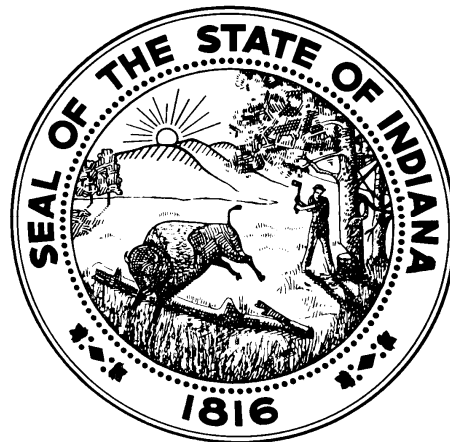


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT
2006

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



FILED
12/31/2007

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	7-18
Supplementary Information: Schedule of Funding Progress	19
Exit Conference.....	20

OFFICIALS

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



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 audited the accompanying financial statements of the business-type activities of the Electric, Water, Wastewater, and Telecommunications Utilities, a departments of the City of Lebanon, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the 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, 2006, 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 Electric, Water, Wastewater, and Telecommunications Utilities, as of December 31, 2006, 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 Utilities have not presented Management's Discussion and Analysis that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

September 13, 2007

ELECTRIC, WATER, WASTEWATER,
AND TELECOMMUNICATIONS UTILITIES
CITY OF LEBANON
STATEMENT OF NET ASSETS
December 31, 2006

<u>Assets</u>	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Telecommunications Utility</u>
Current assets:				
Cash and cash equivalents	\$ 3,930,696	\$ 1,442,119	\$ 1,286,931	\$ 110,423
Accounts receivable - customer (net of allowance)	713,744	121,593	194,390	4,888
Accounts receivable - other	640,563	-	-	-
Interfund receivables:				
Interfund loans	-	2,501,394	-	-
Inventories	195,217	74,977	18,040	-
Prepaid items	<u>16,778</u>	<u>13,668</u>	<u>13,356</u>	<u>3,804</u>
 Total current assets	 <u>5,496,998</u>	 <u>4,153,751</u>	 <u>1,512,717</u>	 <u>119,115</u>
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation cash and investments	-	3,901,951	-	-
Bond and interest cash and investments	-	-	80,894	-
Debt service reserve cash and investments	-	-	755,085	-
Construction cash and investments	-	-	1,469,237	1,248,141
Availability cash and investments	-	545,900	-	-
Renew and replacement cash and investments	5,984,749	-	-	8,699
Improvement cash and investments	-	-	895,461	-
Interest receivable	<u>14,362</u>	<u>8,844</u>	<u>13,066</u>	<u>-</u>
 Total restricted assets	 <u>5,999,111</u>	 <u>4,456,695</u>	 <u>3,213,743</u>	 <u>1,256,840</u>
Deferred charges	<u>-</u>	<u>-</u>	<u>246,456</u>	<u>-</u>
Capital assets:				
Land, improvements to land and construction in progress	121,552	464,857	4,656,430	-
Other capital assets (net of accumulated depreciation)	<u>3,981,939</u>	<u>12,502,607</u>	<u>20,418,600</u>	<u>372,842</u>
 Total capital assets	 <u>4,103,491</u>	 <u>12,967,464</u>	 <u>25,075,030</u>	 <u>372,842</u>
 Total noncurrent assets	 <u>10,102,602</u>	 <u>17,424,159</u>	 <u>28,535,229</u>	 <u>1,629,682</u>
 Total assets	 <u>15,599,600</u>	 <u>21,577,910</u>	 <u>30,047,946</u>	 <u>1,748,797</u>
Liabilities				
Current liabilities:				
Accounts payable	1,863,844	16,978	80,554	9,708
Interfund payables:				
Interfund loans	-	-	2,501,394	-
Accrued wages payable	31,728	18,877	20,717	3,687
Taxes payable	59,674	8,601	-	-
Compensated absences	158,080	192,121	190,455	-
Bond anticipation notes payable	-	-	-	440,000
Current liabilities payable from restricted assets:				
Revenue bonds payable	<u>-</u>	<u>-</u>	<u>325,000</u>	<u>-</u>
 Total current liabilities	 <u>2,113,326</u>	 <u>236,577</u>	 <u>3,118,120</u>	 <u>453,395</u>
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts)	-	-	8,767,073	-
Bond anticipation notes payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,760,000</u>
 Total noncurrent liabilities	 <u>-</u>	 <u>-</u>	 <u>8,767,073</u>	 <u>1,760,000</u>
 Total liabilities	 <u>2,113,326</u>	 <u>236,577</u>	 <u>11,885,193</u>	 <u>2,213,395</u>
Net Assets				
Invested in capital assets, net of related debt	4,103,491	12,967,464	14,513,720	-
Restricted for debt service	-	-	835,979	-
Unrestricted	<u>9,382,783</u>	<u>8,373,869</u>	<u>2,813,054</u>	<u>(464,598)</u>
 Total net assets	 <u>\$ 13,486,274</u>	 <u>\$ 21,341,333</u>	 <u>\$ 18,162,753</u>	 <u>\$ (464,598)</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 REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006

	Electric Utility	Water Utility	Wastewater Utility	Telecommunications Utility
Operating revenues:				
Residential sales	\$ 4,970,759	\$ 1,188,689	\$ 2,267,467	\$ 43,328
Commercial and industrial sales	9,047,155	568,313	1,205,380	63,516
Public street and highway lighting	116,684	-	-	-
Fire protection revenue	-	211,946	-	-
Penalties	59,994	10,020	63,441	376
Other	102,867	126,504	103,051	499
Total operating revenues	14,297,459	2,105,472	3,639,339	107,719
Operating expenses:				
Water treatment expense - operations and maintenance	-	240,740	-	-
Purchased power	11,347,840	-	-	-
Transmission and distribution	813,876	215,485	-	132,721
Collection system - operations and maintenance	-	-	243,279	-
Pumping - operations and maintenance	-	-	40,303	-
Treatment and disposal - operations and maintenance	-	-	401,318	-
Customer accounts	289,372	199,439	116,192	11,567
Administration and general:				
Salaries and wages	208,924	230,524	228,452	115,276
Employee pensions and benefits	529,005	384,918	454,838	27,847
Contractual services	137,271	90,019	53,996	76,075
Materials and supplies	61,626	35,019	38,412	27,705
Rents	92,858	92,858	92,858	-
Transportation expenses	-	3,289	-	-
Insurance expense	32,092	28,691	25,045	10
Taxes	205,992	27,013	-	1,725
Payment in lieu of taxes	61,500	112,164	40,042	-
Depreciation	242,764	297,541	558,680	42,340
Miscellaneous expenses	201,670	194,430	290,884	47,120
Total operating expenses	14,224,790	2,152,130	2,584,299	482,386
Operating income (loss)	72,669	(46,658)	1,055,040	(374,667)
Nonoperating revenues (expenses):				
Interest and investment revenue	390,138	261,559	205,810	17,857
Amortization expense	-	-	(42,027)	-
Interest expense	-	-	(413,960)	(18,007)
Miscellaneous expense	(3,091)	(236)	(236)	-
Total nonoperating revenues (expenses)	387,047	261,323	(250,413)	(150)
Change in net assets	459,716	214,665	804,627	(374,817)
Total net assets - beginning	13,026,558	21,126,668	17,358,126	(89,781)
Total net assets - ending	\$ 13,486,274	\$ 21,341,333	\$ 18,162,753	\$ (464,598)

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, 2006

	Electric Utility	Water Utility	Wastewater Utility	Telecommunications Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 14,448,824	\$ 2,096,715	\$ 3,579,261	\$ 101,250
Payments to suppliers and contractors	(12,988,902)	(1,176,894)	(1,455,897)	(311,052)
Payments to employees	(635,024)	(631,983)	(560,256)	(130,845)
Other receipts	102,867	126,504	103,051	499
Net cash provided (used) by operating activities	<u>927,765</u>	<u>414,342</u>	<u>1,666,159</u>	<u>(340,148)</u>
Cash flows from capital and related financing activities:				
Proceeds from capital debt	-	-	-	1,600,000
Acquisition and construction of capital assets	(370,701)	(338,128)	(3,017,752)	(59,065)
Principal paid on capital debt	-	-	(310,000)	-
Interest paid on capital debt	-	-	(413,960)	(18,007)
Proceeds from sales of capital assets	899	901	900	-
Net cash provided (used) by capital and related financing activities	<u>(369,802)</u>	<u>(337,227)</u>	<u>(3,740,812)</u>	<u>1,522,928</u>
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	4,627,590	2,000,000	339,085	-
Interest received	425,455	271,167	202,801	17,857
Net cash provided by investing activities	<u>5,053,045</u>	<u>2,271,167</u>	<u>541,886</u>	<u>17,857</u>
Net increase in cash and cash equivalents	5,611,008	2,348,282	(1,532,767)	1,200,637
Cash and cash equivalents, January 1	4,304,437	3,541,688	6,020,375	166,626
Cash and cash equivalents, December 31	<u>\$ 9,915,445</u>	<u>\$ 5,889,970</u>	<u>\$ 4,487,608</u>	<u>\$ 1,367,263</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	<u>\$ 72,669</u>	<u>\$ (46,658)</u>	<u>\$ 1,055,040</u>	<u>\$ (374,667)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	242,764	297,541	558,680	42,340
Bad debt expense	142,975	20,883	36,393	1,082
(Increase) decrease in assets:				
Accounts receivable	221,686	38,927	42,973	(5,970)
Other receivables	32,721	-	-	-
Interfund receivables	-	78,845	-	-
Inventories	40,421	3,719	1,956	-
Prepaid items	11,546	8,252	7,795	(1,423)
Increase (decrease) in liabilities:				
Accounts payable	131,611	(4,547)	38,961	(4,085)
Accrued wages payable	7,149	3,052	781	2,575
Taxes payable	9,225	921	-	-
Interfund payables	-	-	(78,845)	-
Compensated absence payable	15,173	13,432	2,425	-
Customer deposits	(175)	(25)	-	-
Total adjustments	<u>855,096</u>	<u>461,000</u>	<u>611,119</u>	<u>34,519</u>
Net cash provided (used) by operating activities	<u>\$ 927,765</u>	<u>\$ 414,342</u>	<u>\$ 1,666,159</u>	<u>\$ (340,148)</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.

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.

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

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

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	<u>Capitalization Thresholds</u>		<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
	<u>Electric Utilities</u>	<u>All Other Utilities</u>		
Land	\$ 1	\$ 1	N/A	N/A
Buildings	750	5,000	Straight-line	45 to 67 yrs.
Improvements other than buildings	750	5,000	Straight-line	10 to 67 yrs.
Machinery and equipment	750	5,000	Straight-line	10 to 67 yrs.
Transportation equipment	750	5,000	Straight-line	10 yrs.
Goodwill	750	5,000	Straight-line	15 yrs.

N/A = Not applicable

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.

5. Compensated Absences

- a. Sick Leave – Utilities' employees earn sick leave at the rate of 10 days per year. Unused sick leave may be accumulated to a maximum of 120 days. Accumulated sick leave is paid to employees through cash payments upon retirement.
- 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.

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

- c. Personal Leave – Utilities' employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

Sick leave is accrued when incurred.

No liability is reported for vacation and personal leave.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2006, the bank balance in the amount of \$7,464,007 was insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006, the Utilities' investments of \$15,582,297 were in repurchase agreements.

Investment Policies

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

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the

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

funds held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

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

Investment Custodial Credit Risk

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Utilities do not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

B. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 119,255	\$ 23	\$ -	\$ 119,278
Construction in progress	<u>8,018</u>	<u>21,794</u>	<u>27,538</u>	<u>2,274</u>
 Total capital assets, not being depreciated	 <u>127,273</u>	 <u>21,817</u>	 <u>27,538</u>	 <u>121,552</u>
Capital assets, being depreciated:				
Buildings	809,514	3,669	-	813,183
Improvements other than buildings	3,167,597	256,076	8,711	3,414,962
Machinery and equipment	2,133,753	109,347	-	2,243,100
Transportation equipment	<u>454,331</u>	<u>7,330</u>	<u>5,451</u>	<u>456,210</u>
 Totals	 <u>6,565,195</u>	 <u>376,422</u>	 <u>14,162</u>	 <u>6,927,455</u>
Less accumulated depreciation for:				
Buildings	1,540,022	16,107	-	1,556,129
Improvements other than buildings	71,725	97,281	-	169,006
Machinery and equipment	145,864	88,249	5,856	228,257
Transportation equipment	<u>955,313</u>	<u>41,127</u>	<u>4,316</u>	<u>992,124</u>
 Totals	 <u>2,712,924</u>	 <u>242,764</u>	 <u>10,172</u>	 <u>2,945,516</u>
 Total capital assets, being depreciated, net	 <u>3,852,271</u>	 <u>133,658</u>	 <u>3,990</u>	 <u>3,981,939</u>
 Total capital assets, net	 <u>\$ 3,979,544</u>	 <u>\$ 155,475</u>	 <u>\$ 31,528</u>	 <u>\$ 4,103,491</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 101,768	\$ -	\$ -	\$ 101,768
Construction in progress	<u>198,450</u>	<u>173,135</u>	<u>8,496</u>	<u>363,089</u>
 Total capital assets, not being depreciated	 <u>300,218</u>	 <u>173,135</u>	 <u>8,496</u>	 <u>464,857</u>
Capital assets, being depreciated:				
Buildings	3,547,532	25,201	-	3,572,733
Improvements other than buildings	12,407,076	28,101	-	12,435,177
Machinery and equipment	1,168,595	93,880	-	1,262,475
Transportation equipment	<u>229,375</u>	<u>26,307</u>	<u>5,452</u>	<u>250,230</u>
 Totals	 <u>17,352,578</u>	 <u>173,489</u>	 <u>5,452</u>	 <u>17,520,615</u>

ELECTRIC, WATER, WASTEWATER,
AND TELECOMMUNICATIONS 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	1,571,784	71,417	-	1,643,201
Improvements other than buildings	2,731,822	155,431	-	2,887,253
Machinery and equipment	317,886	49,034	-	366,920
Transportation equipment	103,290	21,659	4,315	120,634
	<u>4,724,782</u>	<u>297,541</u>	<u>4,315</u>	<u>5,018,008</u>
Totals				
Total capital assets, being depreciated, net	<u>12,627,796</u>	<u>(124,052)</u>	<u>1,137</u>	<u>12,502,607</u>
Total capital assets, net	<u>\$ 12,928,014</u>	<u>\$ 49,083</u>	<u>\$ 9,633</u>	<u>\$ 12,967,464</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 182,395	\$ 49	\$ -	\$ 182,444
Construction in progress	3,767,923	2,993,923	2,287,860	4,473,986
	<u>3,950,318</u>	<u>2,993,972</u>	<u>2,287,860</u>	<u>4,656,430</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	5,641,466	-	-	5,641,466
Improvements other than buildings	14,922,336	2,289,062	-	17,211,398
Machinery and equipment	6,164,139	15,247	-	6,179,386
Transportation equipment	294,460	7,331	5,452	296,339
	<u>27,022,401</u>	<u>2,311,640</u>	<u>5,452</u>	<u>29,328,589</u>
Totals				
Less accumulated depreciation for:				
Buildings	3,448,670	111,542	-	3,560,212
Improvements other than buildings	3,504,086	247,824	-	3,751,910
Machinery and equipment	1,252,296	175,181	-	1,427,477
Transportation equipment	150,573	24,133	4,316	170,390
	<u>8,355,625</u>	<u>558,680</u>	<u>4,316</u>	<u>8,909,989</u>
Totals				
Total capital assets, being depreciated, net	<u>18,666,776</u>	<u>1,752,960</u>	<u>1,136</u>	<u>20,418,600</u>
Total capital assets, net	<u>\$ 22,617,094</u>	<u>\$ 4,746,932</u>	<u>\$ 2,288,996</u>	<u>\$ 25,075,030</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Telecommunications Utility:				
Capital assets, being depreciated:				
Improvements other than buildings	\$ 258,142	\$ -	\$ -	\$ 258,142
Machinery and equipment	33,415	59,065	-	92,480
Transportation equipment	73,228	-	-	73,228
	364,785	59,065	-	423,850
Totals				
Less accumulated depreciation for:				
Improvements other than buildings	6,799	29,647	-	36,446
Machinery and equipment	398	7,811	-	8,209
Transportation equipment	1,471	4,882	-	6,353
	8,668	42,340	-	51,008
Totals				
Total capital assets, net	\$ 356,117	\$ 16,725	\$ -	\$ 372,842

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

Electric	\$ 242,764
Water	297,541
Wastewater	558,680
Telecommunications	42,340
Total depreciation expense	\$ 1,141,325

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed
Electric Utility:			
Improvements	\$ 10,000	\$ 2,274	\$ -
Water Utility:			
Southside facilities	327,100	206,550	120,550
Southside well development	153,630	138,181	15,449
Other improvements	121,000	18,358	102,642
Wastewater Utility:			
Headworks project	4,320,000	4,306,859	13,141
Other improvements	240,450	167,127	73,323
	\$ 5,172,180	\$ 4,839,349	\$ 325,105
Totals			

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

D. Interfund Balances

The interfund balance as of December 31, 2006, is a short-term loan from the Water Utility to the Wastewater Utility, with a balance of \$2,501,394.

E. Leases

Operating Leases

The Utilities entered into an operating lease with the City of Lebanon having initial or remaining noncancelable terms exceeding one year for 57% of the Municipal Building. Rental expenditures for this lease were \$278,575, split three ways between the Electric, Water, and Wastewater Utilities. The following is a schedule by years of future minimum rental payments as of December 31, 2006:

2007	\$	277,756
2008		279,619
2009		278,237
2010		279,487
2011		280,250
2012-2016		1,395,986
2017-2021		1,398,370
2022-2026		<u>700,149</u>
Total	\$	<u><u>4,889,854</u></u>

F. 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
1997 Wastewater improvement bond	4.0% to 6.4%	\$ 1,320,000
2002 Wastewater expansion bond	3.75% to 4.5%	3,520,000
2005 Wastewater expansion bond	3.5% to 4.3%	<u>4,405,000</u>
Total revenue bonds		9,245,000
Due within one year		(325,000)
Unamortized bond discount		<u>(152,927)</u>
Due in more than one year		<u><u>\$ 8,767,073</u></u>

ELECTRIC, WATER, WASTEWATER,
AND TELECOMMUNICATIONS 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
2007	\$ 325,000	\$ 399,351
2008	340,000	383,782
2009	355,000	366,360
2010	380,000	344,910
2011	395,000	324,903
2012-2016	2,260,000	1,370,661
2017-2021	2,805,000	845,563
2022-2026	2,385,000	208,185
Totals	<u>\$ 9,245,000</u>	<u>\$ 4,243,715</u>

2. Bond Anticipation Notes Payable

The Telecommunication Utility has entered into a bond anticipation note. Annual debt service requirements to maturity for the note, including interest of \$148,253, are as follows:

2007	\$ 440,000
2008	440,000
2009	<u>1,320,000</u>
Total	<u>\$ 2,200,000</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Wastewater Utility	\$ 9,555,000	\$ -	\$ 310,000	\$ 9,245,000	\$ 325,000
Bond anticipation notes payable:					
Telecommunications Utility	<u>600,000</u>	<u>1,600,000</u>	<u>-</u>	<u>2,200,000</u>	<u>440,000</u>
Total long-term liabilities	<u>\$ 8,955,000</u>	<u>\$ (1,600,000)</u>	<u>\$ 310,000</u>	<u>\$ 7,045,000</u>	<u>\$ 765,000</u>

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

G. Restricted Assets

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

Improvement and debt service reserve accounts	\$ 13,457,152
Revenue bond construction account	<u>1,469,237</u>
Total restricted assets	<u>\$ 14,926,389</u>

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 disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Job Related Illnesses or Injuries to Employees

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

B. Rate Structure

1. Electric Utility

The current rate structure was approved by the Utility on January 25, 1995. 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 TELECOMMUNICATIONS UTILITIES
CITY OF LEBANON
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Wastewater Utility

The current rate structure was approved by the Utilities 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 185 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 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.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members have been actuarially determined under the modified aggregate cost method. The Utilities' contributions to the plan for the year ending December 31, 2006, were \$162,453.

Actuarial Information for the Above Plan

Annual required contribution	\$ 145,423
Interest on net pension obligation	(1,203)
Adjustment to annual required contribution	<u>1,574</u>
Annual pension cost	145,794
Contributions made	<u>162,453</u>
Decrease in net pension obligation	(16,659)
Net pension obligation, beginning of year	<u>(16,044)</u>
Net pension obligation, end of year	<u><u>\$ (32,703)</u></u>

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

Contribution rates:	
Utilities	5.5%
Plan members	3%
Actuarial valuation date	01-01-06
Actuarial cost method	Entry age normal- frozen liability
Asset valuation method	Market value

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
12-31-03	\$ 84,481	83%	\$ (6,098)
12-31-04	124,161	108%	(16,044)
12-31-05	145,794	111%	(32,703)

ELECTRIC, WATER, WASTEWATER,
AND TELECOMMUNICATIONS UTILITIES
CITY OF LEBANON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE 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)
01-01-01	\$ 2,931,429	\$ 2,954,060	\$ (22,631)	99%	\$ 1,688,644	(1%)
01-01-02	3,038,998	3,067,017	(28,019)	99%	1,849,667	(2%)
01-01-03	3,203,037	3,242,014	(38,977)	99%	2,207,940	(2%)
01-01-04	3,203,582	3,254,696	(51,114)	98%	2,207,940	(2%)
01-01-05	3,269,169	3,366,512	(97,343)	97%	2,402,437	(4%)
01-01-06	3,364,796	3,241,007	123,789	104%	2,422,821	5%

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

The contents of this report were discussed on October 3, 2007, with James Acton, Mayor; Deborah S. Ottinger, Clerk-Treasurer; and Sandra Morgan, Manager of Financial Services and Human Resources. Our audit disclosed no material items that warrant comment at this time.