

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

ANNUAL FINANCIAL REPORT
2009

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



FILED
11/30/2010

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 | 7-17 |
| Supplementary Information: Schedule of Funding Progress | 18 |
| Exit Conference | 19 |

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 City Council | Richard Robertson Jeremy Lamar | 01-01-09 to 12-31-09 01-01-10 to 12-31-10 |
| Utilities General Manager | Michael Martin | 01-01-09 to 12-31-10 |
| Manager of Financial Services and Human Resources | Sandra Morgan | 01-01-09 to 12-31-10 |
| President of the Utilities Service Board | Allen Milburn | 01-01-09 to 12-31-10 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'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 Telecommunications Utilities (Utilities), departments of the City of Lebanon, as of and for the year ended December 31, 2009. 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, 2009, 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, 2009, 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(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

August 31, 2010

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION UTILITIES
CITY OF LEBANON
STATEMENT OF NET ASSETS
December 31, 2009

| <u>Assets</u> | <u>Electric</u> | <u>Water</u> | <u>Wastewater</u> | <u>Tele- Communications</u> |
|---|----------------------|----------------------|----------------------|---------------------------------|
| Current assets: | | | | |
| Cash and cash equivalents | \$ 4,382,856 | \$ 691,698 | \$ 1,392,796 | \$ 46,282 |
| Accounts receivable (net of allowance) | 710,577 | 102,207 | 125,529 | 16,203 |
| Other receivables | 630,458 | - | - | - |
| Interfund receivables: | | | | |
| Receivable from associated City | 12,637 | - | - | - |
| Receivable from associated Utility | 541,327 | 2,546,900 | 541,327 | - |
| Inventories | 275,011 | 93,184 | 8,735 | 18,987 |
| Prepaid items | 17,589 | 10,839 | 11,568 | 2,850 |
| Total current assets | 6,570,455 | 3,444,828 | 2,079,955 | 84,322 |
| Noncurrent assets: | | | | |
| Restricted cash, cash equivalents and investments: | | | | |
| Depreciation cash and investments | - | 4,578,220 | - | - |
| Bond and interest cash and investments | - | - | 96,717 | - |
| Debt service reserve cash and investments | - | - | 755,085 | - |
| Construction cash and investments | - | - | 1,098,860 | - |
| Availability cash and investments | - | 771,133 | 6,458 | - |
| Renew and replacement cash and investments | 3,144,092 | - | - | - |
| Improvement cash and investments | - | - | 1,475,533 | - |
| Interest receivable | - | - | 71 | - |
| Total restricted assets | 3,144,092 | 5,349,353 | 3,432,724 | - |
| Deferred charges | - | - | 184,946 | - |
| Capital assets: | | | | |
| Land, improvements to land and construction in progress | 2,238,076 | 751,994 | 351,501 | - |
| Other capital assets (net of accumulated depreciation) | 5,158,059 | 12,324,275 | 24,328,284 | 327,472 |
| Total capital assets | 7,396,135 | 13,076,269 | 24,679,785 | 327,472 |
| Total noncurrent assets | 10,540,227 | 18,425,622 | 28,297,455 | 327,472 |
| Total assets | 17,110,682 | 21,870,450 | 30,377,410 | 411,794 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 2,291,660 | 78,623 | 85,231 | 23,267 |
| Accrued wages payable | 54,189 | 34,807 | 41,385 | 5,332 |
| Interfund payables: | | | | |
| Payable to associated utility | - | - | 2,005,573 | 1,623,981 |
| Taxes payable | 78,682 | 9,295 | - | - |
| Compensated absences | 175,258 | 221,059 | 230,022 | - |
| Current liabilities payable from restricted assets: | | | | |
| Revenue bonds payable | - | - | 380,000 | - |
| Total current liabilities | 2,599,789 | 343,784 | 2,742,211 | 1,652,580 |
| Noncurrent liabilities: | | | | |
| Revenue bonds payable (net of unamortized discounts) | - | - | 7,756,647 | - |
| Total noncurrent liabilities | - | - | 7,756,647 | - |
| Total liabilities | 2,599,789 | 343,784 | 10,498,858 | 1,652,580 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 7,396,135 | 13,076,269 | 17,641,998 | 327,472 |
| Restricted for debt service | - | - | 1,950,662 | - |
| Unrestricted | 7,114,758 | 8,450,397 | 285,892 | (1,568,258) |
| Total net assets | \$ 14,510,893 | \$ 21,526,666 | \$ 19,878,552 | \$ (1,240,786) |

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, 2009

| | Electric | Water | Wastewater | Tele- Communications |
|--|----------------------|----------------------|----------------------|-------------------------|
| Operating revenues: | | | | |
| Residential sales | \$ 6,134,219 | \$ 1,120,827 | \$ 2,164,490 | \$ 221,930 |
| Commercial and industrial sales | 10,455,541 | 554,266 | 1,177,577 | 214,036 |
| Public street and highway lighting | 145,444 | - | - | - |
| Fire protection revenue | - | 212,906 | - | - |
| Penalties | 101,468 | 13,165 | 81,282 | 1,650 |
| Other | 169,622 | 82,508 | 170,456 | 41,074 |
| Total operating revenues | 17,006,294 | 1,983,672 | 3,593,805 | 478,690 |
| Operating expenses: | | | | |
| Water treatment expense - operations and maintenance | - | 266,176 | - | - |
| Purchased power | 13,844,800 | - | - | - |
| Transmission and distribution | 1,040,641 | 219,587 | - | 44,293 |
| Collection system - operations and maintenance | - | - | 278,950 | - |
| Pumping - operations and maintenance | - | - | 85,301 | - |
| Treatment and disposal - operations and maintenance | - | - | 356,300 | - |
| Customer accounts | 103,323 | 148,499 | 103,988 | 1,946 |
| Salaries and wages | 196,876 | 231,679 | 241,716 | 101,784 |
| Employee pensions and benefits | 729,589 | 488,786 | 605,384 | 106,531 |
| Sludge removal | - | - | 102,755 | - |
| Office expense | 145,189 | 82,107 | 89,551 | 10,783 |
| Contractual services | 125,888 | 140,499 | 40,744 | 60,792 |
| Rents | 86,253 | 86,254 | 86,254 | 19,477 |
| Payment in lieu of taxes | 61,500 | 112,164 | 40,042 | 1,318 |
| Taxes | 263,825 | 29,559 | - | 5,571 |
| Depreciation and amortization | 293,707 | 305,910 | 671,207 | 58,544 |
| Miscellaneous expenses | 134,726 | 212,614 | 305,637 | 82,102 |
| Total operating expenses | 17,026,317 | 2,323,834 | 3,007,829 | 493,141 |
| Operating income (loss) | (20,023) | (340,162) | 585,976 | (14,451) |
| Nonoperating revenues (expenses): | | | | |
| Interest and investment revenue | 57,875 | 39,174 | 28,666 | 421 |
| Interest expense | - | - | (366,360) | - |
| Amortization | - | - | (42,028) | - |
| Miscellaneous expense | (171) | (2,141) | (2,141) | - |
| Total nonoperating revenues (expenses) | 57,704 | 37,033 | (381,863) | 421 |
| Change in net assets | 37,681 | (303,129) | 204,113 | (14,030) |
| Total net assets - beginning | 14,473,212 | 21,829,795 | 19,674,439 | (1,226,756) |
| Total net assets - ending | \$ 14,510,893 | \$ 21,526,666 | \$ 19,878,552 | \$ (1,240,786) |

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, 2009

| | Electric | Water | Wastewater | Tele- Communications |
|--|---------------------|---------------------|---------------------|-------------------------|
| Cash flows from operating activities: | | | | |
| Receipts from customers and users | \$ 16,842,147 | \$ 2,304,483 | \$ 3,463,950 | \$ 431,521 |
| Payments to suppliers and contractors | (15,016,959) | (825,039) | (1,291,745) | (153,464) |
| Payments to employees | (1,737,904) | (1,164,077) | (1,433,233) | (250,996) |
| Other receipts | 169,622 | 82,508 | 170,456 | 41,074 |
| Net cash provided (used) by operating activities | <u>256,906</u> | <u>397,875</u> | <u>909,428</u> | <u>68,135</u> |
| Cash flows from capital and related financing activities: | | | | |
| Acquisition and construction of capital assets | (1,940,666) | (684,413) | (382,796) | (57,844) |
| Principal paid on capital debt | - | - | (355,000) | - |
| Interest paid on capital debt | - | - | (366,360) | - |
| Net cash used by capital and related financing activities | <u>(1,940,666)</u> | <u>(684,413)</u> | <u>(1,104,156)</u> | <u>(57,844)</u> |
| Cash flows from investing activities: | | | | |
| Interest received | 60,190 | 40,717 | 28,752 | 421 |
| Net increase in cash and cash equivalents | (1,623,570) | (245,821) | (165,976) | 10,712 |
| Cash and cash equivalents, January 1 | 9,150,518 | 6,286,872 | 4,991,425 | 35,570 |
| Cash and cash equivalents, December 31 | <u>\$ 7,526,948</u> | <u>\$ 6,041,051</u> | <u>\$ 4,825,449</u> | <u>\$ 46,282</u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | |
| Operating income | \$ (20,023) | \$ (340,162) | \$ 585,976 | \$ (14,451) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | 293,707 | 305,910 | 671,207 | 58,544 |
| (Increase) decrease in assets: | | | | |
| Accounts receivable - customer | 71,037 | 10,383 | 40,601 | (6,095) |
| Accounts receivable - other | (65,562) | 392,936 | - | - |
| Interfund receivable | (9,195) | (9,195) | (9,195) | - |
| Inventories | (79,252) | (25,966) | 6,306 | (13,487) |
| Prepaid items | (4,960) | (2,874) | (4,119) | (1,735) |
| Increase (decrease) in liabilities: | | | | |
| Accounts payable | 33,293 | 50,899 | 460 | 17,623 |
| Accrued wages payable | 11,226 | 5,438 | 5,598 | 152 |
| Interfund payable | - | - | (392,935) | - |
| Taxes payable | (3,182) | (1,240) | - | 27,584 |
| Compensated absence payable | 29,817 | 11,746 | 5,529 | - |
| Total adjustments | <u>276,929</u> | <u>738,037</u> | <u>323,452</u> | <u>82,586</u> |
| Net cash provided by operating activities | <u>\$ 256,906</u> | <u>\$ 397,875</u> | <u>\$ 909,428</u> | <u>\$ 68,135</u> |

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 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 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 \$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.

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|-------------------|---------------------|
| Electric Utility: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 120,170 | \$ - | \$ - | \$ 120,170 |
| Construction in progress | <u>1,273,870</u> | <u>1,037,434</u> | <u>193,398</u> | <u>2,117,906</u> |
| Total capital assets, not being depreciated | <u>1,394,040</u> | <u>1,037,434</u> | <u>193,398</u> | <u>2,238,076</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 814,625 | 44,614 | 2,433 | 856,806 |
| Improvements other than buildings | 3,842,167 | 304,380 | 8,031 | 4,138,516 |
| Machinery and equipment | 2,635,839 | 487,917 | - | 3,123,756 |
| Transportation equipment | <u>481,536</u> | <u>259,720</u> | <u>11,520</u> | <u>729,736</u> |
| Totals | <u>7,774,167</u> | <u>1,096,631</u> | <u>21,984</u> | <u>8,848,814</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,588,512 | 16,375 | 2,433 | 1,602,454 |
| Improvements other than buildings | 359,378 | 115,814 | 7,859 | 467,333 |
| Machinery and equipment | 395,518 | 105,631 | - | 501,149 |
| Transportation equipment | <u>1,075,452</u> | <u>55,887</u> | <u>11,520</u> | <u>1,119,819</u> |
| Totals | <u>3,418,860</u> | <u>293,707</u> | <u>21,812</u> | <u>3,690,755</u> |
| Total capital assets, being depreciated, net | <u>4,355,307</u> | <u>802,924</u> | <u>172</u> | <u>5,158,059</u> |
| Total capital assets, net | <u>\$ 5,749,347</u> | <u>\$ 1,840,358</u> | <u>\$ 193,570</u> | <u>\$ 7,396,135</u> |
| Water Utility: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 112,043 | \$ - | \$ - | \$ 112,043 |
| Construction in progress | <u>379,395</u> | <u>279,546</u> | <u>18,990</u> | <u>639,951</u> |
| Total capital assets, not being depreciated | <u>491,438</u> | <u>279,546</u> | <u>18,990</u> | <u>751,994</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 3,594,159 | 33,427 | 2,433 | 3,625,153 |
| Improvements other than buildings | 12,609,815 | 13,435 | - | 12,623,250 |
| Machinery and equipment | 1,369,066 | 376,995 | - | 1,746,061 |
| Transportation equipment | <u>245,495</u> | <u>-</u> | <u>5,760</u> | <u>239,735</u> |
| Totals | <u>17,818,535</u> | <u>423,857</u> | <u>8,193</u> | <u>18,234,199</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 (continued): | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,786,979 | 73,602 | 292 | 1,860,289 |
| Improvements other than buildings | 3,200,571 | 157,665 | - | 3,358,236 |
| Machinery and equipment | 466,323 | 55,166 | - | 521,489 |
| Transportation equipment | 156,192 | 19,478 | 5,760 | 169,910 |
| | <u>5,610,065</u> | <u>305,911</u> | <u>6,052</u> | <u>5,909,924</u> |
| Totals | | | | |
| Total capital assets, being depreciated, net | <u>12,208,470</u> | <u>117,946</u> | <u>2,141</u> | <u>12,324,275</u> |
| Total capital assets, net | <u>\$ 12,699,908</u> | <u>\$ 397,492</u> | <u>\$ 21,131</u> | <u>\$ 13,076,269</u> |
| | | | | |
| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
| Wastewater Utility: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 182,444 | \$ - | \$ - | \$ 182,444 |
| Construction in progress | 66,987 | 170,052 | 67,982 | 169,057 |
| | <u>249,431</u> | <u>170,052</u> | <u>67,982</u> | <u>351,501</u> |
| Total capital assets, not being depreciated | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings | 5,641,466 | - | - | 5,641,466 |
| Improvements other than buildings | 22,624,476 | 165,950 | 3,432 | 22,786,994 |
| Machinery and equipment | 6,216,253 | 80,050 | - | 6,296,303 |
| Transportation equipment | 344,710 | 34,726 | - | 379,436 |
| | <u>34,826,905</u> | <u>280,726</u> | <u>3,432</u> | <u>35,104,199</u> |
| Totals | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings | 3,783,296 | 111,543 | - | 3,894,839 |
| Improvements other than buildings | 4,330,088 | 366,601 | 291 | 4,696,398 |
| Machinery and equipment | 1,775,773 | 165,041 | - | 1,940,814 |
| Transportation equipment | 216,842 | 28,022 | - | 244,864 |
| | <u>10,105,999</u> | <u>671,207</u> | <u>291</u> | <u>10,776,915</u> |
| Totals | | | | |
| Total capital assets, being depreciated, net | <u>24,720,906</u> | <u>(390,481)</u> | <u>3,141</u> | <u>24,327,284</u> |
| Total capital assets, net | <u>\$ 24,970,337</u> | <u>\$ (220,429)</u> | <u>\$ 71,123</u> | <u>\$ 24,678,785</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 | \$ 27,806 | \$ - | \$ 285,948 |
| Machinery and equipment | 148,515 | 30,041 | - | 178,556 |
| Transportation equipment | 6,989 | - | - | 6,989 |
| Intangible | <u>73,228</u> | <u>-</u> | <u>-</u> | <u>73,228</u> |
| Totals | <u>486,874</u> | <u>57,847</u> | <u>-</u> | <u>544,721</u> |
| Less accumulated depreciation for: | | | | |
| Improvements other than buildings | 95,742 | 29,979 | - | 125,721 |
| Machinery and equipment | 45,993 | 22,984 | - | 68,977 |
| Transportation equipment | 853 | 699 | - | 1,552 |
| Intangible | <u>16,117</u> | <u>4,882</u> | <u>-</u> | <u>20,999</u> |
| Totals | <u>158,705</u> | <u>58,544</u> | <u>-</u> | <u>217,249</u> |
| Total capital assets, net | <u>\$ 328,169</u> | <u>\$ (697)</u> | <u>\$ -</u> | <u>\$ 327,472</u> |

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

| | |
|----------------------------|---------------------|
| Electric | \$ 293,707 |
| Water | 305,910 |
| Wastewater | 671,207 |
| Telecommunication | <u>58,544</u> |
| Total depreciation expense | <u>\$ 1,329,368</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, 2009</u> | <u>Committed</u> | <u>Required Future Funding</u> |
|---------------------------------|---|--|---------------------|--|
| Electric Utility improvements | \$ 3,500,000 | \$ 2,117,906 | \$ 1,382,094 | \$ - |
| Water Utility improvements | 1,750,000 | 639,951 | 1,110,049 | - |
| Wastewater Utility improvements | <u>800,000</u> | <u>169,057</u> | <u>630,943</u> | <u>-</u> |
| Totals | <u>\$ 6,050,000</u> | <u>\$ 2,926,914</u> | <u>\$ 3,123,086</u> | <u>\$ -</u> |

ELECTRIC, WATER, WASTEWATER, AND TELECOMMUNICATION 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, 2009, is as follows:

| Due To | Due From | | | Totals |
|--------------------|------------------|---------------------|---------------------------|---------------------|
| | General Fund | Wastewater Utility | Telecommunication Utility | |
| Electric Utility | \$ 12,637 | \$ - | \$ 541,327 | \$ 553,964 |
| Water Utility | - | 2,005,573 | 541,327 | 2,546,900 |
| Wastewater Utility | - | - | 541,327 | 541,327 |
| Totals | <u>\$ 12,637</u> | <u>\$ 2,005,573</u> | <u>\$ 1,623,981</u> | <u>\$ 3,642,191</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.

E 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 |
|------------------------------|----------------|---------------------|
| Wastewater: | | |
| 1997 improvements | 4.00% to 6.40% | \$ 480,000 |
| 2002 expansion projects | 3.75% to 4.50% | 3,520,000 |
| 2005 expansion projects | 3.50% to 4.30% | <u>4,225,000</u> |
| Total | | 8,225,000 |
| Unamortized Premium/Discount | | (88,353) |
| Due within one year | | <u>(380,000)</u> |
| Due in more than one year | | <u>\$ 7,756,647</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 |
| 2010 | \$ 380,000 | \$ 344,910 |
| 2011 | 395,000 | 324,903 |
| 2012 | 415,000 | 308,706 |
| 2013 | 435,000 | 292,581 |
| 2014 | 455,000 | 275,291 |
| 2015-2019 | 2,565,000 | 1,074,191 |
| 2020-2024 | 3,215,000 | 465,793 |
| 2025-2029 | 365,000 | 7,847 |
| Totals | <u>\$ 8,225,000</u> | <u>\$ 3,094,222</u> |

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|------------------------|----------------------|-------------|-------------------|---------------------|---------------------------|
| Revenue bonds payable: | | | | | |
| Wastewater Utility | <u>\$ 8,580,000</u> | <u>\$ -</u> | <u>\$ 355,000</u> | <u>\$ 8,225,000</u> | <u>\$ 380,000</u> |

F. Restricted Assets

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

| | |
|---|----------------------|
| Revenue bond operations and maintenance account | \$ 10,827,309 |
| Revenue bond construction account | <u>1,098,860</u> |
| Total restricted assets | <u>\$ 11,926,169</u> |

G. Going Concern – Telecommunication Utility

Since its formation in 2004, the Telecommunications Utility has suffered recurring losses from operations and has a total net asset deficiency of \$1,240,786 at December 31, 2009, 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.

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

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 economic. 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.

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 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.

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

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 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 sixty-two with thirty years service of sixty-five. 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.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members have been actuarially determined under the modified aggregate cost method. The Utilities' contribution to the plan for the year ending December 31, 2009, was \$338,405.

Actuarial Information for the Above Plan

| | | |
|---|----|----------------------|
| Annual required contribution | \$ | 313,274 |
| Interest on net pension obligation | | 3,901 |
| Adjustment to annual required contribution | | <u>(5,752)</u> |
| Annual pension cost | | 311,423 |
| Contributions made | | <u>338,405</u> |
| Increase (decrease) in net pension obligation | | (26,982) |
| Net pension obligation, beginning of year | | <u>60,012</u> |
| Net pension obligation, end of year | \$ | <u><u>33,030</u></u> |

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

| | |
|--------------------------|---|
| Contribution rates: | |
| Utilities | 5.5% |
| Plan members | 3% |
| Actuarial valuation date | 01-01-10 |
| 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> |
|--------------------|--|--|---------------------------------------|
| 12-31-07 | \$ 269,567 | 84% | \$ 61,750 |
| 12-31-08 | 299,833 | 101% | 60,012 |
| 12-31-09 | 311,423 | 109% | 33,030 |

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) |
|--------------------------------|--|---|--|--------------------------|---------------------------|--|
| 01-01-04 | \$ 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%) |
| 01-01-09 | 3,897,128 | 4,586,442 | (689,314) | 85% | 2,577,540 | (27%) |
| 01-01-10 | 4,091,346 | 7,178,398 | (3,087,052) | 57% | 2,973,795 | (104%) |

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

The contents of this report were discussed on August 31, 2010, with Deborah Ottinger, Clerk-Treasurer; Harold "Huck" Lewis, Mayor; Jeremy Lamar, President of the City Council; 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.