

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

ANNUAL FINANCIAL REPORT

2010

ELECTRIC, WATER, WASTEWATER AND  
TELECOMMUNICATIONS UTILITIES  
CITY OF LEBANON

BOONE COUNTY, INDIANA



**FILED**  
11/22/2011



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 .....	7-16
Supplementary Information: Schedule of Funding Progress .....	17
Examination Result and Comment: Land Purchase.....	18
Exit Conference.....	19
Official Response .....	20

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Ottinger	01-01-08 to 12-31-11
Mayor	Harold "Huck" Lewis	05-23-09 to 12-31-11
President of the Board of Public Works	Harold "Huck" Lewis	05-23-09 to 12-31-11
President of the Common Council	Jeremy Lamar	01-01-10 to 12-31-11
Utilities General Manager	Michael Martin	01-01-10 to 12-31-11
Manager of Financial Services and Human Resources	Sandra Morgan	01-01-10 to 12-31-11
President of the Utilities Service Board	Allen Milburn	01-01-10 to 12-31-11



**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](http://www.in.gov/sboa)

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE ELECTRIC, WATER, WASTEWATER AND  
TELECOMMUNICATIONS UTILITY, CITY OF LEBANON, LEBANON 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, 2010. 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 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, 2010, 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, 2010, 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

September 13, 2011

CITY OF LEBANON  
STATEMENT OF NET ASSETS  
December 31, 2010

<u>Assets</u>	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Communications</u>
<b>Current assets:</b>				
Cash and cash equivalents	\$ 3,374,080	\$ 321,561	\$ 1,129,880	\$ 42,783
Accounts receivable (net of allowance)	1,014,402	138,768	138,578	19,085
Other receivables	601,845	-	-	-
Interfund receivables:				
Receivable from associated City	-	-	-	-
Receivable from associated Utility	531,410	2,409,301	531,410	-
Inventories	460,438	96,111	9,385	10,380
Prepaid items	<u>13,432</u>	<u>6,265</u>	<u>5,342</u>	<u>4,391</u>
<b>Total current assets</b>	<u>5,995,607</u>	<u>2,972,006</u>	<u>1,814,595</u>	<u>76,639</u>
<b>Noncurrent assets:</b>				
Restricted cash, cash equivalents and investments:				
Depreciation cash and investments	-	4,597,540	-	-
Bond and interest cash and investments	-	-	97,591	-
Debt service reserve cash and investments	-	-	755,085	-
Construction cash and investments	-	-	1,107,611	-
Availability cash and investments	-	931,101	-	-
Renew and replacement cash and investments	1,426,364	-	-	-
Improvement cash and investments	-	-	1,458,048	-
Energy program cash and investments	43,105	-	-	-
Interest receivable	<u>1,398</u>	<u>1,478</u>	<u>1,112</u>	<u>143</u>
<b>Total restricted assets</b>	<u>1,470,867</u>	<u>5,530,119</u>	<u>3,419,447</u>	<u>143</u>
Deferred charges	-	-	164,443	-
<b>Capital assets:</b>				
Land, improvements to land and construction in progress	1,687,184	265,864	336,265	2,162
Other capital assets (net of accumulated depreciation)	<u>7,889,373</u>	<u>12,909,977</u>	<u>24,368,769</u>	<u>284,854</u>
<b>Total capital assets</b>	<u>9,576,557</u>	<u>13,175,841</u>	<u>24,705,034</u>	<u>287,016</u>
<b>Total noncurrent assets</b>	<u>11,047,424</u>	<u>18,705,960</u>	<u>28,288,924</u>	<u>287,159</u>
<b>Total assets</b>	<u>17,043,031</u>	<u>21,677,966</u>	<u>30,103,519</u>	<u>363,798</u>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable	2,183,977	22,755	66,584	6,934
Accrued wages payable	62,096	37,412	46,590	5,701
Interfund payables:				
Payable to associated utility	-	-	1,877,891	1,594,229
Taxes payable	77,226	9,240	-	-
Compensated absences	172,450	215,595	233,304	-
Current liabilities payable from restricted assets:				
Revenue bonds payable	-	-	395,000	-
<b>Total current liabilities</b>	<u>2,495,749</u>	<u>285,002</u>	<u>2,619,369</u>	<u>1,606,864</u>
<b>Noncurrent liabilities:</b>				
Revenue bonds payable (net of unamortized discounts)	-	-	7,383,171	-
<b>Total noncurrent liabilities</b>	<u>-</u>	<u>-</u>	<u>7,383,171</u>	<u>-</u>
<b>Total liabilities</b>	<u>2,495,749</u>	<u>285,002</u>	<u>10,002,540</u>	<u>1,606,864</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	9,576,557	13,175,841	18,034,474	287,016
Restricted for debt service	-	-	1,960,287	-
Unrestricted	<u>4,970,725</u>	<u>8,217,123</u>	<u>106,218</u>	<u>(1,530,082)</u>
<b>Total net assets</b>	<u>\$ 14,547,282</u>	<u>\$ 21,392,964</u>	<u>\$ 20,100,979</u>	<u>\$ (1,243,066)</u>

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

CITY OF LEBANON  
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2010

	Electric	Water	Wastewater	Tele- Communications
Operating revenues:				
Residential sales	\$ 6,250,340	\$ 1,189,443	\$ 2,210,580	\$ 245,081
Commercial and industrial sales	9,787,845	595,243	1,222,377	210,036
Public street and highway lighting	144,752	-	-	-
Fire protection revenue	-	248,082	-	-
Penalties	80,911	12,145	73,392	1,728
Other	124,343	219,386	302,612	21,917
	<u>16,388,191</u>	<u>2,264,299</u>	<u>3,808,961</u>	<u>478,762</u>
Total operating revenues				
Operating expenses:				
Water treatment expense - operations and maintenance	-	262,052	-	-
Purchased power	13,490,729	-	-	-
Transmission and distribution	904,204	229,997	-	40,512
Collection system - operations and maintenance	-	-	288,139	-
Pumping - operations and maintenance	-	-	87,611	-
Treatment and disposal - operations and maintenance	-	-	356,830	-
Customer accounts	102,952	148,196	111,830	2,097
Salaries and wages	177,926	233,692	250,702	101,256
Employee pensions and benefits	954,635	630,704	758,288	91,796
Sludge removal	-	-	153,293	-
Office expense	133,758	64,163	30,418	12,218
Contractual services	200,161	75,156	67,616	51,333
Rents	86,642	86,642	86,642	19,565
Payment in lieu of taxes	61,500	112,164	40,042	1,318
Taxes	217,047	27,067	-	7,500
Depreciation and amortization	337,074	315,911	671,902	57,888
Miscellaneous expenses	139,149	261,804	336,601	96,146
	<u>16,805,777</u>	<u>2,447,548</u>	<u>3,239,914</u>	<u>481,629</u>
Total operating expenses				
Operating income (loss)	<u>(417,586)</u>	<u>(183,249)</u>	<u>569,047</u>	<u>(2,867)</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	52,410	49,547	40,317	587
Interest expense	-	-	(344,910)	-
Amortization	-	-	(42,027)	-
Miscellaneous expense	(7,865)	-	-	-
	<u>44,545</u>	<u>49,547</u>	<u>(346,620)</u>	<u>587</u>
Total nonoperating revenues (expenses)				
Income (loss) before contributions	(373,041)	(133,702)	222,427	(2,280)
Capital contributions from developers and others	409,430	-	-	-
	<u>36,389</u>	<u>(133,702)</u>	<u>222,427</u>	<u>(2,280)</u>
Change in net assets				
Total net assets - beginning	<u>14,510,893</u>	<u>21,526,666</u>	<u>19,878,552</u>	<u>(1,240,786)</u>
Total net assets - ending	<u>\$ 14,547,282</u>	<u>\$ 21,392,964</u>	<u>\$ 20,100,979</u>	<u>\$ (1,243,066)</u>

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

CITY OF LEBANON  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Year Ended December 31, 2010

	Electric	Water	Wastewater	Tele- Communications
Cash flows from operating activities:				
Receipts from customers and users	\$ 15,988,636	\$ 2,008,352	\$ 3,493,300	\$ 453,963
Payments to suppliers and contractors	(15,603,997)	(1,183,918)	(1,689,858)	(269,708)
Payments to employees	(1,127,462)	(867,255)	(1,000,503)	(192,683)
Other receipts	124,343	219,386	302,612	21,917
Net cash provided (used) by operating activities	<u>(618,480)</u>	<u>176,565</u>	<u>1,105,551</u>	<u>13,489</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(2,525,361)	(415,483)	(697,151)	(17,432)
Principal paid on capital debt	-	-	(380,000)	-
Interest paid on capital debt	-	-	(344,910)	-
Capital contributions	409,430	-	-	-
Net cash used by capital and related financing activities	<u>(2,525,361)</u>	<u>(415,483)</u>	<u>(1,422,061)</u>	<u>(17,432)</u>
Cash flows from investing activities:				
Interest received	51,012	48,069	39,276	444
Net increase in cash and cash equivalents	(2,683,399)	(190,849)	(277,234)	(3,499)
Cash and cash equivalents, January 1	7,526,948	6,041,051	4,825,449	46,282
Cash and cash equivalents, December 31	<u>\$ 4,843,549</u>	<u>\$ 5,850,202</u>	<u>\$ 4,548,215</u>	<u>\$ 42,783</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ (417,586)	\$ (183,249)	\$ 569,047	\$ (2,867)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	337,074	315,911	671,902	57,888
(Increase) decrease in assets:				
Accounts receivable - customer	(303,825)	(36,561)	(13,049)	(2,882)
Accounts receivable - other	28,613	-	-	-
Interfund receivable	22,554	137,599	9,917	-
Inventories	(185,427)	(2,927)	(650)	8,607
Prepaid items	4,157	4,574	6,226	(1,541)
Increase (decrease) in liabilities:				
Accounts payable	(107,683)	(55,868)	(18,647)	(16,333)
Accrued wages payable	7,907	2,605	5,205	369
Interfund payable	-	-	(127,682)	(29,752)
Taxes payable	(1,456)	(55)	-	-
Compensated absence payable	(2,808)	(5,464)	3,282	-
Total adjustments	<u>(200,894)</u>	<u>359,814</u>	<u>536,504</u>	<u>16,356</u>
Net cash provided by operating activities	<u>\$ (618,480)</u>	<u>\$ 176,565</u>	<u>\$ 1,105,551</u>	<u>\$ 13,489</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 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 average cost 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.

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Electric Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 120,170	\$ 130,525	\$ -	\$ 250,695
Construction in progress	2,117,906	1,460,436	2,141,853	1,436,489
<b>Total capital assets, not being depreciated</b>	<b>2,238,076</b>	<b>1,590,961</b>	<b>2,141,853</b>	<b>1,687,184</b>
Capital assets, being depreciated:				
Buildings	856,806	175,443	-	1,032,249
Improvements other than buildings	4,138,516	762,247	50,771	4,849,992
Machinery and equipment	3,123,756	1,823,989	-	4,947,745
Transportation equipment	729,736	44,800	3,995	770,541
Intangible assets	-	269,774	-	269,774
<b>Totals</b>	<b>8,848,814</b>	<b>3,076,253</b>	<b>54,766</b>	<b>11,870,301</b>
Less accumulated depreciation for:				
Buildings	134,156	17,579	-	151,735
Improvements other than buildings	1,929,772	126,936	43,738	2,012,970
Machinery and equipment	1,316,459	121,211	-	1,437,670
Transportation equipment	310,368	70,599	3,163	377,804
Intangible assets	-	749	-	749
<b>Totals</b>	<b>3,690,755</b>	<b>337,074</b>	<b>46,901</b>	<b>3,980,928</b>
<b>Total capital assets, being depreciated, net</b>	<b>5,158,059</b>	<b>2,739,179</b>	<b>7,865</b>	<b>7,889,373</b>
<b>Total capital assets, net</b>	<b>\$ 7,396,135</b>	<b>\$ 4,330,140</b>	<b>\$ 2,149,718</b>	<b>\$ 9,576,557</b>
<b>Water Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 112,043	\$ 130,525	\$ -	\$ 242,568
Construction in progress	639,951	26,823	643,478	23,296
<b>Total capital assets, not being depreciated</b>	<b>751,994</b>	<b>157,348</b>	<b>643,478</b>	<b>265,864</b>
Capital assets, being depreciated:				
Buildings	3,625,153	-	-	3,625,153
Improvements other than buildings	12,623,250	527,778	-	13,151,028
Machinery and equipment	1,746,061	373,834	-	2,119,895
Transportation equipment	239,735	-	-	239,735
<b>Totals</b>	<b>18,234,199</b>	<b>901,612</b>	<b>-</b>	<b>19,135,811</b>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Less accumulated depreciation for:				
Buildings	1,860,289	73,557	-	1,933,846
Improvements other than buildings	3,358,235	158,803	-	3,517,038
Machinery and equipment	521,489	64,801	-	586,290
Transportation equipment	169,910	18,750	-	188,660
<b>Totals</b>	<u>5,909,923</u>	<u>315,911</u>	<u>-</u>	<u>6,225,834</u>
<b>Total capital assets, being depreciated, net</b>	<u>12,324,276</u>	<u>585,701</u>	<u>-</u>	<u>12,909,977</u>
<b>Total capital assets, net</b>	<u>\$ 13,076,270</u>	<u>\$ 743,049</u>	<u>\$ 643,478</u>	<u>\$ 13,175,841</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 182,444	\$ 130,525	\$ -	\$ 312,969
Construction in progress	169,057	392,879	538,640	23,296
<b>Total capital assets, not being depreciated</b>	<u>351,501</u>	<u>523,404</u>	<u>538,640</u>	<u>336,265</u>
Capital assets, being depreciated:				
Buildings	5,641,466	5,000	-	5,646,466
Improvements other than buildings	22,787,994	603,895	-	23,391,889
Machinery and equipment	6,296,303	103,492	-	6,399,795
Transportation equipment	379,436	-	5,760	373,676
<b>Totals</b>	<u>35,105,199</u>	<u>712,387</u>	<u>5,760</u>	<u>35,811,826</u>
Less accumulated depreciation for:				
Buildings	3,894,839	111,829	-	4,006,668
Improvements other than buildings	4,696,398	368,321	-	5,064,719
Machinery and equipment	1,940,814	164,459	-	2,105,273
Transportation equipment	244,864	27,293	5,760	266,397
<b>Totals</b>	<u>10,776,915</u>	<u>671,902</u>	<u>5,760</u>	<u>11,443,057</u>
<b>Total capital assets, being depreciated, net</b>	<u>24,328,284</u>	<u>40,485</u>	<u>-</u>	<u>24,368,769</u>
<b>Total capital assets, net</b>	<u>\$ 24,679,785</u>	<u>\$ 563,889</u>	<u>\$ 538,640</u>	<u>\$ 24,705,034</u>
Telecommunications Utility:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 2,162	\$ -	\$ 2,162
Capital assets, being depreciated:				
Improvements other than buildings	285,948	12,029	-	297,977
Machinery and equipment	178,556	3,239	-	181,795
Transportation equipment	6,989	-	-	6,989
Intangible	73,228	-	-	73,228
<b>Totals</b>	<u>544,721</u>	<u>15,268</u>	<u>-</u>	<u>559,989</u>
Less accumulated depreciation for:				
Improvements other than buildings	125,721	28,001	-	153,722
Machinery and equipment	68,977	24,305	-	93,282
Transportation equipment	1,551	699	-	2,250
Intangible	20,999	4,882	-	25,881
<b>Totals</b>	<u>217,248</u>	<u>57,887</u>	<u>-</u>	<u>275,135</u>
<b>Total capital assets, net</b>	<u>\$ 327,473</u>	<u>\$ (40,457)</u>	<u>\$ -</u>	<u>\$ 287,016</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	\$ 337,074
Water	315,911
Wastewater	671,902
Telecommunication	<u>57,887</u>
 Total depreciation expense	 <u>\$ 1,382,774</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2010	Committed	Required Future Funding
Electric utility improvements	\$ 1,500,000	\$ 1,436,489	\$ 63,511	\$ -
Water utility improvements	300,000	23,296	276,704	-
Wastewater utility improvements	<u>300,000</u>	<u>23,296</u>	<u>276,704</u>	<u>-</u>
 Totals	 <u>\$ 2,100,000</u>	 <u>\$ 1,483,081</u>	 <u>\$ 616,919</u>	 <u>\$ -</u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2010, is as follows:

Due To	Due From			Totals
	General Fund	Wastewater Utility	Telecommunications Utility	
Electric Utility	\$ 3,957	\$ -	\$ 531,410	\$ 535,367
Water Utility	-	1,877,891	531,410	2,409,301
Wastewater Utility	<u>-</u>	<u>-</u>	<u>531,410</u>	<u>531,410</u>
 Totals	 <u>\$ 3,957</u>	 <u>\$ 1,877,891</u>	 <u>\$ 1,594,230</u>	 <u>\$ 3,476,078</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  
(Continued)

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%	\$ 165,000
2002 expansion projects	3.75% to 4.50%	3,520,000
2005 expansion projects	3.50% to 4.30%	<u>4,160,000</u>
Total		7,845,000
Unamortized Premium/Discount		(66,837)
Due within one year		<u>(395,000)</u>
Due in more than one year		<u>\$ 7,383,163</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Wastewater Utility	
	Principal	Interest
2011	\$ 395,000	\$ 324,903
2012	415,000	308,706
2013	435,000	292,581
2014	455,000	275,291
2015	465,000	256,800
2016-2020	2,685,000	962,441
2021-2025	<u>2,995,000</u>	<u>328,590</u>
Totals	<u>\$ 7,845,000</u>	<u>\$ 2,749,312</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Wastewater Utility	\$ 8,225,000	\$ -	\$ 380,000	\$ 7,845,000	\$ 395,000

F. Restricted Assets

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

Revenue bond and interest fund	\$ 97,591
Revenue bond debt service reserve fund	755,085
Revenue bond construction fund	1,107,611
Total restricted assets	\$ 1,960,287

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 \$1,243,066 at December 31, 2010, 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 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.

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 March 3, 2010. 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 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.

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, 2010, were \$514,362.

Actuarial Information for the Above Plan

Annual required contribution	\$ 422,467
Interest on net pension obligation	1,982
Adjustment to annual required contribution	<u>(3,051)</u>
Annual pension cost	421,398
Contributions made	<u>514,362</u>
Increase (decrease) in net pension obligation	(92,964)
Net pension obligation, beginning of year	<u>33,030</u>
Net pension obligation, end of year	<u>\$ (59,934)</u>

Contribution rates:

Utilities	5.5%
Plan members	3%
Actuarial valuation date	01-01-11
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
12-31-08	\$ 299,833	101%	\$ 60,012
12-31-09	311,423	109%	33,030
12-31-10	421,398	122%	(59,934)

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)
01-01-06	\$ 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%)
01-01-11	4,589,542	7,583,502	(2,993,960)	61%	3,119,631	(96%)

ELECTRIC, WATER, WASTEWATER AND TELECOMMUNICATIONS UTILITIES  
EXAMINATION RESULT AND COMMENT

***LAND PURCHASE***

The Utilities finalized the purchase of land in 2010, for a price of \$385,000. The officials received two appraisals for the land with each being \$350,000.

Indiana Code 36-1-10.5-6 states: "A purchasing agent may not purchase any land or structure for a price greater than the average of the two (2) appraisals received under section 5 of this chapter."

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

The contents of this report were discussed on September 22, 2011, with Michael Martin, Utilities General Manager; Sandra Morgan; Manager of Financial Services and Human Resources; Dan Lamar, Utility Service Board member; Deborah Ottinger, Clerk-Treasurer; Harold "Huck" Lewis, Mayor; and Jeremy Lamar, President of the City Council. The official response has been made a part of this report and may be found on page 20.



One Municipal Plaza  
401 South Meridian Street  
Post Office Box 479  
Lebanon, IN 46052-0479

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## OFFICIAL RESPONSE

Subject: Land Purchase

Date: September 23, 2011

From: Michael E. Martin  
General Manager  
Lebanon Utilities

To: State Board of Accounts

This is in reference to the State Board of Accounts report stating that the finalized price for a purchase of land in 2010 was \$385,000 although officials received two appraisals for the land with each being \$350,000.

The report references Indiana Code 36-1-10.5-6 which states, "A purchasing agent may not purchase any land or structure for a price greater than the average of the two (2) appraisals received under section 5 of this chapter."

Utilities Response: It was the understanding of the Utility General Manager that the Utilities could pay a purchase price no greater than the average of the two appraisals plus 10%. Now, that we have the understanding that the code allows the utilities to pay no more than the average of the two appraisals, this will be adhered to going forward.

  
Michael E. Martin,  
General Manager  
Lebanon Utilities