

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

ANNUAL FINANCIAL REPORT
2008

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



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Ottinger	01-01-08 to 12-31-11
Mayor	John Lasley Richard Robertson (Interim) Harold "Huck" Lewis	01-01-08 to 05-03-09 05-04-09 to 05-22-09 05-23-09 to 12-31-11
President of the Board of Public Works	John Lasley Richard Robertson (Interim) Harold "Huck" Lewis	01-01-08 to 05-03-09 05-04-09 to 05-22-09 05-23-09 to 12-31-11
President of the Common Council	Richard Robertson	01-01-08 to 12-31-09
Utilities General Manager	Michael Martin	01-01-08 to 12-31-09
Manager of Financial Services and Human Resources	Sandra Morgan	01-01-08 to 12-31-09
President of the Utilities Service Board	Allen Milburn	01-01-08 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATIONS 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 Telecommunications Utilities (Utilities), departments of the City of Lebanon, as of and for the year ended December 31, 2008. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion 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 statement 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 Telecommunications 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, 2008, 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, 2008, 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 Telecommunications Utility (Utility) have been prepared assuming that the Utility will continue as a going concern. As discussed in Note II(G) 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(G). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Utilities have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

October 6, 2009

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATIONS UTILITIES
CITY OF LEBANON
STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Tele- Communications</u>
Current assets:				
Cash and cash equivalents	\$ 4,423,463	\$ 1,002,260	\$ 1,551,428	\$ 35,570
Accounts receivable (net of allowance)	781,615	112,590	166,130	10,108
Other receivables	562,911	-	-	-
Interfund receivables:				
Receivable from associated City	14,621	-	-	-
Receivable from associated Utility	532,132	2,930,642	532,132	-
Inventories	195,759	67,218	15,041	5,500
Prepaid items	12,629	7,965	7,449	1,115
Total current assets	6,523,130	4,120,675	2,272,180	52,293
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation cash and investments	-	4,540,317	-	-
Bond and interest cash and investments	-	-	216,746	-
Debt service reserve cash and investments	-	-	755,085	-
Construction cash and investments	-	-	1,093,091	-
Availability cash and investments	-	744,295	93,585	-
Renew and replacement cash and investments	4,727,055	-	-	-
Improvement cash and investments	-	-	1,281,490	-
Interest receivable	2,315	1,543	157	-
Total restricted assets	4,729,370	5,286,155	3,440,154	-
Deferred charges	-	-	205,450	-
Capital assets:				
Land, improvements to land and construction in progress	1,394,040	491,438	249,431	-
Other capital assets (net of accumulated depreciation)	4,355,307	12,208,470	24,720,906	328,172
Total capital assets	5,749,347	12,699,908	24,970,337	328,172
Total noncurrent assets	10,478,717	17,986,063	28,615,941	328,172
Total assets	17,001,847	22,106,738	30,888,121	380,465
Liabilities				
Current liabilities:				
Accounts payable	2,258,367	27,724	84,771	5,644
Accrued wages payable	42,963	29,370	35,787	5,180
Interfund payables:				
Payable to associated Utility	-	-	2,398,509	1,596,397
Taxes payable	81,864	10,536	-	-
Compensated absences	145,441	209,313	224,492	-
Current liabilities payable from restricted assets:				
Revenue bonds payable	-	-	355,000	-
Total current liabilities	2,528,635	276,943	3,098,559	1,607,221
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts)	-	-	8,115,123	-
Total noncurrent liabilities	-	-	8,115,123	-
Total liabilities	2,528,635	276,943	11,213,682	1,607,221
Net Assets				
Invested in capital assets, net of related debt	5,749,347	12,699,908	16,500,214	328,172
Restricted for debt service	-	-	971,831	-
Unrestricted	8,723,865	9,129,887	2,202,394	(1,554,928)
Total net assets	\$ 14,473,212	\$ 21,829,795	\$ 19,674,439	\$ (1,226,756)

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

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATIONS UTILITIES
CITY OF LEBANON
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2008

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Tele- Communications</u>
Operating revenues:				
Residential sales	\$ 5,634,406	\$ 1,174,447	\$ 2,261,288	\$ 191,988
Commercial and industrial sales	9,973,543	588,028	1,258,482	91,950
Public street and highway lighting	115,067	-	-	-
Fire protection revenue	-	212,826	-	-
Penalties	94,384	15,535	86,273	1,549
Other	107,369	152,061	121,907	2,196
	<u>15,924,769</u>	<u>2,142,897</u>	<u>3,727,950</u>	<u>287,683</u>
Total operating revenues				
Operating expenses:				
Water treatment expense - operations and maintenance	-	249,062	-	-
Purchased power	12,663,044	-	-	-
Transmission and distribution	839,506	206,224	-	77,365
Collection system - operations and maintenance	-	-	282,959	-
Pumping - operations and maintenance	-	-	92,648	-
Treatment and disposal - operations and maintenance	-	-	295,511	-
Customer accounts	181,311	119,708	104,163	2,084
Salaries and wages	199,864	225,714	238,510	98,258
Employee pensions and benefits	479,229	421,060	480,879	76,999
Sludge removal	-	-	132,339	-
Materials and supplies	50,153	23,459	22,883	14,333
Contractual services	226,368	58,800	23,836	109,493
Rents	86,682	86,682	86,682	19,573
Payment in lieu of taxes	61,500	112,164	40,042	1,318
Taxes	223,000	23,500	-	3,800
Depreciation and amortization	269,341	296,713	629,215	56,712
Miscellaneous expenses	282,007	196,161	332,320	27,180
	<u>15,562,005</u>	<u>2,019,247</u>	<u>2,761,987</u>	<u>487,115</u>
Total operating expenses				
Operating income (loss)	<u>362,764</u>	<u>123,650</u>	<u>965,963</u>	<u>(199,432)</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	138,757	92,798	61,257	1,912
Interest expense	-	-	(383,783)	(30,840)
Amortization	-	(11,580)	(42,027)	-
Miscellaneous expense	(1,117)	-	-	-
	<u>137,640</u>	<u>81,218</u>	<u>(364,553)</u>	<u>(28,928)</u>
Total nonoperating revenues (expenses)				
Change in net assets	500,404	204,868	601,410	(228,360)
Total net assets - beginning	<u>13,972,808</u>	<u>21,624,927</u>	<u>19,073,029</u>	<u>(998,396)</u>
Total net assets - ending	<u>\$ 14,473,212</u>	<u>\$ 21,829,795</u>	<u>\$ 19,674,439</u>	<u>\$ (1,226,756)</u>

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

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATIONS UTILITIES
CITY OF LEBANON
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2008

	Electric	Water	Wastewater	Tele- Communications
Cash flows from operating activities:				
Receipts from customers and users	\$ 15,210,047	\$ 1,546,951	\$ 3,565,000	\$ 279,867
Payments to suppliers and contractors	(13,952,217)	(1,100,430)	(1,906,598)	(479,466)
Payments to employees	(1,031,872)	(653,604)	(822,933)	(123,978)
Other receipts	107,369	152,061	121,907	2,196
Net cash provided (used) by operating activities	<u>333,327</u>	<u>(55,022)</u>	<u>957,376</u>	<u>(321,381)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(810,587)	(160,846)	(238,793)	(8,550)
Principal paid on capital debt	-	-	(340,000)	-
Interest paid on capital debt	-	-	(383,783)	(30,840)
Net cash used by capital and related financing activities	<u>(810,587)</u>	<u>(160,846)</u>	<u>(962,576)</u>	<u>(39,390)</u>
Cash flows from investing activities:				
Interest received	146,778	98,143	76,312	1,912
Net increase in cash and cash equivalents	(330,482)	(117,725)	71,112	(358,859)
Cash and cash equivalents, January 1	9,481,000	6,404,597	4,920,313	394,429
Cash and cash equivalents, December 31	<u>\$ 9,150,518</u>	<u>\$ 6,286,872</u>	<u>\$ 4,991,425</u>	<u>\$ 35,570</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 362,764	\$ 123,650	\$ 965,963	\$ (199,432)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	269,341	296,713	629,215	56,712
Bad debt expense	-	-	112	-
(Increase) decrease in assets:				
Accounts receivable - customer	(91,760)	(14,637)	(43,788)	(5,620)
Accounts receivable - other	31,160	-	2,745	-
Interfund receivable	(546,753)	(429,248)	(532,132)	-
Inventories	(1,442)	5,006	817	(5,500)
Prepaid items	8,610	9,115	8,802	2,717
Increase (decrease) in liabilities:				
Accounts payable	292,527	(68,554)	14,239	(7,678)
Accrued wages payable	(11,207)	15,470	18,519	1,023
Interfund payable	-	-	(102,885)	(163,603)
Taxes payable	21,722	2,696	-	-
Compensated absence payable	(1,635)	4,767	(4,231)	-
Total adjustments	<u>(29,437)</u>	<u>(178,672)</u>	<u>(8,587)</u>	<u>(121,949)</u>
Net cash provided by operating activities	<u>\$ 333,327</u>	<u>\$ (55,022)</u>	<u>\$ 957,376</u>	<u>\$ (321,381)</u>

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

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATIONS 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 Other 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 TELECOMMUNICATIONS 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 because their use is limited to 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:

	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 TELECOMMUNICATIONS 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 \$383,783. 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.

Where applicable, 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

Deposits, made in accordance with IC 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

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

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 119,284	\$ 886	\$ -	\$ 120,170
Construction in progress	943,012	399,941	69,083	1,273,870
	<u>1,062,296</u>	<u>400,827</u>	<u>69,083</u>	<u>1,394,040</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	814,625	-	-	814,625
Improvements other than buildings	3,616,926	236,457	11,216	3,842,167
Machinery and equipment	2,393,453	242,386	-	2,635,839
Transportation equipment	481,536	-	-	481,536
	<u>7,306,540</u>	<u>478,843</u>	<u>11,216</u>	<u>7,774,167</u>
Totals				
Less accumulated depreciation for:				
Buildings	1,572,306	16,206	-	1,588,512
Improvements other than buildings	258,319	111,158	10,099	359,378
Machinery and equipment	296,510	99,008	-	395,518
Transportation equipment	1,032,483	42,969	-	1,075,452
	<u>3,159,618</u>	<u>269,341</u>	<u>10,099</u>	<u>3,418,860</u>
Totals				
Total capital assets, being depreciated, net	<u>4,146,922</u>	<u>209,502</u>	<u>1,117</u>	<u>4,355,307</u>
Total capital assets, net	<u>\$ 5,209,218</u>	<u>\$ 610,329</u>	<u>\$ 70,200</u>	<u>\$ 5,749,347</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 112,043	\$ -	\$ -	\$ 112,043
Construction in progress	299,640	79,755	-	379,395
	<u>411,683</u>	<u>79,755</u>	<u>-</u>	<u>491,438</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	3,594,159	-	-	3,594,159
Improvements other than buildings	12,609,815	-	-	12,609,815
Machinery and equipment	1,287,975	81,091	-	1,369,066
Transportation equipment	245,495	-	-	245,495
	<u>17,737,444</u>	<u>81,091</u>	<u>-</u>	<u>17,818,535</u>
Totals				
Less accumulated depreciation for:				
Buildings	1,714,966	72,013	-	1,786,979
Improvements other than buildings	3,043,087	157,484	-	3,200,571
Machinery and equipment	418,585	47,738	-	466,323
Transportation equipment	136,714	19,478	-	156,192
	<u>5,313,352</u>	<u>296,713</u>	<u>-</u>	<u>5,610,065</u>
Totals				
Total capital assets, being depreciated, net	<u>12,424,092</u>	<u>(215,622)</u>	<u>-</u>	<u>12,208,470</u>
Total capital assets, net	<u>\$ 12,835,775</u>	<u>\$ (135,867)</u>	<u>\$ -</u>	<u>\$ 12,699,908</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 182,444	\$ -	\$ -	\$ 182,444
Construction in progress	4,977,622	1,130	4,911,765	66,987
Total capital assets, not being depreciated	5,160,066	1,130	4,911,765	249,431
Capital assets, being depreciated:				
Buildings	5,641,466	-	-	5,641,466
Improvements other than buildings	17,542,963	5,081,513	-	22,624,476
Machinery and equipment	6,179,386	36,867	-	6,216,253
Transportation equipment	313,662	31,048	-	344,710
Totals	29,677,477	5,149,428	-	34,826,905
Less accumulated depreciation for:				
Buildings	3,671,754	111,542	-	3,783,296
Improvements other than buildings	4,010,971	319,117	-	4,330,088
Machinery and equipment	1,603,008	172,765	-	1,775,773
Transportation equipment	191,051	25,791	-	216,842
Totals	9,476,784	629,215	-	10,105,999
Total capital assets, being depreciated, net	20,200,693	4,520,213	-	24,720,906
Total capital assets, net	<u>\$ 25,360,759</u>	<u>\$ 4,521,343</u>	<u>\$ 4,911,765</u>	<u>\$ 24,970,337</u>
Telecommunications Utility:				
Capital assets, being depreciated:				
Improvements other than buildings	\$ 258,142	\$ -	\$ -	\$ 258,142
Machinery and equipment	92,480	3,259	-	95,739
Transportation equipment	52,778	5,291	-	58,069
Intangible	74,927	-	-	74,927
Totals	478,327	8,550	-	486,877
Less accumulated depreciation for:				
Improvements other than buildings	66,094	29,648	-	95,742
Machinery and equipment	24,508	21,485	-	45,993
Transportation equipment	156	697	-	853
Intangible	11,235	4,882	-	16,117
Totals	101,993	56,712	-	158,705
Total capital assets, net	<u>\$ 376,334</u>	<u>\$ (48,162)</u>	<u>\$ -</u>	<u>\$ 328,172</u>

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

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

Electric	\$ 269,341
Water	296,713
Wastewater	629,215
Telecommunications	<u>56,712</u>
 Total depreciation expense	 <u>\$ 1,251,981</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008	Committed	Required Future Funding
Electric Utility improvements	\$ 1,685,925	\$ 1,273,870	\$ 412,055	\$ -
Water Utility improvements	536,400	379,395	157,005	-
Wastewater Utility improvements	<u>75,000</u>	<u>66,987</u>	<u>8,013</u>	<u>-</u>
 Totals	 <u>\$ 2,297,325</u>	 <u>\$ 1,720,252</u>	 <u>\$ 577,073</u>	 <u>\$ -</u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2008, is as follows:

Due To	Due From			Totals
	General Fund	Wastewater Utility	Telecommunication Utility	
Electric Utility	\$ 14,621	\$ -	\$ 532,132	\$ 546,753
Water Utility	-	2,398,509	532,133	2,930,642
Wastewater Utility	<u>-</u>	<u>-</u>	<u>532,132</u>	<u>532,132</u>
 Totals	 <u>\$ 14,621</u>	 <u>\$ 2,398,509</u>	 <u>\$ 1,596,397</u>	 <u>\$ 4,009,527</u>

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATIONS UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
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E Long-Term Liabilities

1. Revenue Bonds

The Utilities 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
Wastewater:		
1997 improvements	4.00% to 6.40%	\$ 775,000
2002 expansion projects	3.75% to 4.50%	3,520,000
2005 expansion projects	3.50% to 4.30%	4,285,000
Total		8,580,000
Unamortized premium		(109,877)
Due within one year		(355,000)
Due in more than one year		\$ 8,115,123

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2009	\$ 355,000	\$ 366,360
2010	380,000	344,910
2011	395,000	324,903
2012	415,000	308,706
2013	435,000	292,581
2014-2018	2,460,000	1,179,382
2019-2023	3,070,000	597,495
2024-2028	1,070,000	46,245
Totals	\$ 8,580,000	\$ 3,460,582

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATIONS UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
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	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Wastewater Utility	\$ 8,920,000	\$ -	\$ 340,000	\$ 8,580,000	\$ 355,000

F. Restricted Assets

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

Revenue bond operations and maintenance account	\$ 12,358,573
Revenue bond construction account	1,093,091
 Total restricted assets	 \$ 13,451,664

G. 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 \$1,226,756 at December 31, 2008, 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 economically viable. 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 TELECOMMUNICATIONS 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; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disaster 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. Telecommunications 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 1 ¼% multiplied by years of service multiplied by monthly plan compensation. The plan also provides for death benefits.

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATIONS 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, 2008, were \$226,654.

Actuarial Information for the Above Plan

Annual required contribution	\$	270,085
Interest on net pension obligation		1,271
Adjustment to annual required contribution		(1,789)
Annual pension cost		269,567
Contributions made		226,654
Increase in net pension obligation		42,913
Net pension obligation, beginning of year		18,837
Net pension obligation, end of year	\$	61,750
Contribution rates:		
Utilities		5.5%
Plan members		3%
Actuarial valuation date		01-01-08
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

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12-31-05	\$ 145,794	111%	\$ (32,703)
12-31-06	212,975	76%	18,837
12-31-07	269,567	84%	61,750

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATIONS UTILITIES
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

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)
01-01-03	\$ 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%	2,470,528	(2%)
01-01-05	3,269,169	3,366,512	(97,343)	97%	2,402,437	(4%)
01-01-06	3,364,796	3,624,996	(260,200)	93%	2,422,821	(11%)
01-01-07	3,521,126	4,001,651	(480,525)	88%	2,720,847	(18%)
01-01-08	3,794,747	4,501,742	(706,995)	84%	2,794,776	(25%)

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

The contents of this report were discussed on October 7, 2009, with Deborah Ottinger, Clerk-Treasurer; Harold "Huck" Lewis, Mayor; Sandra Morgan, Manager of Financial Services and Human Resources; and Michael Martin, Utilities General Manager. Our audit disclosed no material items that warrant comment at this time.