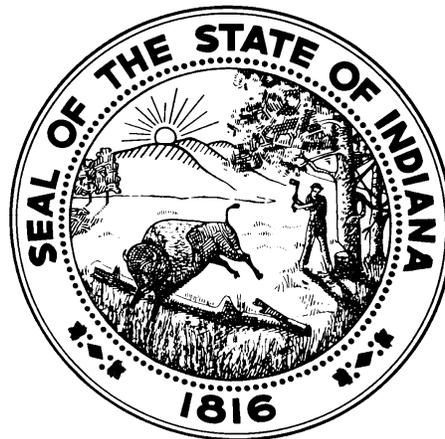


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT
2007

ELECTRIC, WATER, WASTEWATER, AND
TELECOMMUNICATION UTILITIES
CITY OF LEBANON
BOONE COUNTY, INDIANA



FILED
12/08/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Ottinger	01-01-04 to 12-31-11
Mayor	James Acton John Lasley	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works	James Acton John Lasley	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	John Lasley Richard Robertson	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Utilities General Manager	Michael Martin	01-01-07 to 12-31-08
Manager of Financial Services And Human Resources	Sandra Morgan	01-01-07 to 12-31-08
President of the Utilities Service Board	Allen Milburn	01-01-07 to 12-31-08



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES, CITY OF LEBANON, BOONE COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Electric, Water, Wastewater, and Telecommunication Utilities (Utilities), departments of the City of Lebanon, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Electric, Water, Wastewater, and Telecommunication Utilities, City of Lebanon, 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 Utilities. They do not purport to, and do not, present fairly the financial position of the City of Lebanon as of December 31, 2007, and the changes in its financial position and its cash flows, where applicable, for the year 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 Utilities, as of December 31, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements for the Telecommunication Utility (Utility) have been prepared assuming that the Utility will continue as a going concern. As discussed in Note II(H) to the financial statements, the Utility has suffered recurring losses from operations and has a total net asset deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note II(H). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

INDEPENDENT ACCOUNTANT'S REPORT
(Continued)

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is 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 examine the information and express no opinion on it.

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

STATE BOARD OF ACCOUNTS

September 10, 2008

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
STATEMENT OF NET ASSETS
December 31, 2007

<u>Assets</u>	Electric Utility	Water Utility	Wastewater Utility	Telecommunication Utility
Current assets:				
Cash and cash equivalents	\$ 4,287,459	\$ 1,542,433	\$ 1,819,975	\$ 300,087
Accounts receivable - customer	689,855	97,953	122,454	4,488
Accounts receivable - other	594,071	-	2,745	-
Interfund receivable:				
Interfund loan	-	2,501,394	-	-
Inventories	194,317	72,224	15,858	-
Prepaid items	21,239	17,080	16,251	3,832
Total current assets	5,786,941	4,231,084	1,977,283	308,407
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation cash and investments	-	4,229,376	-	-
Bond and interest cash and investments	-	-	212,374	-
Debt service reserve cash and investments	-	-	755,085	-
Construction cash and investments	-	-	1,098,535	41,334
Renew and replacement cash and investments	5,193,541	-	-	53,008
Improvement cash and investments	-	-	936,317	-
Availability cash and investments	-	632,788	98,027	-
Interest receivable	10,336	6,888	15,212	-
Total restricted assets:	5,203,877	4,869,052	3,115,550	94,342
Deferred charges	-	11,580	225,952	-
Capital assets:				
Land, improvements to land and construction in progress	1,062,296	411,683	5,160,066	-
Other capital assets (net of accumulated depreciation)	4,146,922	12,424,092	20,200,693	376,334
Total capital assets	5,209,218	12,835,775	25,360,759	376,334
Total noncurrent assets	10,413,095	17,716,407	28,702,261	470,676
Total assets	16,200,036	21,947,491	30,679,544	779,083
Liabilities				
Current liabilities:				
Accounts payable	1,965,840	96,278	70,532	13,322
Accrued wages payable	54,170	13,900	17,268	4,157
Taxes payable	60,142	7,840	-	-
Compensated absences	147,076	204,546	228,723	-
Interfund payable:				
Interfund loan	-	-	2,501,394	-
Current liabilities payable from restricted assets:				
Revenue bonds payable	-	-	340,000	-
Bond anticipation notes payable	-	-	-	440,000
Total current liabilities	2,227,228	322,564	3,157,917	457,479
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts)	-	-	8,448,598	-
Bond anticipation notes payable	-	-	-	1,320,000
Total noncurrent liabilities	-	-	8,448,598	1,320,000
Total liabilities	2,227,228	322,564	11,606,515	1,777,479
Net Assets				
Invested in capital assets, net of related debt	5,209,218	12,835,775	15,473,626	376,334
Restricted for debt service	-	-	967,459	-
Unrestricted	8,763,590	8,789,152	2,631,944	(1,374,730)
Total net assets	\$ 13,972,808	\$ 21,624,927	\$ 19,073,029	\$ (998,396)

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

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2007

	Electric Utility	Water Utility	Wastewater Utility	Telecommunication Utility
Operating revenues:				
Residential sales	\$ 5,286,367	\$ 1,206,058	\$ 2,265,093	\$ 111,760
Commercial and industrial sales	9,384,255	583,804	1,264,337	69,251
Public street and highway lighting	119,937	-	-	-
Fire protection revenue	-	212,826	-	-
Penalties	80,362	13,878	86,943	1,041
Other	86,833	111,117	118,164	4,637
Total operating revenues	14,957,754	2,127,683	3,734,537	186,689
Operating expenses:				
Water treatment expense - operations and maintenance	-	285,857	-	-
Purchased power	12,017,620	-	-	-
Transmission and distribution	918,579	210,105	-	89,016
Collection system - operations and maintenance	-	-	264,108	-
Pumping - operations and maintenance	-	-	72,204	-
Treatment and disposal - operations and maintenance	-	-	385,072	-
Customer accounts	255,388	216,601	117,706	7,373
Salaries and wages	204,827	225,223	235,965	117,335
Employee pensions and benefits	473,273	346,837	389,358	76,845
Materials and supplies	57,496	34,683	35,496	25,918
Contractual services	116,698	64,069	39,786	52,885
Rents	83,327	83,327	83,327	27,776
Insurance expense	10,692	9,724	16,153	1,269
Taxes	210,000	29,500	-	2,750
Payment in lieu of taxes	61,500	112,164	40,042	1,318
Depreciation and amortization	260,745	300,178	571,629	50,985
Miscellaneous expenses	209,884	190,428	310,995	240,887
Total operating expenses	14,880,029	2,108,696	2,561,841	694,357
Operating income (loss)	77,725	18,987	1,172,696	(507,668)
Nonoperating revenues (expenses):				
Interest and investment revenue	431,137	269,606	183,959	36,466
Interest expense	-	-	(399,351)	(62,596)
Amortization of bond issue costs	-	-	(42,029)	-
Loss on disposal of assets	(22,328)	(4,999)	(4,999)	-
Total nonoperating revenues (expenses)	408,809	264,607	(262,420)	(26,130)
Change in net assets	486,534	283,594	910,276	(533,798)
Total net assets - beginning	13,486,274	21,341,333	18,162,753	(464,598)
Total net assets - ending	\$ 13,972,808	\$ 21,624,927	\$ 19,073,029	\$ (998,396)

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

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2007

	Electric Utility	Water Utility	Wastewater Utility	Telecommunication Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 14,791,736	\$ 2,016,996	\$ 3,648,218	\$ 180,585
Payments to suppliers and contractors	(13,464,706)	(1,050,133)	(1,164,757)	(467,352)
Payments to employees	(894,671)	(661,427)	(764,025)	(170,097)
Other receipts	<u>86,833</u>	<u>111,117</u>	<u>118,164</u>	<u>4,637</u>
Net cash provided by operating activities	<u>519,192</u>	<u>416,553</u>	<u>1,837,600</u>	<u>(452,227)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(1,389,300)	(173,488)	(862,357)	(54,477)
Principal paid on capital debt	-	-	(325,000)	(440,000)
Interest paid on capital debt	-	-	(399,351)	(62,596)
Proceeds from sales of capital assets	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(1,388,800)</u>	<u>(173,488)</u>	<u>(1,586,708)</u>	<u>(557,073)</u>
Cash flows from investing activities:				
Interest received	<u>435,163</u>	<u>271,562</u>	<u>181,813</u>	<u>36,466</u>
Net cash provided by investing activities	<u>435,163</u>	<u>271,562</u>	<u>181,813</u>	<u>36,466</u>
Net increase in cash and cash equivalents	(434,445)	514,627	432,705	(972,834)
Cash and cash equivalents, January 1	<u>9,915,445</u>	<u>5,889,970</u>	<u>4,487,608</u>	<u>1,367,263</u>
Cash and cash equivalents, December 31	<u>\$ 9,481,000</u>	<u>\$ 6,404,597</u>	<u>\$ 4,920,313</u>	<u>\$ 394,429</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	<u>\$ 77,725</u>	<u>\$ 18,987</u>	<u>\$ 1,172,696</u>	<u>\$ (507,668)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	260,745	300,178	571,629	50,985
(Increase) decrease in assets:				
Accounts receivable - customer	(125,677)	430	34,590	(1,467)
Accounts receivable - other	46,492	-	(2,745)	-
Allowance for uncollectible accounts	149,566	23,210	37,346	1,867
Inventories	900	2,753	2,182	-
Prepaid items	(4,461)	(3,412)	(2,895)	(28)
Deferred debits	-	(11,580)	-	-
Increase (decrease) in liabilities:				
Accounts payable	101,996	79,300	(10,022)	3,614
Accrued wages payable	22,442	(4,977)	(3,449)	470
Taxes payable	468	(761)	-	-
Compensated absence payable	<u>(11,004)</u>	<u>12,425</u>	<u>38,268</u>	<u>-</u>
Total adjustments	<u>441,467</u>	<u>397,566</u>	<u>664,904</u>	<u>55,441</u>
Net cash provided by operating activities	<u>\$ 519,192</u>	<u>\$ 416,553</u>	<u>\$ 1,837,600</u>	<u>\$ (452,227)</u>
Noncash investing, capital and financing activities:				
None	\$ -	\$ -	\$ -	\$ -

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

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION 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.

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 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.

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.

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
 CITY OF LEBANON
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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.

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 (in years)
	Electric Utility	All Other Utilities		
Land	\$ 1	\$ 1	N/A	N/A
Buildings	750	5,000	Straight-line	45 to 67
Improvements other than buildings	750	5,000	Straight-line	10 to 67
Machinery and equipment	750	5,000	Straight-line	10 to 67
Transportation equipment	750	5,000	Straight-line	10
Goodwill	750	5,000	Straight-line	15

N/A - Not applicable

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Utilities during the current year was \$461,947. None of this amount was included as part of the cost of capital assets under construction.

5. Compensated Absences

- a. Sick Leave – Utilities' employees earn sick leave at the rate of 10 days per year. For employees hired prior to April 1, 2007, unused sick leave may be accumulated to a maximum of 120 days. Accumulated sick leave is paid to employees through cash payments upon retirement. For employees hired on or after April 1, 2007, unused sick leave does not accumulate from year to year.
- b. Vacation Leave – Utilities' employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utilities' 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.

II. Detailed Notes on All Funds

A. Deposits and Investments

1. 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. At December 31, 2007, the bank balance in the amount of \$ 1,037,233 was insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006, the Utilities' investments of \$ 20,281,844 in repurchase agreements.

Investment Policies

Indiana Code 5-13-9 authorizes the 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. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by 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 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 enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as 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 day.

Additionally, the 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 of one 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 of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Utilities does not have a formal investment policy for custodial credit risk for investments. At December 31, 2006, the Utilities held investments in repurchase agreements in the amount of \$15,582,297. All of these investments were held by the counterparty's trust department or agent but not in the Utilities' name.

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION 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 Utilities does 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.

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 119,278	\$ 6	\$ -	\$ 119,284
Construction in progress	<u>2,274</u>	<u>944,815</u>	<u>4,077</u>	<u>943,012</u>
Total capital assets, not being depreciated	<u>121,552</u>	<u>944,821</u>	<u>4,077</u>	<u>1,062,296</u>
Capital assets, being depreciated:				
Buildings	813,183	1,442	-	814,625
Improvements other than buildings	3,414,962	231,493	29,529	3,616,926
Machinery and equipment	2,243,100	180,462	30,109	2,393,453
Transportation equipment	<u>456,210</u>	<u>35,159</u>	<u>9,833</u>	<u>481,536</u>
Totals	<u>6,927,455</u>	<u>448,556</u>	<u>69,471</u>	<u>7,306,540</u>
Less accumulated depreciation for:				
Buildings	1,556,129	16,177	-	1,572,306
Improvements other than buildings	169,006	105,296	15,983	258,319
Machinery and equipment	228,257	96,496	28,243	296,510
Transportation equipment	<u>992,124</u>	<u>42,776</u>	<u>2,417</u>	<u>1,032,483</u>
Totals	<u>2,945,516</u>	<u>260,745</u>	<u>46,643</u>	<u>3,159,618</u>
Total capital assets, being depreciated, net	<u>3,981,939</u>	<u>187,811</u>	<u>22,828</u>	<u>4,146,922</u>
Total capital assets, net	<u>\$ 4,103,491</u>	<u>\$ 1,132,632</u>	<u>\$ 26,905</u>	<u>\$ 5,209,218</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 101,768	\$ 10,275	\$ -	\$ 112,043
Construction in progress	<u>363,089</u>	<u>95,669</u>	<u>159,118</u>	<u>299,640</u>
Total capital assets, not being depreciated	<u>464,857</u>	<u>105,944</u>	<u>159,118</u>	<u>411,683</u>

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility (continued):				
Capital assets, being depreciated:				
Buildings	3,572,733	21,426	-	3,594,159
Improvements other than buildings	12,435,177	174,638	-	12,609,815
Machinery and equipment	1,262,475	25,500	-	1,287,975
Transportation equipment	250,230	5,098	9,833	245,495
	<u>17,520,615</u>	<u>226,662</u>	<u>9,833</u>	<u>17,737,444</u>
Totals				
Less accumulated depreciation for:				
Buildings	1,643,201	71,765	-	1,714,966
Improvements other than buildings	2,887,253	155,834	-	3,043,087
Machinery and equipment	366,920	51,665	-	418,585
Transportation equipment	120,634	20,914	4,834	136,714
	<u>5,018,008</u>	<u>300,178</u>	<u>4,834</u>	<u>5,313,352</u>
Totals				
Total capital assets, being depreciated, net	<u>12,502,607</u>	<u>(73,516)</u>	<u>4,999</u>	<u>12,424,092</u>
Total capital assets, net	<u>\$ 12,967,464</u>	<u>\$ 32,428</u>	<u>\$ 164,117</u>	<u>\$ 12,835,775</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 182,444	\$ -	\$ -	\$ 182,444
Construction in progress	4,473,986	551,746	48,110	4,977,622
	<u>4,656,430</u>	<u>551,746</u>	<u>48,110</u>	<u>5,160,066</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	5,641,466	-	-	5,641,466
Improvements other than buildings	17,211,398	331,565	-	17,542,963
Machinery and equipment	6,179,386	-	-	6,179,386
Transportation equipment	296,339	27,156	9,833	313,662
	<u>29,328,589</u>	<u>358,721</u>	<u>9,833</u>	<u>29,677,477</u>
Totals				
Less accumulated depreciation for:				
Buildings	3,560,212	111,542	-	3,671,754
Improvements other than buildings	3,751,910	259,061	-	4,010,971
Machinery and equipment	1,427,477	175,531	-	1,603,008
Transportation equipment	170,390	25,495	4,834	191,051
	<u>8,909,989</u>	<u>571,629</u>	<u>4,834</u>	<u>9,476,784</u>
Totals				
Total capital assets, being depreciated, net	<u>20,418,600</u>	<u>(212,908)</u>	<u>4,999</u>	<u>20,200,693</u>
Total capital assets, net	<u>\$ 25,075,030</u>	<u>\$ 338,838</u>	<u>\$ 53,109</u>	<u>\$ 25,360,759</u>

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Telecommunication Utility:				
Capital assets, being depreciated:				
Improvements other than buildings	\$ 258,142	\$ -	\$ -	\$ 258,142
Machinery and equipment	92,480	-	-	92,480
Transportation equipment	-	52,778	-	52,778
Intangible	<u>73,228</u>	<u>1,699</u>	-	<u>74,927</u>
Totals	<u>423,850</u>	<u>54,477</u>	-	<u>478,327</u>
Less accumulated depreciation for:				
Improvements other than buildings	36,446	29,648	-	66,094
Machinery and equipment	8,209	16,299	-	24,508
Transportation equipment	-	156	-	156
Intangible	<u>6,353</u>	<u>4,882</u>	-	<u>11,235</u>
Totals	<u>51,008</u>	<u>50,985</u>	-	<u>101,993</u>
Total capital assets, net	<u>\$ 372,842</u>	<u>\$ 3,492</u>	<u>\$ -</u>	<u>\$ 376,334</u>

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

Electric	\$ 260,745
Water	300,178
Wastewater	571,629
Telecommunication	<u>50,985</u>
Total depreciation expense	<u>\$ 1,183,537</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2007</u>	<u>Committed</u>
Electric utility improvements	\$ 1,508,425	\$ 943,012	\$ 565,413
Water utility improvements	621,030	299,640	321,390
Wastewater utility improvements	<u>5,415,450</u>	<u>4,977,622</u>	<u>437,828</u>
Totals	<u>\$ 7,544,905</u>	<u>\$ 6,220,274</u>	<u>\$ 1,324,631</u>

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
 CITY OF LEBANON
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

D. Interfund Balances

The interfund balance as of December 31, 2007, is a short-term loan from the Water Utility to the Wastewater Utility, with a balance of \$ 2,501,394.

E. Leases

Operating Leases

The Utilities have entered into an operating lease with the City of Lebanon having initial or remaining noncancelable terms exceeding one year for 57% of the Municipal Building. Rental expenditures for this lease were \$ 277,757. The following is a schedule by years of future minimum rental payments as of December 31, 2007:

2008	\$	279,619
2009		278,237
2010		279,487
2011		280,250
2012		278,962
2013-2017		1,398,261
2018-2022		1,397,220
2023-2027		<u>420,062</u>
 Total	 \$	 <u><u>4,612,098</u></u>

F. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue 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
1997 Wastewater improvements	4.00% to 6.40%	\$ 1,055,000
2002 Wastewater expansion	3.75% to 4.50%	3,520,000
2005 Wastewater expansion	3.50% to 4.30%	<u>4,345,000</u>
 Total		 8,920,000
 Unamortized Premium/Discount		 <u>(131,402)</u>
 Total Revenue Bonds, Net		 <u><u>\$ 8,788,598</u></u>

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2008	\$ 340,000	\$ 383,782
2009	355,000	366,360
2010	380,000	344,910
2011	395,000	324,903
2012	415,000	308,706
2013-2017	2,360,000	1,278,158
2018-2022	2,930,000	723,980
2023-2027	<u>1,745,000</u>	<u>113,565</u>
Totals	<u>\$ 8,920,000</u>	<u>\$ 3,844,364</u>

2. Bond Anticipation Notes Payable

The Telecommunication Utility has entered into a bond anticipation note. Annual debt service requirements to maturity for the note, including interest of \$ 85,657, are as follows:

2008	\$ 489,417
2009	476,240
2010	<u>880,000</u>
Total	<u>\$ 1,845,657</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Wastewater Utility	\$ 9,245,000	\$ -	\$ 325,000	\$ 8,920,000	\$ 340,000
Bond anticipation notes payable:					
Telecommunication Utility	<u>2,200,000</u>	<u>-</u>	<u>440,000</u>	<u>1,760,000</u>	<u>440,000</u>
Total long-term liabilities	<u>\$ 11,445,000</u>	<u>\$ -</u>	<u>\$ 765,000</u>	<u>\$ 10,680,000</u>	<u>\$ 780,000</u>

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Restricted Assets

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

Revenue bond operations and maintenance account	\$ 12,142,952
Revenue bond construction account	<u>1,139,869</u>
Total restricted assets	<u><u>\$ 13,282,821</u></u>

H. Going Concern-Telecommunications Utility

Since its formation in 2004, the Telecommunications Utility has suffered recurring losses from operations and has a total net asset deficiency of \$998,396 at December 31, 2007, that raises substantial doubt about its ability to continue as a going concern.

Management's plans, as regards to the Telecommunications Utility, are that the current level of losses are and will be apportioned equally among the other three divisions of the Utilities - Electric, Water, and Wastewater. Losses have been reduced through restructuring of the business, various cost control measures, and revenue enhancement.

Restructuring included cessation of the Broadband-Over-Powerline build-out where customer growth did not support the level of capital expenditures necessary to make the project economical. The business line involving wireless service in the city and county is continuing as capital and operating and maintenance expenditures can be managed in smaller segments commensurate with the expansion of the customer base thus reducing the risk of loss. Expenditures are now more tightly controlled as inventory is procured in more manageable blocks and can be throttled more closely depending on the acceleration of growth amounts.

Revenue enhancement is being pursued through marketing in the county of the wireless service where competitive alternatives for customers are minimal. Further growth in revenues is planned through the introduction of a wireless technology called 802.11. The pricing point for this service within the City where competitive alternatives are available, offers opportunity for revenue expansion through customer capture and involves minimal levels of capital. In addition, the development of a fiber optic network in various parts of the City in order to support the electric operations lends itself to extension of such ultra-high speed service to commercial customers offering other opportunity to revenue growth.

The company is also engaged in discussion with private entities regarding joint ventures into the fiber optic and wireless business. Although it is not yet clear what opportunities and structures might emerge from these talks, the vision is to bring private capital, more risk sharing, and advanced intellectual capabilities to both the wireless and fiber optic businesses.

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Other Information

A. Risk Management

The Utilities is 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; job related illnesses or injuries to employees; 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.

B. Rate Structure

1. Electric Utility

The current rate structure was approved by the Utility on January 25, 1995. The Utility has 8,380 customers.

2. Water Utility

The current rate structure was approved by the Utilities on October 25, 2004. The Utility has 6,313 customers.

3. Wastewater Utility

The current rate structure was approved by the Utility on July 25, 2005. The Utility has 6,059 customers.

4. Telecommunication Utility

The current rate structure was approved by the Utilities on May 23, 2005. The Utility has 352 customers.

C. Pension Plan

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 3 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 10 years of service. Employee benefits are based on 1¼% multiplied by years of service multiplied by monthly plan compensation. The plan also provides for death benefits.

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION 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 year ending December 31, 2006, was \$ 162,453.

Actuarial Information for the Above Plan

Annual required contribution	\$ 212,177
Interest on net pension obligation	(2,289)
Adjustment to annual required contribution	<u>3,087</u>
Annual pension cost	212,975
Contributions made	<u>161,435</u>
Increase (decrease) in net pension obligation	51,540
Net pension obligation, beginning of year	<u>(32,703)</u>
Net pension obligation, end of year	<u><u>\$ 18,837</u></u>

Contribution rates:	
Utilities	5.5%
Plan members	3%
Actuarial valuation date	01-01-07
Actuarial cost method	Entry age normal- frozen liability

Actuarial Assumptions

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%

Three Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12-31-04	\$ 124,161	108%	\$ (16,044)
12-31-05	145,794	111%	(32,703)
12-31-06	212,975	76%	18,837

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
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%)
01-01-06	3,364,796	3,241,007	123,789	104%	2,422,821	5%
01-01-07	3,521,126	3,071,256	449,870	115%	2,720,847	17%

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
EXIT CONFERENCE

The contents of this report were discussed on September 29, 2008, with John Lasley, Mayor; Deborah Ottinger, Clerk-Treasurer; Michael Martin, Utilities General Manager; and Sandra Morgan, Utility Manager of Financial Services and Human Resources. Our audit disclosed no material items that warrant comment at this time.