annual pension cost	124,161
Contributions made	134,107
Decrease in net pension obligation	(9,946)
Net pension obligation, beginning of year	(6,098)
Net pension obligation, end of year	\$ (16,044)

	Utility Pension
Contribution rates:	
Utilities	5.5%
Plan members	3%
Actuarial valuation date	01-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	06-01-62
Asset valuation method	Market value

Actuarial Assumptions	Utility Pension
Investment rate of return	7.50%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

LEBANON UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Utility Pension	06-30-02	\$ 83,582	90%	\$ (20,966)
	06-30-03	84,481	83%	(6,098)
	06-30-04	124,161	108%	(16,044)

2. Defined Contribution Pension Plan

Utilities Pension

Plan Description

The Utilities on December 31, 2005, elected to establish a defined contribution pension plan administered by the Principal Financial Group as authorized by Indiana Code 8-1.5-3-7. The plan provides retirement and death benefits to plan members and beneficiaries. The plan was established by written agreement between the governing board of the unit and the plan administrator. The plan administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Melodie Hudak
Principal Financial Group
Ph. (860) 343-4756

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the governing board of the unit and the plan administrator. The Plan will be funded by an employer contribution of 2% of eligible plan member's annual compensation. Covered employees may retire with full benefits (determined in accordance with the plan agreement) at age 62 with 30 years of service or at age 65. Partial benefits vest after two years of employment and full benefits vest after six or more years of employment.

LEBANON UTILITIES
CITY OF LEBANON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Utility Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-00	\$ 2,764,534	\$ 2,772,749	\$ (8,215)	100%	\$ 1,742,186	0%
01-01-01	2,931,429	2,954,060	(22,631)	99%	1,688,644	(1%)
01-01-02	3,038,998	3,067,017	(28,019)	99%	1,849,667	(2%)
01-01-03	3,203,037	3,242,014	(38,977)	99%	2,207,940	(2%)
01-01-04	3,203,582	3,254,696	(51,114)	98%	2,207,940	(2%)
01-01-05	3,269,169	3,366,512	(97,343)	97%	2,402,437	(4%)

LEBANON UTILITIES
CITY OF LEBANON
EXIT CONFERENCE

The contents of this report were discussed on July 31, 2006, with James Acton, Mayor; Sandra Morgan, Manager of Financial Services and Human Resources, Mike Martin, Utility General Manager, and Allen Milburn, President of the Utility Service Board. Our audit disclosed no material items that warrant comment at this time.