

FILED
SEP 27 2016
INDIANA UTILITY
REGULATORY COMMISSION

Petitioner's Exhibit No. 2

CITY OF FRANKFORT, INDIANA
INDIANA UTILITY REGULATORY COMMISSION
CAUSE NO. 44856

DIRECT TESTIMONY
OF
ANDREW S. LANAM

SPONSORING ATTACHMENT ASL-1

1 **Q. Please state your name and business address.**

2 A. My name is Andrew S. Lanam and my business address is 211 N. Chestnut Street,
3 Seymour, Indiana.

4 **Q. What is your profession and where are you employed?**

5 A. I am a manager and Certified Public Accountant with Reedy Financial Group P.C.
6 ("RFG"), a certified public accounting and consulting firm. RFG provides local
7 government accounting and financial services throughout Indiana, including (but not
8 limited to) utility rate and financing consulting services.

9 **Q. Please describe your area of expertise.**

10 A. My primary practice is in the area of municipal consulting with local units of government
11 within the State of Indiana. Specifically, my areas of expertise are in municipal utility
12 consulting, municipal debt consulting, and redevelopment/economic development
13 consulting. I have been providing municipal consulting services throughout Indiana for
14 nearly six years. With respect to utilities, my responsibilities include supervising staff
15 and performing analysis on various rate and financing engagements, feasibility studies,
16 revenue requirement calculations, cost of service studies, utility financial analysis,
17 accounting software conversions, management reporting, accounting and bookkeeping
18 services, long-term operating and capital planning, annual budgeting and cash flow
19 analysis, revenue bond financial advising, temporary financing advising, and various
20 utility ad-hoc reporting and consulting services.

21 **Q. Please summarize your educational background and professional experience.**

1 A. In December of 2005 I received a Bachelor of Science Degree from the Indiana
2 University School of Public and Environmental Affairs (Bloomington), with a major in
3 Management and a minor in Public Finance. From January of 2006 to December 2009 I
4 worked in Commercial Banking as a Financial Analyst and Commercial Banker. I was
5 hired by RFG in January of 2010, and have completed an additional 30 credit hours of
6 accounting and finance courses at Indiana University Purdue University – Columbus
7 since then. During my employment with RFG, I have attended and made presentations at
8 various seminars and conferences on subjects including utility rate studies and financing,
9 economic development and redevelopment, and general municipal finance and
10 accounting. On July 7th 2016 I was licensed by the State of Indiana as a Certified Public
11 Accountant (CPA). Currently, I am in the process of earning the Chartered Financial
12 Analyst (CFA) credential by the CFA Institute.

13 **Q. Are you a member of any professional associations or organizations?**

14 A. Yes, I am a member of the following organizations:

15 Indiana CPA Society

16 Government Finance Officers Association

17 American Water Works Association

18 Indiana Association of Cities and Towns (Firm)

19 **Q. Have you previously testified before the Indiana Utility Regulatory Commission?**

20 A. No.

21 **Q. Please describe the nature of your engagement by the City of Frankfort in**
22 **connection with these proceedings.**

1 A. RFG was hired by the City of Frankfort to perform a study and analysis of the operating
2 and financial reports, budgets and other data pertaining to the utility, provide an estimate
3 of the utility's future financial requirements and make recommendations regarding
4 changes in the utility's present schedule of rates and charges for service. We were also
5 asked to provide financing options related to certain improvements Petitioner wishes to
6 make to its system. The results of our analysis are contained in a Rate and Financing
7 Report ("Report") dated August 30, 2016. The Report is based on historical data for the
8 twelve months ended March 31, 2016 taken from the utility's books and records.

9 **Q. Was the Report prepared by you or under your direct supervision?**

10 A. Yes.

11 **Q. What have you done to prepare for your direct testimony in this case?**

12 A. In addition to preparing the Report, I have discussed matters relevant to this case with
13 Petitioner's management (Steve Miller – Frankfort Municipal Light & Power Utility
14 Superintendent, Chris McBarnes – Mayor of the City of Frankfort, Kent Brewer –
15 Frankfort Utility Service Board ("USB") Member, Mike Kelley – USB Chairman, Joe
16 Root – USB Member, Rick Gunyon – USB Member, Mike Reeder – USB Member, Jim
17 Moyer – Frankfort Common Council ("Council") Member, Eric Woods – Council
18 Member, Todd Corrie – Council Member, Clarence Warthan – Council Member, Tamara
19 Carpenter – Frankfort Utility Auditor) and counsel. I have also reviewed the testimony of
20 Steve Miller and Scott Bowles in this Cause.

21 **Q. What is the purpose of your direct testimony?**

1 A. The purpose of my direct testimony is to explain the Report and provide support and
2 justification for the recommendations presented therein.

3 **Q. Are you sponsoring any attachments to your direct testimony?**

4 A. Yes, I am sponsoring the Rate and Financing Report, designated as Attachment ASL-1

5 **Q. What increase in operating revenues is needed for the utility to meet its pro forma
6 revenue requirements?**

7 A. Page 8 of the Report shows that a 10.09% overall increase in operating revenue is
8 required in order for the Utility to meet its pro forma revenue requirements for:
9 Operation and Maintenance Expenses; Taxes Other than Income Taxes; Current and
10 Proposed Debt Service; annual amount for Extension and Replacements; annual PILOT
11 payment; Amortization of Rate Case Expense and annual amount for Working Capital
12 Funding. The Utility is requesting an overall increase in the Utility's operating revenues
13 of 10.09% that would be applied to the various customer classes based on the results of
14 the cost of service study prepared by Scott Bowles, P.E. of Spectrum Engineering.

15 **Q. Please describe how the Report is organized.**

16 A. Pages 2-3 of the Report represents the historical balance sheet of the Utility as of
17 December 31, 2013, 2014 and 2015 as well as fiscal year (twelve consecutive months)
18 ending March 31, 2016. Pages 4-5 of the Report represents the historical income
19 statement of the Utility as of December 31, 2013, 2014 and 2015. Pages 6-7 displays
20 both the historical fiscal year income statement ending March 31, 2016 (test year) as well
21 as the forecasted income statement at present rates based on adjustments made to the test
22 year revenues and expenses. Pro forma annual revenue requirements are presented on

1 page 8. Page 9 shows the calculation of Working Capital Requirement; calculation of
2 Maximum PILOT payment and calculation of the Utility Rates Tax. The allocation of
3 employee benefits based on the Utility Board Service transfer is displayed on page 10.
4 Pages 11-13 show detail regarding the proposed bonds starting with the Combined Long -
5 Debt Amortization Schedule (page 11); Estimated Sources and Use of Funds for the
6 proposed Electric Revenue Bonds of 2017 (page 12) and the Amortization of schedule of
7 the proposed Electric Revenue Bonds of 2017 (page 13). Page 14 summarizes the fixed
8 assets as of February 29, 2016 that are recorded on the Utility's books as well as the
9 annual depreciation expense calculation. Page 15 presents the amortization of the cost of
10 service study / rate case and the average of the annual change in capital. The present
11 schedule of rates and charges are shown on page 16 while the 2016 salary ordinance is
12 shown on page 17. Finally, the detail of adjustments can be found on pages 18-19.

13 **Q. Please describe each of the proposed adjustments to revenues and expenses.**

14 Adjustment (1) – A rounded average based upon historical years 2013 & 2014
15 miscellaneous income to eliminate one time reimbursements for the purchase of
16 technology related to the billing system upgrade in 2015. (2013 - \$94,718 / \$85,621 –
17 2014 / Avg. \$90,169). (-\$127,654)

18
19 Adjustment (2) – An increase to purchased power expense to match the 2016 IMPA
20 purchased power projections of wholesale rate components and ECA factors. (\$828,608)

1 Adjustment (3) – An increase to operations, supervision and engineering salaries in
2 distribution to be consistent with the salary ordinance provided by the Utility. (\$73,460)

3
4 Adjustment (4) – A decrease to overhead line expense in distribution to stay consistent
5 with the average expense over the previous historical three-year period. (-\$14,762)

6
7 Adjustment (5) – An increase to meter reading labor in customer account and collection
8 to stay consistent with the salary ordinance provided by the Utility. (\$7,541)

9
10 Adjustment (6) – An increase to salaries and wages in administrative and general to stay
11 consistent with the salary ordinance provided by the Utility. (\$39,309)

12
13 Adjustment (7) – A decrease to office supplies expense in administrative and general to
14 negate a one-time purchase of technology related to the upgraded customer billing system
15 implemented in 2015. (-\$18,000)

16
17 Adjustment (8) – An increase to leased truck payment in administrative and general to
18 account for the lease expense for a truck that began in June 2016. (\$28,206)

19
20 Adjustment (9) – An increase to employees' pension and benefits in administrative and
21 general to increase salaries to be consistent with the salary ordinance provided by the
22 Utility. (\$31,002)

1 Adjustment (10) – An increase to amortization for rate case expense in general and
2 administrative to amortize the cost of the service study over a 7-year life. (\$33,786)

3
4 Adjustment (11) – An increase to the Payment In Lieu of Tax (PILOT) payment based on
5 net depreciated value divided by 100 to arrive at taxable net book value, multiplied by 3.0
6 (which is the City tax rate net of circuit breaker caps). (\$109,873)

7
8 Adjustment (12) – A decrease to Utility Receipts Tax expense to match the projected
9 amount calculated by Reedy Financial Group as shown on page 9 of the study. (-\$5,598)

10
11 Adjustment (13) – An increase to dental, vision, health and miscellaneous benefits as
12 provided by the utility service board across the multiple electric utility departments pro-
13 rata based on salaries and wages for each department. (Distribution \$21,294) (Customer
14 Account and Collection \$2,186) (Administrative and General \$11,395) The utility service
15 board allocates among the City's three utilities (electric, water and wastewater) amounts
16 based upon the actual insurance/miscellaneous benefit costs for each utility's employees.
17 These benefit expenses are then allocated pro-rata as described above.

18
19 Adjustment (14) – An increase to extensions and replacements to match the average
20 change in utility plant of the prior two years. (\$398,400)

1 Adjustment (15) – An increase to the maximum debt service to account for the proposed
2 Electric Utility Revenue Bonds, Series 2017, as shown on the amortization schedule at
3 page 13 of the Report. (\$853,794)

4 **Q. Does this conclude the explanation of your Report?**

5 A. Yes, it does.

6 **Q. Did you include full depreciation expense in your calculation of the Utility's revenue
7 requirement?**

8 A. No. In order to moderate the requested increase, the Utility is not seeking to recover full
9 depreciation expense on its utility plant in service at this time. However, if adjustments
10 are made during the course of this proceeding to reduce other components of the revenue
11 requirement, we anticipate increasing the portion of depreciation funding we have
12 requested up to the level of full depreciation expense recovery.

13 **Q. What is the utility's total proposed revenue requirement?**

14 A. The Utility's total pro forma revenue requirement total is \$33,838,396, as shown on page
15 8 of the report. After deducting the operating revenues, the Utility has a revenue shortfall
16 of \$3,059,140. The revenue requirement necessitates a 10.09% overall increase in
17 operating revenues in order for the Utility to fully fund its revenue requirements.

18 **Q. Please describe the proposed bonds Frankfort seeks to issue.**

19 A. As described in the direct testimony of Steve Miller, Frankfort is seeking authority to
20 issue electric revenue bonds in aggregate principal amount of \$12,500,000. The
21 estimated sources and uses for the proposed bonds appear at page 12 of the Report. The
22 amortization schedule for the 20-year term of the bonds and interest rates being assumed

1 at this time appear on page 13 of the Report. In estimating the interest rates for the
2 proposed bonds, I reviewed the pricing of several recent comparable Bond sales in
3 Indiana and increased the rate to what is shown on page 13 of the report to account for
4 potential market volatility as a result of possible Federal Reserve rate actions. In
5 addition, current Municipal Market Data rating scales were reviewed during this process.

6 **Q. Is it your opinion that the proposed financing through the issuance of the proposed**
7 **bonds, and the structure of the proposed bonds, is a reasonable and necessary**
8 **method of funding the proposed improvements?**

9 A. Yes.

10 **Q. Do the proposed revenues provide adequate debt service coverage required by IC 8-**
11 **1.5-2-19(b)?**

12 A. Yes.

13 **Q. Is it your opinion that the rates proposed in your Report are fair, just, non-**
14 **discriminatory and reasonable and necessary to meet the projected revenue**
15 **requirements of the utility?**

16 A. Yes.

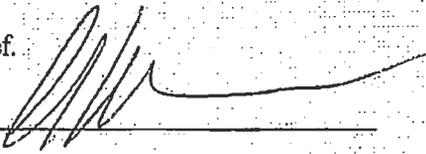
17 **Q. Does this conclude your direct testimony in this Cause?**

18 A. Yes it does.

VERIFICATION

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of his knowledge, information and belief.

Dated: 9/23/2016



Andrew S. Lanam

FRANKFORT MUNICIPAL LIGHT AND POWER

Frankfort, Indiana

RATE AND FINANCING REPORT

Last Updated - August 30, 2016



Government Finance Specialists

Certified Public Accountants | Consultants | Registered Municipal Advisors

FRANKFORT MUNICIPAL LIGHT AND POWER
Frankfort, Indiana
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FRANKFORT MUNICIPAL LIGHT AND POWER

Frankfort, Indiana

PURPOSE OF THE REPORT

Reedy Financial Group, PC has performed a study and analysis of the operating and financial reports, budgets and other data pertaining to the Frankfort Municipal Light and Power ("Utility"). The results of our analysis are contained in this Rate and Financing Report ("Report")

The purpose of the Report is to estimate the Utility's cash flow and financial capacity to meet its on-going revenue requirements for operation and maintenance expenses, taxes other than income taxes, present and proposed debt service payments, and to make capital improvements to the Utility's system. The Report is based on data for the twelve months ended March 31, 2016. The historical information used in this Report was taken from the books and records of the Utility.

In the course of preparing this Report, we have not conducted an audit of any financial or supplemental data used in the accompanying Exhibits and Schedules. We have made certain projections that may vary from actual results because events and circumstances frequently do not occur as estimated and such variances may be material. We have no responsibility to update this Report for events and circumstances occurring after the date of the Report.

If you have any questions regarding this Report, please call Andrew Lanam at (812) 522-9422.



FRANKFORT MUNICIPAL LIGHT AND POWER
Frankfort, Indiana
Historical Balance Sheet

ASSETS AND OTHER DEBITS	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>3/31/2016</u>
Operating Cash	\$ 1,005,319	\$ 918,631	\$ 723,146	\$ 935,817
Customer Deposits	\$ 195,610	\$ 192,084	\$ 184,354	\$ 192,889
Depreciation Cash	\$ 314,948	\$ 289,674	\$ 119,641	\$ 73,643
Construction Cash	\$ 727,917	\$ 362,625	\$ 108,086	\$ 141,084
Revolving Meter Deposit Cash	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000
Petty Cash	\$ 404	\$ 404	\$ 404	\$ 404
Debit/Credit Card Cash	\$ 40,070	\$ 55,159	\$ 47,350	\$ 63,798
Investment Cash	\$ 408,934	\$ 409,548	\$ 410,163	\$ 410,316
Investment Depreciation Cash	\$ 516,567	\$ 517,342	\$ 518,119	\$ 518,312
Investment Construction Cash	\$ 710,382	\$ 711,093	\$ 311,780	\$ 311,818
Customer Receivables	\$ 1,908,990	\$ 1,699,889	\$ 1,870,595	\$ 1,675,844
Misc. Receivables	\$ 111,977	\$ 124,671	\$ 150,657	\$ 232,206
Prepaid Insurance	\$ 25,507	\$ 25,772	\$ 26,611	\$ 26,613
Prepaid Postage	\$ 440	\$ 440	\$ 440	\$ 440
Inventory	\$ 850,072	\$ 815,565	\$ 874,307	\$ 894,941
Total Current Assets	\$ 6,821,136	\$ 6,126,897	\$ 5,349,654	\$ 5,482,125
Land	\$ 161,282	\$ 161,282	\$ 161,282	\$ 161,282
Buildings	\$ 5,784,807	\$ 5,784,807	\$ 5,784,807	\$ 5,784,807
Improvements	\$ 1,271,569	\$ 1,508,325	\$ 1,599,041	\$ 1,599,041
Machinery & Equipment	\$ 1,745,025	\$ 1,746,399	\$ 1,821,370	\$ 1,821,370
Transportation	\$ 1,421,549	\$ 1,421,549	\$ 1,452,683	\$ 1,452,683
Distribution/Collections	\$ 11,004,360	\$ 11,179,715	\$ 11,366,210	\$ 11,365,787
Accumulated Depreciation - Buildings	\$ (4,209,954)	\$ (4,338,505)	\$ (4,467,056)	\$ (4,467,056)
Accumulated Depreciation - Improvements	\$ (200,488)	\$ (230,654)	\$ (262,635)	\$ (262,635)
Accumulated Depreciation - Mach. & Equip.	\$ (1,167,296)	\$ (1,207,643)	\$ (1,230,870)	\$ (1,230,870)
Accumulated Depreciation - Transportation	\$ (1,060,134)	\$ (1,098,480)	\$ (1,122,470)	\$ (1,122,470)
Accumulated Depreciation - Dist. / Collections	\$ (7,559,876)	\$ (7,826,425)	\$ (8,106,582)	\$ (8,103,931)
Energy Assistance	\$ 1,872	\$ 10,782	\$ 10,256	\$ 18,413
Total Fixed & Other Assets	\$ 7,192,717	\$ 7,111,152	\$ 7,006,036	\$ 7,016,422
Total Assets	\$ 14,013,853	\$ 13,238,049	\$ 12,355,690	\$ 12,498,547

FRANKFORT MUNICIPAL LIGHT AND POWER
Frankfort, Indiana
Historical Balance Sheet

LIABILITIES & FUND BALANCE	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>3/31/2016</u>
City Property Interest	\$ 230,861	\$ 230,861	\$ 230,861	\$ 230,861
Accounts Payable	\$ 1,988,545	\$ 2,228,743	\$ 2,089,430	\$ 2,203,394
Consumer Deposits	\$ 200,510	\$ 197,384	\$ 190,154	\$ 198,529
Accrued Taxes	\$ -	\$ -	\$ -	\$ 106,334
Sales Tax Payable	\$ 66,533	\$ 15,062	\$ 12,010	\$ 14,153
Contribution In Aid of Construction	\$ 3,051,184	\$ 3,051,184	\$ 3,051,184	\$ 3,051,184
Total Liabilities	\$ 5,537,632	\$ 5,723,234	\$ 5,573,639	\$ 5,804,456
Fixed Asset Offset	\$ -	\$ -	\$ 46,140	\$ 48,368
Retained Earnings	\$ 8,476,221	\$ 7,514,815	\$ 6,732,807	\$ 6,735,912
Encumbrances	\$ -	\$ -	\$ -	\$ -
Fund Balance Encumbrances	\$ -	\$ -	\$ 3,104	\$ -
Total Revenue - Revenue Control	\$ -	\$ -	\$ -	\$ 7,562,806
Expenditure Control	\$ -	\$ -	\$ -	\$ (7,652,995)
Total Fund Balance	\$ 8,476,221	\$ 7,514,815	\$ 6,782,051	\$ 6,694,091
Total Liabilities & Fund Balance	\$ 14,013,853	\$ 13,238,049	\$ 12,355,690	\$ 12,498,547

FRANKFORT MUNICIPAL LIGHT AND POWER
Frankfort, Indiana
Historical Statements of Income at Present Rates

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>Operating Revenue</u>			
Residential Revenue	\$ 7,156,852	\$ 7,532,555	\$ 7,678,853
Commercial Revenue	\$ 4,610,012	\$ 4,881,371	\$ 6,451,058
Industrial Revenue	\$ 15,637,553	\$ 16,277,028	\$ 16,183,905
Security Light Revenue	\$ 60,121	\$ 61,733	\$ 64,911
Street Light Revenue	\$ 149,597	\$ 150,877	\$ 152,992
Company Use Revenue	\$ 60,233	\$ 66,392	\$ 66,738
Parks Revenue	\$ 23,239	\$ 26,162	\$ 30,159
Penalties	\$ 95,230	\$ 101,480	\$ 112,513
Labor	\$ 204,412	\$ 99,522	\$ 203,946
AC/WH Credits	\$ (2,252)	\$ (2,291)	\$ (2,270)
Rents Revenue	\$ 183,395	\$ 30,389	\$ 25,084
Material Revenue	\$ 268,597	\$ 60,166	\$ 57,011
Miscellaneous Revenues	\$ 94,718	\$ 85,621	\$ 216,955
Bad Debt Revenues	\$ 11,162	\$ 9,914	\$ 13,062
Fiber Lease Revenue	\$ 127,002	\$ 125,442	\$ 156,911
Scrap Revenues	\$ 4,652	\$ 5,523	\$ 5,407
Total Operating Revenue	\$ 28,684,524	\$ 29,511,884	\$ 31,417,234
<u>Operating Expense</u>			
Purchased Power	\$ 24,646,770	\$ 25,924,679	\$ 27,553,539
Structures and Improvements	\$ -	\$ -	\$ 34
Distribution Plan & Design	\$ 76,912	\$ 75,370	\$ 89,944
Overhead Line Expense	\$ 236,868	\$ 234,217	\$ 328,900
Underground Line Expense	\$ (3,873)	\$ 161,306	\$ (5,726)
Security Street Light Expense	\$ 35,133	\$ 19,175	\$ 23,856
Meter Expense	\$ 140,505	\$ 148,469	\$ 139,579
Fiber Expense	\$ -	\$ -	\$ 162,617
MISC Distribution Expense	\$ 73,804	\$ 63,234	\$ 81,221
Lines Maintenance	\$ 53,906	\$ 53,678	\$ 56,099
Maintenance of Lines	\$ -	\$ -	\$ -
Maintenance of Structures	\$ 2,319	\$ 2,478	\$ 3,916
Maintenance of Station Equipment	\$ 21,219	\$ 20,951	\$ 22,291
Maintenance of Overhead Lines	\$ 104,578	\$ 103,911	\$ 127,226
Tree Trimming	\$ 83,442	\$ 82,845	\$ 86,641
Billing Operating	\$ 212,971	\$ 153,247	\$ 165,920
Meter Reading	\$ 62,590	\$ 69,053	\$ 69,278

FRANKFORT MUNICIPAL LIGHT AND POWER**Frankfort, Indiana****Historical Statements of Income at Present Rates**

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Records / Collections	\$ 218	\$ 110	\$ 432
Bad Debt Expense	\$ 29,220	\$ 30,599	\$ 39,497
Administrative and General	\$ 164,427	\$ 161,781	\$ 217,823
Office Supplies	\$ 102,394	\$ 171,367	\$ 239,304
Outside Services	\$ 98,411	\$ 162,414	\$ 163,318
Insurance	\$ 107,410	\$ 104,094	\$ 104,649
Damages	\$ 4,006	\$ 736	\$ -
Employee Benefits	\$ 360,734	\$ 357,568	\$ 398,020
Miscellaneous - General	\$ 34,246	\$ 28,764	\$ 15,103
General Maintenance		\$ 1,126	\$ -
Shop	\$ 120,362	\$ 99,417	\$ 76,339
Stores	\$ 42,005	\$ 90,648	\$ 86,110
Tax Expense	\$ 508,887	\$ 527,625	\$ 557,457
Power Company Use	\$ 56,533	\$ 66,392	\$ 66,738
Total Operating Expense	\$ 27,375,997	\$ 28,915,254	\$ 30,870,122
<u>Other Income and Expense</u>			
Interest Income	\$ 9,721	\$ 9,011	\$ 12,154
Depreciation Expense	\$ 536,428	\$ 510,309	\$ 524,746
Pilot Payment	\$ -	\$ -	\$ (100,000)
Transfers In (from other funds)		\$ 200,000	\$ 780,000
Fund Transfers Out	\$ (715,769)	\$ (1,256,878)	\$ (1,580,590)
Short/Over	\$ (47)	\$ 140	\$ (276)
Total Other Income and Expense	\$ (169,666)	\$ (537,417)	\$ (363,966)
Total Revenues over Expenditures	<u>\$ 1,138,861</u>	<u>\$ 59,213</u>	<u>\$ 183,146</u>

FRANKFORT MUNICIPAL LIGHT AND POWER

Frankfort, Indiana

Forecasted Statement of Income at Present Rates

	<u>Fiscal Year</u> <u>3/31/2016</u>	<u>Adjustments</u>		<u>Forecasted at</u> <u>Present Rates</u>
<u>Operating Revenue</u>				
Residential Revenue	\$ 7,501,019			\$ 7,501,019
Commercial Revenue	\$ 5,046,564			\$ 5,046,564
Industrial Revenue	\$ 17,459,333			\$ 17,459,333
Security Light Revenue	\$ 66,176			\$ 66,176
Street Light Revenue	\$ 153,548			\$ 153,548
Company Use Revenue	\$ 64,392			\$ 64,392
Parks Revenue	\$ 29,852			\$ 29,852
Penalties	\$ 107,460			\$ 107,460
Labor	\$ 195,795			\$ 195,795
AC/WH Credits	\$ (2,271)			\$ (2,271)
Rents Revenue	\$ 27,880			\$ 27,880
Material Revenue	\$ 53,617			\$ 53,617
Miscellaneous Revenues	\$ 217,654	\$ (127,654) (1)		\$ 90,000
Bad Debt Revenues	\$ 13,768			\$ 13,768
Scrap Revenues	\$ 3,464			\$ 3,464
Total Operating Revenue	\$ 30,938,250	\$ (127,654)		\$ 30,810,596
<u>Operating Expense</u>				
<u>Purchased Power:</u>				
Power Purchases	\$ 27,357,098	\$ 828,608 (2)		\$ 28,185,706
<u>Transmission Expense</u>				
<u>Distribution Expense</u>				
Operation, Supervision & Engineering Salaries	\$ 690,015	\$ 73,460 (3)		\$ 763,475
Dental, Vision, Health & Miscellaneous	\$ 483,289	\$ 21,294 (13)		\$ 504,583
Line and Station Supplies Expense	\$ 77,780			\$ 77,780
Overhead Line Expense	\$ 60,762	\$ (14,762) (4)		\$ 46,000
Underground Line Expense	\$ (126,366)			\$ (126,366)
Street Lighting and Signal System Expense	\$ 33,695			\$ 33,695
Meter Expense	\$ 833			\$ 833
Tree Trimming Expense	\$ 4,579			\$ 4,579
Distribution Expense Miscellaneous	\$ 49,028			\$ 49,028
Distribution Plan and Design	\$ (5,546)			\$ (5,546)
Maintenance of Structures and Equipment	\$ 5,603			\$ 5,603
Maintenance of Overhead Lines	\$ 121,573			\$ 121,573
Maintenance of Lines	\$ 59,454			\$ 59,454
Total Distribution:	\$ 1,454,700			\$ 1,534,692

FRANKFORT MUNICIPAL LIGHT AND POWER

Frankfort, Indiana

Forecasted Statement of Income at Present Rates

	Fiscal Year <u>3/31/2016</u>	<u>Adjustments</u>		Forecasted at <u>Present Rates</u>
<u>Customer Account and Collection</u>				
Meter Reading Labor	\$ 70,834	\$ 7,541	(5)	\$ 78,375
Dental, Vision, Health & Miscellaneous	\$ 49,612	\$ 2,186	(13)	\$ 51,798
Meter Reading Expense	\$ 450			\$ 450
Collection Expense	\$ 172,602			\$ 172,602
Uncollectible Accounts	\$ 39,497			\$ 39,497
Total Customer Accounting and Collection Expense	\$ 332,995			\$ 342,722
 <u>Administrative and General</u>				
Salaries and Wages	\$ 369,237	\$ 39,309	(6)	\$ 408,546
Office Supplies Expense	\$ 189,326	\$ (18,000)	(7)	\$ 171,326
Outside Service Employed	\$ 116,898			\$ 116,898
Insurance	\$ 105,488			\$ 105,488
Leased Truck Payment	\$ -	\$ 28,206	(8)	\$ 28,206
Employees Pension and Benefits:	\$ -			\$ -
Pension, Training and Drug Testing	\$ 137,603			\$ 137,603
Vacation, Personal, Sick and Bereavement Pay	\$ 291,209	\$ 31,002	(9)	\$ 322,211
Dental, Vision, Health & Miscellaneous	\$ 258,614	\$ 11,395	(13)	\$ 270,009
Miscellaneous General Expense	\$ 15,256			\$ 15,256
Rent	\$ -			\$ -
Utilities Expense	\$ 32,555			\$ 32,555
Shop Expense	\$ 16,004			\$ 16,004
Power Company Use Expense	\$ 71,281			\$ 71,281
City Auditor Department Expense	\$ 20,625			\$ 20,625
Maintenance of General Plant	\$ 34			\$ 34
Total Administrative and General Expense	\$ 1,624,129			\$ 1,716,041
 Total Operating Expense	 \$ 30,768,921	 \$ 1,010,240		 \$ 31,779,162
 <u>Other Income and Expense</u>				
Interest Income	\$ 10,898			\$ 10,898
Depreciation Expense	\$ (524,746)			\$ (524,746)
Amortization - Rate Case Expense	\$ -	\$ (33,786)	(10)	\$ (33,786)
Taxes Other Than Income Taxes	\$ (563,381)	\$ 5,598	(12)	\$ (557,783)
Pilot Payment	\$ (100,000)	\$ (109,873)	(11)	\$ (209,873)
Short/Over	\$ (30)			\$ (30)
Total Other Income and Expense	\$ (1,177,260)	\$ (138,061)		\$ (1,315,320)
 Total Revenues over Expenditures	 \$ (1,007,932)	 \$ (1,275,955)		 \$ (2,283,886)

Transfers between internal funds have been netted against one another and not included in the above forecast.

FRANKFORT MUNICIPAL LIGHT AND POWER**Frankfort, Indiana****Pro Forma Annual Revenue Requirements and Annual Revenue at Current Rates**

	Cash Flow Projections	Adjustments	Pro Forma Cash Flow
Annual revenue requirements:			
Operation & maintenance expenses *	\$ 30,768,921	\$ 1,010,240	\$ 31,779,162
Taxes Other than Income Taxes	\$ 563,381		\$ 563,381
Max Debt service	\$ -	\$ 853,794 (15)	\$ 853,794
Extensions and replacements	\$ -	\$ 398,400 (14)	\$ 398,400
PILOT	\$ 100,000	\$ 109,873 (11)	\$ 209,873
Amortization - Rate Case Expense	\$ -	\$ 33,786	\$ 33,786
Working capital funding	\$ -		\$ -
Total revenue requirements	\$ 31,432,303		\$ 33,838,396
Annual revenues:			
Metered sales	\$ 30,320,883		\$ 30,320,883
Miscellaneous revenue	\$ 617,366	\$ (127,654) (1)	\$ 489,712
Interest income	\$ 10,898		\$ 10,898
Total adjusted annual receipts	\$ 30,949,147		\$ 30,821,493
Increase in revenue requirements	\$ 483,155		\$ 3,016,903
Gross conversion factor - Increase in revenue requirements**			\$ 3,059,140
Percentage increase in metered sales			10.09%
Projected debt service coverage:			
Pro forma annual revenues	\$ 30,821,493	\$ 3,016,903	\$ 33,838,396
Pro forma annual cash operating expenses	\$ (31,779,162)	\$ -	\$ (31,779,162)
Pro forma PILOT	\$ (209,873)	\$ -	\$ (209,873)
Pro forma working capital	\$ -	\$ -	\$ -
Net revenues available for debt service	\$ (1,167,542)		\$ 1,849,361
Projected combined maximum annual debt service	\$ -		\$ 853,794
Coverage percentage	0.00%		217%

* Forecasted Operating Expenses BEFORE deducting depreciation and amortization.

** Gross Conversion Factor = Increase in revenue requirements / (1 - 1.4%)

FRANKFORT MUNICIPAL LIGHT AND POWER

Frankfort, Indiana

Calculation of Working Capital Requirement

Adjusted Operation and Maintenance Expense	\$	31,779,162
Less: Purchased Power	\$	(27,553,539)
Net Annual Working Capital Expenses	\$	4,225,623
Divide by: 45 Day Factor		8
Less:	\$	528,203
Electric Operating Fund Balance	\$	(723,146)
Surplus	\$	(194,943)

Calculation of Maximum PILOT Payment

Netbook Depreciated Value	\$	6,995,781
Taxable Netbook Value	\$	69,958
City's Tax Rate per Budget Order	\$	3.0000
Pilot Payment Needed	\$	209,873

Calculation of Utility Receipts Tax

Adjusted Operating Revenue	\$	30,810,596
Less: Estimated Excluded Income	\$	(150,000) (1)
Less: Exemption	\$	(1,000)
Taxable Revenues	\$	30,659,596
Times: Utility Receipts Tax Rate		1.40%
Adjusted Utility Receipts Tax	\$	429,234
Test Year URT as provided by Frankfort Electric Utility	\$	434,832
Adjustment Needed	\$	(5,598)

(1) - A conservative adjustment based on the URT fiscal year calculation that was provided by Frankfort Electric Utility.

FRANKFORT MUNICIPAL LIGHT AND POWER

Frankfort, Indiana

Allocation of Utility Board Service Transfer

Allocation of Employee Benefits - Dental, Vision, Health & Miscellaneous

		<u>Pro Rata %</u>
Operation, Supervision & Engineering Salaries	\$ 763,475	61.06%
Meter Reading Labor	\$ 78,375	6.27%
<u>Administrative and General Salaries & Wages</u>	<u>\$ 408,546</u>	<u>32.67%</u>
Total Wages per Forecasted Income Statement	\$ 1,250,396	100.00%

Transfer Amount allocated to department:

Distribution Expense	\$ 483,289	
Customer Account and Collection	\$ 49,612	
<u>Administrative & General</u>	<u>\$ 258,614</u>	
Total Allocated Benefits	\$ 791,515	

Allocation is Pro Rata based on total salaries and wages listed on the forecasted income statement.

FRANKFORT MUNICIPAL LIGHT AND POWER
Frankfort, Indiana
Proposed Electric Revenue Bonds of 2017
Estimated Sources and Uses of Funds

Estimated Sources of Funds

Estimated Bond Issue	\$ 12,500,000
Total Estimated Sources of Funds	<u>\$ 12,500,000</u>

Estimated Uses of Funds

Project Fund	\$ 11,355,406
Underwriter's Discount	\$ 170,331
Debt Service Reserve (MADS)	\$ 853,794
IURC Issuance Fee	\$ 31,250
Bond Counsel	\$ 38,000
Financial Advisor	\$ 30,000
Rating Agency	\$ 15,000
Registrar and Paying Agent	\$ 2,500
Miscellaneous	\$ 3,719
Total Estimated Uses of Funds	<u>\$ 12,500,000</u>

FRANKFORT MUNICIPAL LIGHT AND POWER
Frankfort, Indiana
Proposed Electric Revenue Bonds of 2017
Amortization Schedule

<u>Period</u>	<u>Payment Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest Expense</u>	<u>Total Payment</u>	<u>Annual Total</u>
1	7/1/2017	\$ 305,000	3.25%	\$ 119,618	\$ 424,618	\$ 424,618
2	1/1/2018	\$ 225,000	3.25%	\$ 198,169	\$ 423,169	\$ 847,681
3	7/1/2018	\$ 230,000	3.25%	\$ 194,513	\$ 424,513	
4	1/1/2019	\$ 235,000	3.25%	\$ 190,775	\$ 425,775	\$ 852,731
5	7/1/2019	\$ 240,000	3.25%	\$ 186,956	\$ 426,956	
6	1/1/2020	\$ 240,000	3.25%	\$ 183,056	\$ 423,056	\$ 847,213
7	7/1/2020	\$ 245,000	3.25%	\$ 179,156	\$ 424,156	
8	1/1/2021	\$ 250,000	3.25%	\$ 175,175	\$ 425,175	\$ 846,288
9	7/1/2021	\$ 250,000	3.25%	\$ 171,113	\$ 421,113	
10	1/1/2022	\$ 260,000	3.25%	\$ 167,050	\$ 427,050	\$ 849,875
11	7/1/2022	\$ 260,000	3.25%	\$ 162,825	\$ 422,825	
12	1/1/2023	\$ 265,000	3.25%	\$ 158,600	\$ 423,600	\$ 847,894
13	7/1/2023	\$ 270,000	3.25%	\$ 154,294	\$ 424,294	
14	1/1/2024	\$ 275,000	3.25%	\$ 149,906	\$ 424,906	\$ 850,344
15	7/1/2024	\$ 280,000	3.25%	\$ 145,438	\$ 425,438	
16	1/1/2025	\$ 285,000	3.25%	\$ 140,888	\$ 425,888	\$ 852,144
17	7/1/2025	\$ 290,000	3.25%	\$ 136,256	\$ 426,256	
18	1/1/2026	\$ 295,000	3.25%	\$ 131,544	\$ 426,544	\$ 853,294
19	7/1/2026	\$ 300,000	3.25%	\$ 126,750	\$ 426,750	
20	1/1/2027	\$ 305,000	3.25%	\$ 121,875	\$ 426,875	\$ 853,794
21	7/1/2027	\$ 310,000	3.25%	\$ 116,919	\$ 426,919	
22	1/1/2028	\$ 315,000	3.25%	\$ 111,881	\$ 426,881	\$ 853,644
23	7/1/2028	\$ 320,000	3.25%	\$ 106,763	\$ 426,763	
24	1/1/2029	\$ 325,000	3.25%	\$ 101,563	\$ 426,563	\$ 852,844
25	7/1/2029	\$ 330,000	3.25%	\$ 96,281	\$ 426,281	
26	1/1/2030	\$ 335,000	3.25%	\$ 90,919	\$ 425,919	\$ 851,394
27	7/1/2030	\$ 340,000	3.25%	\$ 85,475	\$ 425,475	
28	1/1/2031	\$ 345,000	3.25%	\$ 79,950	\$ 424,950	\$ 849,294
29	7/1/2031	\$ 350,000	3.25%	\$ 74,344	\$ 424,344	
30	1/1/2032	\$ 355,000	3.25%	\$ 68,656	\$ 423,656	\$ 846,544
31	7/1/2032	\$ 360,000	3.25%	\$ 62,888	\$ 422,888	
32	1/1/2033	\$ 365,000	3.25%	\$ 57,038	\$ 422,038	\$ 853,144
33	7/1/2033	\$ 380,000	3.25%	\$ 51,106	\$ 431,106	
34	1/1/2034	\$ 380,000	3.25%	\$ 44,931	\$ 424,931	\$ 847,350
35	7/1/2034	\$ 390,000	3.25%	\$ 32,419	\$ 422,419	
36	1/1/2035	\$ 390,000	3.25%	\$ 38,756	\$ 428,756	\$ 851,175
37	7/1/2035	\$ 390,000	3.25%	\$ 32,419	\$ 422,419	
38	1/1/2036	\$ 400,000	3.25%	\$ 26,081	\$ 426,081	\$ 845,825
39	7/1/2036	\$ 400,000	3.25%	\$ 19,744	\$ 419,744	
40	1/1/2037	\$ 415,000	3.25%	\$ 6,744	\$ 421,744	\$ 421,744
		\$ 12,500,000		\$ 4,498,831	\$ 16,998,831	\$ 16,998,831

FRANKFORT MUNICIPAL LIGHT AND POWER

Frankfort, Indiana

Summary of Fixed Assets - February 29, 2016

<u>Class</u>	<u>Plant Category</u>	<u>Utility Plant in Service Amount</u>
05 Land	ELA CLP Land	\$ 161,282
06 BLDG	EBL CLP Building	\$ 5,784,807
07 IMP OT BLDG	FEN CLP Fencing	\$ 9,100
07 IMP OT BLDG	PE PRIM EXT / New Service	\$ 1,589,941
08 MAC & EQ	DCE Data Center Equipment	\$ 258,316
08 MAC & EQ	ECO CLP Genl Communication Equip	\$ 51,951
08 MAC & EQ	EGL CLP GENL Lab Stores Misc EQ	\$ 165,599
08 MAC & EQ	EMA CLP Machinery & Equipment	\$ 207,550
08 MAC & EQ	EOE CLP Office Equipment	\$ 499,941
08 MAC & EQ	ESC CLP Scada Equipment	\$ 281,373
08 MAC & EQ	ETR CLP Trailer & Misc. Equipment	\$ 356,640
09 Trans	EVE CLP Vehicles	\$ 1,452,683
10 Dist SYS	ECA CLP Capacitor Bank Equip	\$ 8,214
10 Dist SYS	EDC CLP Dist Capacitor Banks	\$ 61,919
10 Dist SYS	EFI CLP Fiber	\$ 871,734
10 Dist SYS	EME CLP Meters	\$ 411,578
10 Dist SYS	EPO CLP Poles	\$ 3,609,161
10 Dist SYS	ERE CLP Reclosers	\$ 105,055
10 Dist SYS	ESE CLP Security Lights	\$ 61,184
10 Dist SYS	ESI CLP Switches	\$ 183,107
10 Dist SYS	EST CLP Street Lights	\$ 192,509
10 Dist SYS	ESW CLP Switching Equipment	\$ 496,107
10 Dist SYS	ETR CLP Transformers	\$ 2,738,876
10 Dist SYS	EWR CLP Wire	<u>\$ 2,626,767</u>
Total Assets		<u>\$ 22,185,393</u>
Annual Depreciation Expense (Default 3% Rate)		\$ 665,562

FRANKFORT MUNICIPAL LIGHT AND POWER
Frankfort, Indiana
Amortization Schedule and Extension & Replacement Projection

Amortization of Cost of Service Study / Rate Case

IURC Fee (Rate Case)	\$	16,500
Barnes & Thornburg Fee (Rate Case)	\$	50,000
Reedy Financial Group Fee (Rate Study/Rate Case)	\$	45,000
Spectrum Engineering Fee (COS)	\$	125,000
	\$	<u>236,500</u>
Amortization Period		7
Total Annual Amortization Expense	\$	33,786

Historical & Replacement

Average Annual Change in Capital

	<u>2014</u>	<u>2015</u>
Land	\$ -	\$ -
Buildings	\$ -	\$ -
Improvements	\$ 90,716	\$ 236,756
Machinery & Equipment	\$ 74,971	\$ 1,374
Transportation	\$ 31,134	\$ -
Distribution/Collections	\$ 186,495	\$ 175,354
	<u>\$ 383,316</u>	<u>\$ 413,484</u>
Two Year Average		\$ 398,400

FRANKFORT MUNICIPAL LIGHT AND POWER
Frankfort, Indiana
Schedule of Present Rates and Charges

Residential Rates

Monthly minimum service fee	\$ 4.00
First 500 kilowatt hours	\$ 0.058636
First 1,000 kilowatt hours	\$ 0.046085
Over 1,500 kilowatt hours	\$ 0.037496

Business Rates

Monthly minimum service fee	\$ 6.00
First 500 kilowatt hours	\$ 0.065808
First 1,000 kilowatt hours	\$ 0.057378
Over 1,500 kilowatt hours	\$ 0.038678

Commercial Rates

Monthly minimum service fee	\$ 15.00
First 500 kilowatt hours	\$ 0.082303
First 2,000 kilowatt hours	\$ 0.067553
First 2,500 kilowatt hours	\$ 0.048242
Over 5,000 kilowatt hours	\$ 0.040353

The adjustable electric tracker rate effective 04/01/16 to 06/30/16 for commercial property is \$0.048962.

FRANKFORT MUNICIPAL LIGHT AND POWER
Frankfort, Indiana
Present and Pro Forma Salaries

2016 Employee Structure						
<u>Position Title</u>	<u>Number of Positions Held or Needed</u>	<u>Hourly Rate</u>	<u>Hours Per Week</u>	<u>Average Annual Overtime Hours Paid at 1.5 times rate</u>	<u>Average Annual Overtime Hours Paid at 2 times rate</u>	<u>Average Annual Gross Expense Per Position</u>
Superintendent	1	\$ 35.09	40			\$ 72,990
Asst. Superintendent	1	\$ 34.42	40			\$ 71,588
Utility Man	1	\$ 28.09	40	13		\$ 58,972
Substation Tech	1	\$ 32.20	40	13		\$ 67,623
Lineman	3	\$ 33.43	40	115	33	\$ 232,547
Apprentice Lineman - 4th Year	1	\$ 28.63	40	70	32	\$ 64,417
Apprentice Lineman - 3rd Year	1	\$ 27.71	40	59	27	\$ 61,547
Apprentice Lineman - 2nd Year	1	\$ 26.78	40	34	26	\$ 58,443
Plan & Design Tech	2	\$ 16.00	40	1		\$ 66,623
Storekeeper A	1	\$ 27.87	40	2	8	\$ 58,486
Storekeeper B	1	\$ 26.79	40	14	10	\$ 56,815
Truck Foreman	2	\$ 35.04	40	83	34	\$ 159,318
IT Admin	2	\$ 16.00	40			\$ 66,560
Secretary	1	\$ 25.11	40			\$ 52,237
Mechanic A	1	\$ 29.42	40	25	7	\$ 62,715
IT Manager	1	\$ 33.65	40			\$ 70,000
Meter Tech	1	\$ 28.52	40	50	17	\$ 62,461
Meter Reader	2	\$ 28.00	40			\$ 116,480
Laborer B	1	\$ 19.47	40	11		\$ 40,825
Tree Trimmer A	1	\$ 24.34	40	10		\$ 51,001
Tree Trimmer B	1	\$ 22.72	40	3		\$ 47,357
						<u>\$ 1,599,006</u>
Total Wages for Fiscal Year 3/31/2016						<u>\$ 1,445,153</u>
Difference Between Salary Ordinance and 3/31/16						<u>\$ 153,853</u>

FRANKFORT MUNICIPAL LIGHT AND POWER
Frankfort, Indiana
Detail of Adjustments

	Test Year Revenue or Expenditure	Adjustment	Adjusted Revenue or Expenditure
Revenue:			
(1) Miscellaneous Revenues	\$ 217,654	\$ (127,654)	\$ 90,000
<i>A rounded average based upon historical years 2013 & 2014 miscellaneous income to eliminate one time reimbursements for the purchase of extra technology related to the billing system upgrade in 2015. (2013 - \$94,718 / \$85,621 - 2014 / Avg. \$90,169)</i>			
Expense:			
<u>Purchased Power:</u>			
(2) Power Purchases	\$ 27,357,098	\$ 828,608	\$ 28,185,706
<i>To increase purchased power line item expenditures to that of the IMPA 2016 projected purchased power costs.</i>			
<u>Distribution Expense</u>			
(3) Operation, Supervision & Engineering Salaries	\$ 690,015	\$ 73,460	\$ 763,475
<i>To increase salaries to be consistent with the salary ordinance</i>			
(4) Overhead Line Expense	\$ 60,762	\$ (14,762)	\$ 46,000
<i>To stay consistent with the average expense over the prior three year period.</i>			
<u>Customer Account and Collection</u>			
(5) Meter Reading Labor	\$ 70,834	\$ 7,541	\$ 78,375
<i>To increase salaries to be consistent with the salary ordinance</i>			
<u>Administrative and General</u>			
(6) Salaries and Wages	\$ 369,237	\$ 39,309	\$ 408,546
<i>To increase salaries to be consistent with the salary ordinance</i>			
(7) Office Supplies Expense	\$ 189,326	\$ (18,000)	\$ 171,326
<i>To account for the one time purchase of extra technology related to the billing system upgrade completed in 2015.</i>			
(8) Leased Truck Payment	\$ -	\$ 28,206	\$ 28,206
<i>To account for the lease expense for a Truck that is scheduled to begin June 2016.</i>			
(9) Employees Pension and Benefits:			
Vacation, Personal, Sick and Bereavement Pay	\$ 291,209	\$ 31,002	\$ 322,211
<i>To increase salaries to be consistent with the salary ordinance</i>			
(10) Amortization - Cost of Service Study / Rate Case	\$ -	\$ 33,786	\$ 33,786
<i>To amortize the cost of the service study over a 7 year life as calculated on page 15.</i>			
Other Income and Expense			
(11) Payment in Lieu of Tax (PILOT)	\$ 100,000	\$ 109,873	\$ 209,873
<i>To increase the Pilot payment to the maximum amount per RFG's calculation on page 9.</i>			
(12) Utility Receipts Tax	\$ 563,381	\$ (5,598)	\$ 557,783
<i>To adjust the URT expense to the projection calculated on page 9 of this Rate Study.</i>			
(13) Dental, Vision, Health & Miscellaneous:			
Distribution Expense	\$ 483,289	\$ 21,294	\$ 504,583
Customer Account and Collection	\$ 49,612	\$ 2,186	\$ 51,798
Administrative & General	\$ 258,614	\$ 11,395	\$ 270,009
	\$ 791,515	\$ 34,875	\$ 826,390
<i>To adjust the total amount to the calculation provided by the Utility Service Board.</i>			

Cash Flow Statement

(14)	Extension & Replacement	\$	-	\$	398,400	\$	398,400
	<i>The average change in utility plant of \$398,400 over the previous two years as shown in the calculation on page 15 of this rate study.</i>						
(15)	Max Debt Service	\$	-	\$	853,794	\$	853,794
	<i>Based upon proposed \$11.0 Million Electric Utility Revenue Bonds, Series 2017 (See attached amortization schedule)</i>						