

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

AUDIT REPORT

OF

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
JOHNSON COUNTY, INDIANA

January 1, 2003 to December 31, 2004



**FILED**  
04/11/2007



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OFFICIALS

| <u>Office</u>                 | <u>Official</u>                                  | <u>Term</u>  |
|-------------------------------|--|--|
| Clerk-Treasurer               | Jackie Smith                                     | 01-01-00 to 12-31-07   |
| President of the Town Council | Gregory Stinson<br>Jeffrey Simpson<br>Bill Davis | 01-01-03 to 12-31-03<br>01-01-04 to 12-31-04<br>01-01-05 to 12-31-07 |
| Electric Superintendent       | Darrell Burton                                   | 01-01-03 to 12-31-07   |
| Water Superintendent          | Mike Pendleton                                   | 01-01-03 to 12-31-07   |
| Wastewater Superintendent     | Glen Giles                                       | 01-01-03 to 12-31-07   |



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER, WASTEWATER, AND ELECTRIC  
UTILITY, TOWN OF EDINBURGH, JOHNSON COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water, Wastewater, and Electric Utilities (Utilities), a department of the Town of Edinburgh, as of and for the years ended December 31, 2003, and 2004. 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.

Except as described below, 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 Water, Wastewater, and Electric Utilities, Town of Edinburgh, 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 Town that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the Town of Edinburgh as of December 31, 2003 and 2004, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Water, Wastewater, and Electric Utilities did not maintain sufficient capital asset records. Due to the lack of supporting documentation, capital asset valuation cannot be verified. As the capital assets constitute the major portion of the Balance Sheet, any uncertainty concerning capital assets similarly affects the Balance Sheet.

In our opinion, except for the effects, if any, of the deficiency in capital assets records discussed in the preceding paragraph, the financial statements of the enterprise funds present fairly, in all material respects, the financial position of each major proprietary funds as of December 31, 2003 and 2004, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Town has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules 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

March 26, 2007

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
STATEMENT OF NET ASSETS  
December 31, 2003 And 2004

| Assets  | 2003                |                     |                     | 2004                |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|   | Water               | Electric            | Wastewater          | Water               | Electric            | Wastewater          |
| <b>Current assets:</b>  |                     |                     |                     |                     |                     |                     |
| Cash and cash equivalents   | \$ 294,737          | \$ 568,212          | \$ 67,899           | \$ 343,330          | \$ 675,981          | \$ 96,597           |
| Investments   | 50,000              | 100,000             | 300,000             | 50,000              | 100,000             | 500,000             |
| Interest receivable   | 833                 | 1,668               | 4,020               | 533                 | 1,062               | 3,804               |
| Accounts receivable - customer  | 58,510              | 461,792             | 81,898              | 58,668              | 474,930             | 92,765              |
| Accounts receivable - other   | 996                 | 544                 | 1,688               | 996                 | 544                 | 1,688               |
| Interfund receivables:  |                     |                     |                     |                     |                     |                     |
| Due from Water  | -                   | 707                 | -                   | -                   | 707                 | -                   |
| Due from Town   | -                   | 10,525              | -                   | -                   | 10,525              | -                   |
| Due from Electric   | 186                 | -                   | -                   | 186                 | -                   | -                   |
| Inventories   | 64,972              | 477,004             | -                   | 77,795              | 420,833             | -                   |
| Prepaid items   | 8,892               | 15,606              | 14,257              | 11,152              | 19,714              | 18,280              |
| <b>Total current assets</b>   | <b>479,126</b>      | <b>1,636,058</b>    | <b>469,762</b>      | <b>542,660</b>      | <b>1,704,296</b>    | <b>713,134</b>      |
| <b>Noncurrent assets:</b>   |                     |                     |                     |                     |                     |                     |
| Restricted cash, cash equivalents and investments:                                    |                     |                     |                     |                     |                     |                     |
| Depreciation cash and cash equivalents  | 7,306               | 173                 | 11,546              | 7,306               | 8,186               | 11,546              |
| Depreciation investments  | -                   | 500,000             | -                   | -                   | 500,000             | -                   |
| Bond and interest cash and cash equivalents   | 96,506              | -                   | 186,168             | 102,949             | -                   | 249,171             |
| Construction cash and cash equivalents  | 64,949              | -                   | 87,265              | 9,100               | -                   | 17,970              |
| Reserve cash and cash equivalents   | 21,280              | 55,257              | 22,804              | 23,431              | 55,257              | 106,121             |
| Reserve investments   | 130,000             | -                   | 130,000             | 130,000             | -                   | 130,000             |
| Customer deposits cash and cash equivalents   | 41,870              | 119,986             | 8,880               | 42,110              | 123,474             | 13,240              |
| Customer deposits investments   | -                   | 100,000             | -                   | -                   | 100,000             | -                   |
| Project safe cash and cash equivalents  | -                   | 8,510               | -                   | -                   | -                   | -                   |
| Interest receivable   | 1,530               | 7,255               | 1,530               | 1,673               | 6,556               | 1,673               |
| <b>Total restricted assets:</b>   | <b>363,441</b>      | <b>791,181</b>      | <b>448,193</b>      | <b>316,569</b>      | <b>793,473</b>      | <b>529,721</b>      |
| Deferred charges  | 11,328              | -                   | 56,776              | 9,269               | -                   | 50,186              |
| <b>Capital assets:</b>  |                     |                     |                     |                     |                     |                     |
| Land, improvements to land and construction in progress                               | 10,521              | 1,056,459           | 2,063,794           | 10,521              | 1,083,010           | 2,982,227           |
| Other capital assets (net of accumulated depreciation)                                | 1,830,895           | 1,170,082           | 3,341,453           | 1,763,610           | 1,032,981           | 4,951,938           |
| <b>Total capital assets</b>   | <b>1,841,416</b>    | <b>2,226,541</b>    | <b>5,405,247</b>    | <b>1,774,131</b>    | <b>2,115,991</b>    | <b>7,934,165</b>    |
| <b>Total noncurrent assets</b>  | <b>2,216,185</b>    | <b>3,017,722</b>    | <b>5,910,216</b>    | <b>2,099,969</b>    | <b>2,909,464</b>    | <b>8,514,072</b>    |
| <b>Total assets</b>   | <b>2,695,311</b>    | <b>4,653,780</b>    | <b>6,379,978</b>    | <b>2,642,629</b>    | <b>4,613,760</b>    | <b>9,227,206</b>    |
| <b>Liabilities</b>  |                     |                     |                     |                     |                     |                     |
| <b>Current liabilities:</b>   |                     |                     |                     |                     |                     |                     |
| Accounts payable  | 18,434              | 333,659             | 28,457              | 20,922              | 344,582             | 13,593              |
| Accounts payable - safe project   | -                   | 8,510               | -                   | -                   | -                   | -                   |
| Interfund payables:   |                     |                     |                     |                     |                     |                     |
| Due to Water  | -                   | 186                 | -                   | -                   | 186                 | -                   |
| Due to Electric   | 707                 | -                   | -                   | 707                 | -                   | -                   |
| Wages payable   | 5,199               | 13,074              | 5,519               | 3,844               | 6,302               | 3,244               |
| Taxes payable   | 6,429               | 34,340              | -                   | 1,880               | 11,589              | -                   |
| Current liabilities payable from restricted assets:                                   |                     |                     |                     |                     |                     |                     |
| Customer deposits   | 41,870              | 219,986             | 8,880               | 42,110              | 223,474             | 13,240              |
| Loans payable   | -                   | 500,000             | -                   | -                   | 400,000             | -                   |
| Capital leases payable  | 836                 | 905                 | 8,060               | 797                 | 792                 | 9,971               |
| Bonds payable   | 80,000              | -                   | 166,000             | 90,000              | -                   | 175,000             |
| Accrued interest payable  | 22,604              | 10,235              | 57,471              | 20,622              | 4,250               | 77,382              |
| <b>Total current liabilities</b>  | <b>176,079</b>      | <b>1,120,895</b>    | <b>274,387</b>      | <b>180,882</b>      | <b>991,175</b>      | <b>292,430</b>      |
| <b>Noncurrent liabilities:</b>  |                     |                     |                     |                     |                     |                     |
| Revenue bonds payable (net of unamortized discounts and deferred amount on refunding) | 749,160             | -                   | 1,807,514           | 664,355             | -                   | 1,648,057           |
| Capital leases payable  | 1,593               | 1,585               | 35,898              | 797                 | 792                 | 25,926              |
| State revolving fund loans payable  | -                   | -                   | 71,825              | -                   | -                   | 2,863,853           |
| <b>Total noncurrent liabilities</b>   | <b>750,753</b>      | <b>1,585</b>        | <b>1,915,237</b>    | <b>665,152</b>      | <b>792</b>          | <b>4,537,836</b>    |
| <b>Total liabilities</b>  | <b>926,832</b>      | <b>1,122,480</b>    | <b>2,189,624</b>    | <b>846,034</b>      | <b>991,967</b>      | <b>4,830,266</b>    |
| <b>Net Assets</b>   |                     |                     |                     |                     |                     |                     |
| Invested in capital assets, net of related debt                                       | 1,009,827           | 1,724,051           | 3,315,950           | 1,018,182           | 1,714,407           | 3,211,358           |
| Restricted for debt service   | 119,316             | 55,257              | 210,502             | 128,053             | 55,257              | 356,965             |
| Restricted for customer deposits  | 41,870              | 221,113             | 8,880               | 42,110              | 224,707             | 13,240              |
| Restricted for depreciation   | 7,306               | 506,301             | 11,546              | 7,306               | 513,509             | 11,546              |
| Restricted for project safe   | -                   | 8,510               | -                   | -                   | -                   | -                   |
| Restricted for construction   | 64,949              | -                   | 87,265              | 9,100               | -                   | 17,970              |
| Unrestricted  | 525,211             | 1,016,068           | 556,211             | 591,844             | 1,113,913           | 785,861             |
| <b>Total net assets</b>   | <b>\$ 1,768,479</b> | <b>\$ 3,531,300</b> | <b>\$ 4,190,354</b> | <b>\$ 1,796,595</b> | <b>\$ 3,621,793</b> | <b>\$ 4,396,940</b> |

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Years Ended December 31, 2003 And 2004

|  | 2003         |              |              | 2004         |              |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
|  | Water        | Electric     | Wastewater   | Water        | Electric     | Wastewater   |
| Operating revenues:                    |              |              |              |              |              |              |
| Residential sales                      | \$ 344,546   | \$ 1,252,544 | \$ 549,602   | \$ 231,823   | \$ 1,328,767 | \$ 463,464   |
| Commercial and industrial sales        | 79,399       | 2,520,061    | 225,160      | 190,570      | 2,849,790    | 486,514      |
| Primary sales                          | -            | 1,061,365    | -            | -            | 997,219      | -            |
| Public street and highway lighting     | -            | 18,746       | -            | -            | 18,746       | -            |
| Security lights                        | -            | 41,161       | -            | -            | 39,598       | -            |
| Storm sewer rental                     | -            | -            | 68,280       | -            | -            | 68,280       |
| Fire protection revenue                | 184,280      | -            | -            | 185,699      | -            | -            |
| Penalties                              | 3,984        | 21,393       | 6,194        | 3,609        | 18,641       | 6,535        |
| Other water revenue                    | 1,395        | -            | -            | 5,366        | -            | -            |
| Other                                  | 4,005        | -            | 10,319       | 2,120        | -            | 278,034      |
| Total operating revenues               | 617,609      | 4,915,270    | 859,555      | 619,187      | 5,252,761    | 1,302,827    |
| Operating expenses:                    |              |              |              |              |              |              |
| Power supply expense:                  |              |              |              |              |              |              |
| Power purchased                        | -            | 3,630,541    | -            | -            | 4,062,464    | -            |
| Distribution expense:                  |              |              |              |              |              |              |
| Operation supply labor                 | -            | 51,112       | -            | -            | 54,537       | -            |
| Salaries and wages                     | -            | 251,861      | -            | -            | 259,306      | -            |
| Meter expense                          | -            | 8,716        | -            | -            | 13,499       | -            |
| Transportation expense                 | -            | 10,649       | -            | -            | 11,265       | -            |
| Other                                  | -            | 48,782       | -            | -            | 27,481       | -            |
| Plant operation:                       |              |              |              |              |              |              |
| Salaries and wages                     | 172,360      | -            | 202,232      | 163,166      | -            | 225,277      |
| Fuel and power purchased               | 38,371       | -            | 65,255       | 38,269       | -            | 69,389       |
| Materials and supplies                 | 5,632        | -            | 13,022       | 1,167        | -            | 15,668       |
| Contractual services                   | -            | -            | 4,639        | -            | -            | 209,930      |
| Other                                  | 19,949       | -            | 546          | 66,028       | -            | 107,666      |
| Maintenance expense:                   |              |              |              |              |              |              |
| Materials and supplies                 | -            | -            | 60,397       | -            | -            | 23,265       |
| Overhead lines                         | -            | 7,619        | -            | -            | 33,037       | -            |
| Underground lines                      | -            | 16,463       | -            | -            | 43,063       | -            |
| Line transformer                       | -            | 3,455        | -            | -            | 6,294        | -            |
| Street and signal                      | -            | 3,289        | -            | -            | 12,236       | -            |
| Repair of equipment                    | -            | 7,185        | -            | -            | 6,590        | -            |
| Other                                  | 28,535       | 12,914       | -            | 32,125       | 2,151        | -            |
| Customer accounts:                     |              |              |              |              |              |              |
| Meter reading labor                    | -            | 25,964       | -            | -            | -            | -            |
| Records and collections                | 32,024       | 66,364       | 26,498       | 33,246       | 70,749       | 33,246       |
| Contractual services                   | -            | -            | 25,239       | -            | -            | 8,308        |
| Bad debt expense                       | 623          | 8,680        | 689          | -            | -            | -            |
| General:                               |              |              |              |              |              |              |
| Office salaries                        | -            | 54,575       | -            | -            | 44,853       | -            |
| Office supplies                        | 12,482       | 3,974        | 3,555        | 8,064        | 4,387        | 5,202        |
| Outside services                       | 21,046       | 60,328       | 797          | 27,516       | 79,280       | 2,858        |
| Insurance                              | 58,019       | 105,780      | 55,839       | 65,941       | 130,044      | 66,992       |
| Other                                  | 50,112       | 49,704       | 7,932        | 5,681        | 9,837        | 58,025       |
| Employee pension and benefits          | 25,679       | 87,001       | 29,666       | 31,922       | 96,166       | 33,548       |
| Depreciation                           | 96,981       | 262,626      | 121,964      | 97,667       | 264,631      | 129,940      |
| Total operating expenses               | 561,813      | 4,777,582    | 618,270      | 570,792      | 5,231,870    | 989,314      |
| Operating income                       | 55,796       | 137,688      | 241,285      | 48,395       | 20,891       | 313,513      |
| Nonoperating revenues (expenses):      |              |              |              |              |              |              |
| Interest and investment revenue        | 8,574        | 18,196       | 13,377       | 7,809        | 19,819       | 27,833       |
| Rental income                          | -            | 17,365       | -            | -            | 18,120       | -            |
| Miscellaneous revenue                  | -            | 48,965       | -            | -            | 41,748       | -            |
| Interest expense                       | (28,776)     | (21,877)     | (139,464)    | (26,029)     | (10,085)     | (128,170)    |
| Amortization on bond issue costs       | (2,060)      | -            | (6,590)      | (2,059)      | -            | (6,590)      |
| Total nonoperating revenues (expenses) | (22,262)     | 62,649       | (132,677)    | (20,279)     | 69,602       | (106,927)    |
| Change in net assets                   | 33,534       | 200,337      | 108,608      | 28,116       | 90,493       | 206,586      |
| Total net assets - beginning           | 1,734,945    | 3,330,963    | 4,081,746    | 1,768,479    | 3,531,300    | 4,190,354    |
| Total net assets - ending              | \$ 1,768,479 | \$ 3,531,300 | \$ 4,190,354 | \$ 1,796,595 | \$ 3,621,793 | \$ 4,396,940 |

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Years Ended December 31, 2003 And 2004

|  | 2003              |                     |                   | 2004              |                     |                   |
|--|-------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
|  | Water             | Electric            | Wastewater        | Water             | Electric            | Wastewater        |
| <b>Cash flows from operating activities:</b>   |                   |                     |                   |                   |                     |                   |
| Receipts from customers and users  | \$ 619,014        | \$ 4,852,950        | \$ 857,784        | \$ 619,029        | \$ 5,239,623        | \$ 1,291,960      |
| Payments to suppliers and contractors  | (241,080)         | (3,933,607)         | (225,004)         | (251,613)         | (4,345,046)         | (584,567)         |
| Payments for taxes   | 930               | (7,059)             | -                 | (10,082)          | (61,368)            | -                 |
| Payments to employees  | (229,378)         | (469,710)           | (258,800)         | (229,689)         | (532,383)           | (294,345)         |
| Other receipts   | -                 | 66,330              | -                 | -                 | 59,868              | -                 |
| <b>Net cash provided by operating activities</b>   | <b>149,486</b>    | <b>508,904</b>      | <b>373,980</b>    | <b>127,645</b>    | <b>360,694</b>      | <b>413,048</b>    |
| <b>Cash flows from capital and related financing activities:</b>                               |                   |                     |                   |                   |                     |                   |
| Proceeds from capital debt   | -                 | -                   | 71,825            | -                 | 400,000             | 2,792,028         |
| Capital contributions  | -                 | -                   | -                 | -                 | -                   | -                 |
| Acquisition and construction of capital assets   | (740)             | (121,852)           | (433,425)         | (30,382)          | (154,082)           | (2,658,858)       |
| Principal paid on capital debt   | (80,793)          | (12,596)            | (168,140)         | (80,835)          | (500,906)           | (174,061)         |
| Interest paid on capital debt  | (25,532)          | (18,058)            | (124,187)         | (22,816)          | (16,070)            | (89,980)          |
| Capital lease down payment   | -                 | -                   | -                 | -                 | -                   | -                 |
| Proceeds from sales of capital assets  | -                 | -                   | -                 | -                 | -                   | -                 |
| <b>Net cash used by capital and related financing activities</b>                               | <b>(107,065)</b>  | <b>(152,506)</b>    | <b>(653,927)</b>  | <b>(134,033)</b>  | <b>(271,058)</b>    | <b>(130,871)</b>  |
| <b>Cash flows from investing activities:</b>   |                   |                     |                   |                   |                     |                   |
| Proceeds from sales and maturities of investments  | -                 | 600,000             | 330,000           | -                 | -                   | -                 |
| Purchase of investments  | -                 | -                   | -                 | -                 | -                   | (200,000)         |
| Interest received  | 8,819             | 21,138              | 16,496            | 7,966             | 21,124              | 27,906            |
| <b>Net cash provided (used) by investing activities</b>  | <b>8,819</b>      | <b>621,138</b>      | <b>346,496</b>    | <b>7,966</b>      | <b>21,124</b>       | <b>(172,094)</b>  |
| <b>Net increase in cash and cash equivalents</b>   | <b>51,240</b>     | <b>977,536</b>      | <b>66,549</b>     | <b>1,578</b>      | <b>110,760</b>      | <b>110,083</b>    |
| <b>Cash and cash equivalents, January 1</b>  | <b>475,408</b>    | <b>374,602</b>      | <b>448,013</b>    | <b>526,648</b>    | <b>1,352,138</b>    | <b>514,562</b>    |
| <b>Cash and cash equivalents, December 31</b>  | <b>\$ 526,648</b> | <b>\$ 1,352,138</b> | <b>\$ 514,562</b> | <b>\$ 528,226</b> | <b>\$ 1,462,898</b> | <b>\$ 624,645</b> |
| <b>Reconciliation of operating income to net cash provided by operating activities:</b>        |                   |                     |                   |                   |                     |                   |
| Operating income   | \$ 55,796         | \$ 137,688          | \$ 238,549        | \$ 48,395         | \$ 20,891           | \$ 310,777        |
| <b>Adjustments to reconcile operating income to net cash provided by operating activities:</b> |                   |                     |                   |                   |                     |                   |
| Depreciation expense   | 96,981            | 262,626             | 121,964           | 97,667            | 264,632             | 129,940           |
| Other receipts   | -                 | 66,330              | -                 | -                 | 59,868              | -                 |
| (Increase) decrease in assets:   |                   |                     |                   |                   |                     |                   |
| Accounts receivable  | 2,028             | (53,640)            | (1,082)           | (158)             | (13,138)            | (10,867)          |
| Interfund services provided or used  | -                 | -                   | -                 | -                 | -                   | -                 |
| Allowance for uncollectible accounts   | -                 | -                   | -                 | -                 | -                   | -                 |
| Inventories  | (17,431)          | 5,972               | -                 | (12,823)          | 56,171              | -                 |
| Prepaid items  | (1,379)           | (3,524)             | (1,454)           | (2,260)           | (4,108)             | (4,023)           |
| Increase (decrease) in liabilities:  |                   |                     |                   |                   |                     |                   |
| Accounts payable   | 7,610             | 62,253              | 10,367            | 2,488             | 2,413               | (14,864)          |
| Interfund payables   | -                 | -                   | -                 | -                 | -                   | -                 |
| Wages payable  | 685               | 803                 | (404)             | (1,355)           | (6,772)             | (2,275)           |
| Taxes payable  | 4,666             | 23,117              | -                 | (4,549)           | (22,751)            | -                 |
| Compensated absence payable  | -                 | -                   | -                 | -                 | -                   | -                 |
| Customer deposits  | 530               | 7,279               | 6,040             | 240               | 3,488               | 4,360             |
| <b>Total adjustments</b>   | <b>93,690</b>     | <b>371,216</b>      | <b>135,431</b>    | <b>79,250</b>     | <b>339,803</b>      | <b>102,271</b>    |
| <b>Net cash provided by operating activities</b>   | <b>\$ 149,486</b> | <b>\$ 508,904</b>   | <b>\$ 373,980</b> | <b>\$ 127,645</b> | <b>\$ 360,694</b>   | <b>\$ 413,048</b> |

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

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utility and are not intended to present fairly the position of the Town of Edinburgh (Town), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the Town, represents a substantial portion of the Town's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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 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.

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
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 because their use is limited by 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<br>Threshold | Depreciation<br>Method | Depreciation<br>Rate |
|-----------------------------------|-----------------------------|------------------------|----------------------|
| Water Utility:                    |                             |                        |                      |
| Buildings                         | \$ 500                      | Composite rate         | 1.5%                 |
| Improvements other than buildings | 500                         | Composite rate         | 1.5%                 |
| Machinery and equipment           | 500                         | Composite rate         | 10.0%                |
| Transportation equipment          | 500                         | Composite rate         | 10.0%                |
| Wastewater Utility:               |                             |                        |                      |
| Buildings                         | 500                         | Composite rate         | 1.5%                 |
| Improvements other than buildings | 500                         | Composite rate         | 1.5%                 |
| Machinery and equipment           | 500                         | Composite rate         | 10.0%                |
| Transportation equipment          | 500                         | Composite rate         | 10.0%                |
| Electric Utility:                 |                             |                        |                      |
| Buildings                         | 500                         | Composite rate         | 1.5%                 |
| Improvements other than buildings | 500                         | Composite rate         | 1.5%                 |
| Machinery and equipment           | 500                         | Composite rate         | 10.0%                |
| Transportation equipment          | 500                         | Composite rate         | 10.0%                |

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 paid by the Wastewater Utility during 2003 and 2004 was \$118,665 and \$139,478. Of those amounts, \$77,991 in 2001 and \$74,216 in 2004 was included as part of the cost of capital assets under construction in connection with the Biosolids Handling Improvement Project.

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 6 days per year. Unused sick leave may be accumulated to a maximum of 12 days. Accumulated sick leave is not paid to employees upon retirement or termination.
- b. Vacation Leave – Utility 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. Accumulated vacation leave is paid to employees through cash payments upon retirement or termination.

No liability is reported for vacation and sick 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 Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the years ended December 31, 2003 and 2004, were as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| 2003 Water Utility:                    |                              |                  |                  |                           |
| Capital assets, not being depreciated: |                              |                  |                  |                           |
| Land                                   | \$ 10,521                    | \$ -             | \$ -             | \$ 10,521                 |
| Capital assets, being depreciated:     |                              |                  |                  |                           |
| Improvements other than buildings      | 2,542,259                    | -                | 8,360            | 2,533,899                 |
| Machinery and equipment                | 562,777                      | 9,099            | -                | 571,876                   |
| Transportation equipment               | <u>21,920</u>                | <u>-</u>         | <u>-</u>         | <u>21,920</u>             |
| Totals                                 | <u>3,126,956</u>             | <u>9,099</u>     | <u>8,360</u>     | <u>3,127,695</u>          |

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>       | <u>Decreases</u>    | <u>Ending<br/>Balance</u> |
|---|------------------------------|------------------------|---------------------|---------------------------|
| 2003 Water Utility (continued):                     |                              |                        |                     |                           |
| Capital assets, being depreciated:                  |                              |                        |                     |                           |
| Less accumulated depreciation for:                  |                              |                        |                     |                           |
| Improvements other than buildings                   | 1,199,819                    | 38,185                 | -                   | 1,238,004                 |
| Machinery and equipment                             | -                            | 56,605                 | -                   | 56,605                    |
| Transportation equipment                            | -                            | 2,192                  | -                   | 2,192                     |
|   | <u>1,199,819</u>             | <u>96,982</u>          | <u>-</u>            | <u>1,296,801</u>          |
| <br>Totals  | <br><u>1,199,819</u>         | <br><u>96,982</u>      | <br><u>-</u>        | <br><u>1,296,801</u>      |
| <br>Total capital assets, being<br>depreciated, net | <br><u>1,927,137</u>         | <br><u>(87,883)</u>    | <br><u>8,360</u>    | <br><u>1,830,894</u>      |
| <br>Total capital assets, net                       | <br><u>\$ 1,937,658</u>      | <br><u>\$ (87,883)</u> | <br><u>\$ 8,360</u> | <br><u>\$ 1,841,415</u>   |
| <br>2003 Wastewater Utility:                        |                              |                        |                     |                           |
| Capital assets, not being depreciated:              |                              |                        |                     |                           |
| Land  | \$ 52,792                    | \$ -                   | \$ -                | \$ 52,792                 |
| Construction in progress                            | 1,608,353                    | 402,649                | -                   | 2,011,002                 |
|   | <u>1,661,145</u>             | <u>402,649</u>         | <u>-</u>            | <u>2,063,794</u>          |
| <br>Total capital assets, not<br>being depreciated  | <br><u>1,661,145</u>         | <br><u>402,649</u>     | <br><u>-</u>        | <br><u>2,063,794</u>      |
| <br>Capital assets, being depreciated:              |                              |                        |                     |                           |
| Improvements other than buildings                   | 5,038,473                    | 25,071                 | -                   | 5,063,544                 |
| Machinery and equipment                             | 326,098                      | 53,005                 | -                   | 379,103                   |
| Transportation equipment                            | 127,596                      | -                      | -                   | 127,596                   |
|   | <u>5,492,167</u>             | <u>78,076</u>          | <u>-</u>            | <u>5,570,243</u>          |
| <br>Totals  | <br><u>5,492,167</u>         | <br><u>78,076</u>      | <br><u>-</u>        | <br><u>5,570,243</u>      |
| <br>Less accumulated depreciation for:              |                              |                        |                     |                           |
| Improvements other than buildings                   | 2,106,826                    | 75,811                 | -                   | 2,182,637                 |
| Machinery and equipment                             | -                            | 33,393                 | -                   | 33,393                    |
| Transportation equipment                            | -                            | 12,760                 | -                   | 12,760                    |
|   | <u>2,106,826</u>             | <u>121,964</u>         | <u>-</u>            | <u>2,228,790</u>          |
| <br>Totals  | <br><u>2,106,826</u>         | <br><u>121,964</u>     | <br><u>-</u>        | <br><u>2,228,790</u>      |
| <br>Total capital assets, being<br>depreciated, net | <br><u>3,385,341</u>         | <br><u>(43,888)</u>    | <br><u>-</u>        | <br><u>3,341,453</u>      |
| <br>Total capital assets, net                       | <br><u>\$ 5,046,486</u>      | <br><u>\$ 358,761</u>  | <br><u>\$ -</u>     | <br><u>\$ 5,405,247</u>   |

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>        | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|-------------------------|------------------|---------------------------|
| 2003 Electric Utility:                              |                              |                         |                  |                           |
| Capital assets, not being depreciated:              |                              |                         |                  |                           |
| Land  | \$ 11,807                    | \$ -                    | \$ -             | \$ 11,807                 |
| Construction in progress                            | <u>957,221</u>               | <u>87,431</u>           | <u>-</u>         | <u>1,044,652</u>          |
| <br>Total capital assets, not<br>being depreciated  | <br><u>969,028</u>           | <br><u>87,431</u>       | <br><u>-</u>     | <br><u>1,056,459</u>      |
| Capital assets, being depreciated:                  |                              |                         |                  |                           |
| Improvements other than buildings                   | 3,211,229                    | 14,435                  | -                | 3,225,664                 |
| Buildings   | 257,084                      | 11,277                  | -                | 268,361                   |
| Machinery and equipment                             | 970,334                      | 8,709                   | -                | 979,043                   |
| Transportation equipment                            | <u>605,186</u>               | <u>-</u>                | <u>-</u>         | <u>605,186</u>            |
| <br>Totals  | <br><u>5,043,833</u>         | <br><u>34,421</u>       | <br><u>-</u>     | <br><u>5,078,254</u>      |
| Less accumulated depreciation for:                  |                              |                         |                  |                           |
| Improvements other than buildings                   | 3,645,546                    | 96,417                  | -                | 3,741,963                 |
| Buildings   | -                            | 8,051                   | -                | 8,051                     |
| Machinery and equipment                             | -                            | 97,640                  | -                | 97,640                    |
| Transportation equipment                            | <u>-</u>                     | <u>60,518</u>           | <u>-</u>         | <u>60,518</u>             |
| <br>Totals  | <br><u>3,645,546</u>         | <br><u>262,626</u>      | <br><u>-</u>     | <br><u>3,908,172</u>      |
| <br>Total capital assets, being<br>depreciated, net | <br><u>1,398,287</u>         | <br><u>(228,205)</u>    | <br><u>-</u>     | <br><u>1,170,082</u>      |
| <br>Total capital assets, net                       | <br><u>\$ 2,367,315</u>      | <br><u>\$ (140,774)</u> | <br><u>\$ -</u>  | <br><u>\$ 2,226,541</u>   |
| 2004 Water Utility:                                 |                              |                         |                  |                           |
| Capital assets, not being depreciated:              |                              |                         |                  |                           |
| Land  | \$ 10,521                    | \$ -                    | \$ -             | \$ 10,521                 |
| Capital assets, being depreciated:                  |                              |                         |                  |                           |
| Improvements other than buildings                   | 2,533,899                    | 29,883                  | -                | 2,563,782                 |
| Machinery and equipment                             | 571,876                      | 499                     | -                | 572,375                   |
| Transportation equipment                            | <u>21,920</u>                | <u>-</u>                | <u>-</u>         | <u>21,920</u>             |
| <br>Totals  | <br><u>3,127,695</u>         | <br><u>30,382</u>       | <br><u>-</u>     | <br><u>3,158,077</u>      |

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u>    | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|
| 2004 Water Utility (continued):              |                              |                     |                     |                           |
| Capital assets, being depreciated:           |                              |                     |                     |                           |
| Less accumulated depreciation for:           |                              |                     |                     |                           |
| Improvements other than buildings            | 1,296,801                    | 38,273              | -                   | 1,335,074                 |
| Machinery and equipment                      | -                            | 57,201              | -                   | 57,201                    |
| Transportation equipment                     | -                            | <u>2,192</u>        | -                   | <u>2,192</u>              |
| Totals                                       | <u>1,296,801</u>             | <u>97,666</u>       | -                   | <u>1,394,467</u>          |
| Total capital assets, being depreciated, net | <u>1,830,894</u>             | <u>(67,284)</u>     | -                   | <u>1,763,610</u>          |
| Total capital assets, net                    | <u>\$ 1,841,415</u>          | <u>\$ (67,284)</u>  | <u>\$ -</u>         | <u>\$ 1,774,131</u>       |
| 2004 Wastewater Utility:                     |                              |                     |                     |                           |
| Capital assets, not being depreciated:       |                              |                     |                     |                           |
| Land   | \$ 52,792                    | \$ -                | \$ -                | \$ 52,792                 |
| Construction in progress                     | <u>2,011,002</u>             | <u>2,652,188</u>    | <u>1,733,755</u>    | <u>2,929,435</u>          |
| Total capital assets, not being depreciated  | <u>2,063,794</u>             | <u>2,652,188</u>    | <u>1,733,755</u>    | <u>2,982,227</u>          |
| Capital assets, being depreciated:           |                              |                     |                     |                           |
| Improvements other than buildings            | 5,063,544                    | 1,736,237           | -                   | 6,799,781                 |
| Machinery and equipment                      | 379,103                      | 4,188               | -                   | 383,291                   |
| Transportation equipment                     | <u>127,596</u>               | -                   | -                   | <u>127,596</u>            |
| Totals                                       | <u>5,570,243</u>             | <u>1,740,425</u>    | -                   | <u>7,310,668</u>          |
| Less accumulated depreciation for:           |                              |                     |                     |                           |
| Improvements other than buildings            | 2,228,790                    | 79,056              | -                   | 2,307,846                 |
| Machinery and equipment                      | -                            | 38,124              | -                   | 38,124                    |
| Transportation equipment                     | -                            | <u>12,760</u>       | -                   | <u>12,760</u>             |
| Totals                                       | <u>2,228,790</u>             | <u>129,940</u>      | -                   | <u>2,358,730</u>          |
| Total capital assets, being depreciated, net | <u>3,341,453</u>             | <u>1,610,485</u>    | -                   | <u>4,951,938</u>          |
| Total capital assets, net                    | <u>\$ 5,405,247</u>          | <u>\$ 4,262,673</u> | <u>\$ 1,733,755</u> | <u>\$ 7,934,165</u>       |

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>        | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|-------------------------|------------------|---------------------------|
| 2004 Electric Utility:                              |                              |                         |                  |                           |
| Capital assets, not being depreciated:              |                              |                         |                  |                           |
| Land  | \$ 11,807                    | \$ -                    | \$ -             | \$ 11,807                 |
| Construction in progress                            | <u>1,044,652</u>             | <u>26,551</u>           | <u>-</u>         | <u>1,071,203</u>          |
| <br>Total capital assets, not<br>being depreciated  | <br><u>1,056,459</u>         | <br><u>26,551</u>       | <br><u>-</u>     | <br><u>1,083,010</u>      |
| Capital assets, being depreciated:                  |                              |                         |                  |                           |
| Improvements other than buildings                   | 3,225,664                    | 121,002                 | -                | 3,346,666                 |
| Buildings   | 268,361                      | -                       | -                | 268,361                   |
| Machinery and equipment                             | 979,043                      | 6,529                   | -                | 985,572                   |
| Transportation equipment                            | <u>605,186</u>               | <u>-</u>                | <u>-</u>         | <u>605,186</u>            |
| <br>Totals  | <br><u>5,078,254</u>         | <br><u>127,531</u>      | <br><u>-</u>     | <br><u>5,205,785</u>      |
| Less accumulated depreciation for:                  |                              |                         |                  |                           |
| Improvements other than buildings                   | 3,908,172                    | 97,933                  | -                | 4,006,105                 |
| Buildings   | -                            | 8,051                   | -                | 8,051                     |
| Machinery and equipment                             | -                            | 98,129                  | -                | 98,129                    |
| Transportation equipment                            | <u>-</u>                     | <u>60,519</u>           | <u>-</u>         | <u>60,519</u>             |
| <br>Totals  | <br><u>3,908,172</u>         | <br><u>264,632</u>      | <br><u>-</u>     | <br><u>4,172,804</u>      |
| <br>Total capital assets, being<br>depreciated, net | <br><u>1,170,082</u>         | <br><u>(137,101)</u>    | <br><u>-</u>     | <br><u>1,032,981</u>      |
| <br>Total capital assets, net                       | <br><u>\$ 2,226,541</u>      | <br><u>\$ (110,550)</u> | <br><u>\$ -</u>  | <br><u>\$ 2,115,991</u>   |

C. Construction Commitments

Construction work in progress is composed of the following:

| <u>Project</u>           | <u>Total<br/>Project<br/>Authorized</u> | <u>Expended to<br/>December 31,<br/>2004</u> | <u>Committed</u>        | <u>Required<br/>Future<br/>Funding</u> |
|--------------------------|---|--|-------------------------|--|
| Sewage plant improvement | \$ 5,001,472                            | \$ 2,929,435                                 | \$ 2,072,037            | \$ 2,072,037                           |
| Electric substations     | <u>1,071,203</u>                        | <u>1,071,203</u>                             | <u>-</u>                | <u>-</u>                               |
| <br>Totals               | <br><u>\$ 6,072,675</u>                 | <br><u>\$ 4,000,638</u>                      | <br><u>\$ 2,072,037</u> | <br><u>\$ 2,072,037</u>                |

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2003 and 2004, were as follows:

| Due To           | Due From         |               |                  | Total            |
|------------------|------------------|---------------|------------------|------------------|
|                  | General Fund     | Water Utility | Electric Utility |                  |
| 2003:            |                  |               |                  |                  |
| Water Utility    | \$ -             | \$ -          | \$ 186           | \$ 186           |
| Electric Utility | 10,525           | 707           | -                | 11,232           |
| Totals           | <u>\$ 10,525</u> | <u>\$ 707</u> | <u>\$ 186</u>    | <u>\$ 11,418</u> |
| 2004:            |                  |               |                  |                  |
| Water Utility    | \$ -             | \$ -          | \$ 186           | \$ 186           |
| Electric Utility | 10,525           | 707           | -                | 11,232           |
| Totals           | <u>\$ 10,525</u> | <u>\$ 707</u> | <u>\$ 186</u>    | <u>\$ 11,418</u> |

Interfund balances resulted from expenditures mistakenly being paid from the wrong fund.

E. Leases

Capital Leases

The Utilities have entered into various capital leases for a phone system and a backhoe. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2004, are as follows:

|   | Water Utility   | Electric Utility | Wastewater Utility |
|---|-----------------|------------------|--------------------|
| 2005  | \$ 975          | \$ 975           | \$ 11,830          |
| 2006  | 975             | 975              | 11,830             |
| 2007  | -               | -                | 10,855             |
| 2008  | -               | -                | 5,428              |
| Total minimum lease payments                | 1,950           | 1,950            | 39,943             |
| Less amount representing interest           | <u>356</u>      | <u>366</u>       | <u>4,046</u>       |
| Present value of net minimum lease payments | <u>\$ 1,594</u> | <u>\$ 1,584</u>  | <u>\$ 35,897</u>   |

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Assets acquired through capital leases still in effect are as follows:

|                         | Water<br>Utility | Electric<br>Utility | Wastewater<br>Utility |
|-------------------------|------------------|---------------------|-----------------------|
| Machinery and equipment | \$ 3,948         | \$ 3,948            | \$ 59,248             |

F. Short-Term Liabilities

The Utilities may use short-term notes and loans to finance a variety of public projects, including Electric Utility transformers.

Short-term debt activity for the year ended December 31, 2004, was as follows:

|                           | Beginning<br>Balance | Issued/<br>Draws | Redeemed<br>Repayments | Ending<br>Balance |
|---------------------------|----------------------|------------------|------------------------|-------------------|
| Electric transformer loan | \$ 500,000           | \$ 400,000       | \$ 500,000             | \$ 400,000        |

G. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

| Purpose  | Interest<br>Rates | Amount       |
|--|-------------------|--------------|
| 1993 Water refunding bond                        | 3% to 6%          | \$ 185,000   |
| 1997 Water revenue bond, waterworks improvements | 4.4% to 5.2%      | 595,000      |
| 1993 Wastewater refunding bond                   | 3% to 6%          | 545,000      |
| 2001 Wastewater revenue bond, biosolids project  | 5.25%             | 1,353,000    |
| Total  |                   | \$ 2,678,000 |

Revenue bonds debt service requirements to maturity are as follows:

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

| Year Ended<br>December 31 | Water Utility     |                   | Wastewater Utility  |                   |
|---------------------------|-------------------|-------------------|---------------------|-------------------|
|                           | Principal         | Interest          | Principal           | Interest          |
| 2005                      | \$ 90,000         | \$ 41,225         | \$ 175,000          | \$ 103,733        |
| 2006                      | 90,000            | 36,595            | 190,000             | 93,833            |
| 2007                      | 95,000            | 31,745            | 200,000             | 83,070            |
| 2008                      | 100,000           | 26,645            | 211,000             | 71,745            |
| 2009                      | 105,000           | 21,245            | 221,000             | 59,805            |
| 2010-2014                 | 300,000           | 39,710            | 605,000             | 176,662           |
| 2015-2019                 | -                 | -                 | 296,000             | 23,520            |
| Totals                    | <u>\$ 780,000</u> | <u>\$ 197,165</u> | <u>\$ 1,898,000</u> | <u>\$ 612,368</u> |

2. Notes and Loans Payable

The Wastewater Utility has entered into a state revolving fund (SRF) loan. The Wastewater Utility has not drawn the full amount of the SRF loan. So, the annual debt service requirements to maturity for the loan are undeterminable.

3. Advance Refunding

In prior years, the Utilities defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The following outstanding bonds, at December 31, 2004, were considered defeased:

|                              | Amount     |
|------------------------------|------------|
| 1988 Water revenue bond      | \$ 417,000 |
| 1962 Wastewater revenue bond | 165,000    |
| 1988 Wastewater revenue bond | 1,175,000  |

4. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2003 and 2004, were as follows:

|                                      | Beginning<br>Balance | Additions | Reductions     | Ending<br>Balance | Due<br>Within<br>One Year |
|--------------------------------------|----------------------|-----------|----------------|-------------------|---------------------------|
| 2003:                                |                      |           |                |                   |                           |
| Revenue bonds payable:               |                      |           |                |                   |                           |
| Water Utility                        | \$ 940,000           | \$ -      | \$ 80,000      | \$ 860,000        | \$ 80,000                 |
| Wastewater Utility                   | 2,220,000            | -         | 156,000        | 2,064,000         | 166,000                   |
| Less bond discount                   | (15,817)             | -         | (1,315)        | (14,502)          | -                         |
| Less deferred amount<br>on refunding | (126,246)            | -         | (19,422)       | (106,824)         | -                         |
| Total revenue<br>bonds payable       | <u>3,017,937</u>     | <u>-</u>  | <u>215,263</u> | <u>2,802,674</u>  | <u>246,000</u>            |

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

|                                      | Beginning<br>Balance | Additions           | Reductions        | Ending<br>Balance | Due<br>Within<br>One Year |
|--------------------------------------|----------------------|---------------------|-------------------|-------------------|---------------------------|
| 2003 (continued):                    |                      |                     |                   |                   |                           |
| Capital leases payable               |                      |                     |                   |                   |                           |
| Water Utility                        | 3,222                | -                   | 793               | 2,429             | 836                       |
| Wastewater Utility                   | 8,798                | 47,300              | 12,140            | 43,958            | 8,060                     |
| Electric Utility                     | 15,086               | -                   | 12,596            | 2,490             | 905                       |
| Total capital leases payable         | <u>27,106</u>        | <u>47,300</u>       | <u>25,529</u>     | <u>48,877</u>     | <u>9,801</u>              |
| Loans payable:                       |                      |                     |                   |                   |                           |
| Wastewater Utility                   | 71,825               | -                   | -                 | 71,825            | -                         |
| Total long-term liabilities          | <u>\$ 3,116,868</u>  | <u>\$ 47,300</u>    | <u>\$ 240,792</u> | <u>2,923,376</u>  | <u>\$ 255,801</u>         |
| 2004:                                |                      |                     |                   |                   |                           |
| Revenue bonds payable:               |                      |                     |                   |                   |                           |
| Water Utility                        | \$ 860,000           | \$ -                | \$ 80,000         | \$ 780,000        | \$ 90,000                 |
| Wastewater Utility                   | 2,064,000            | -                   | 166,000           | 1,898,000         | 175,000                   |
| Less bond discount                   | (14,502)             | -                   | (1,316)           | (13,186)          | -                         |
| Less deferred amount<br>on refunding | <u>(106,824)</u>     | <u>-</u>            | <u>(19,422)</u>   | <u>(87,402)</u>   | <u>-</u>                  |
| Total revenue<br>bonds payable       | <u>2,802,674</u>     | <u>-</u>            | <u>225,262</u>    | <u>2,577,412</u>  | <u>265,000</u>            |
| Capital leases payable               |                      |                     |                   |                   |                           |
| Water Utility                        | 2,429                | -                   | 835               | 1,594             | 797                       |
| Wastewater Utility                   | 43,958               | -                   | 8,061             | 35,897            | 9,971                     |
| Electric Utility                     | 2,490                | -                   | 905               | 1,585             | 792                       |
| Total capital leases payable         | <u>48,877</u>        | <u>-</u>            | <u>9,801</u>      | <u>39,076</u>     | <u>11,560</u>             |
| Loans payable:                       |                      |                     |                   |                   |                           |
| Wastewater Utility                   | 71,825               | 2,792,028           | -                 | 2,863,853         | -                         |
| Total long-term liabilities          | <u>\$ 2,923,376</u>  | <u>\$ 2,792,028</u> | <u>\$ 235,063</u> | <u>5,480,341</u>  | <u>\$ 276,560</u>         |

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

H. Restricted Assets

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

|                             | Water<br>Utility | Electric<br>Utility | Wastewater<br>Utility |
|-----------------------------|------------------|---------------------|-----------------------|
| Depreciation account        | \$ 7,306         | \$ 508,186          | \$ 11,546             |
| Bond and interest account   | 102,949          | -                   | 249,171               |
| Construction account        | 9,100            | -                   | 17,970                |
| Reserve account             | 153,431          | 55,257              | 236,121               |
| Customer deposits account   | 42,110           | 223,474             | 13,240                |
| <br>Total restricted assets | <br>\$ 314,896   | <br>\$ 786,917      | <br>\$ 528,048        |

III. Other Information

A. Risk Management

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; 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 1991, the Town joined with other governmental entities in the Indiana Public Employer's Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for approximately three hundred and fifty member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The Town pays an annual premium to the risk pool for its job related illnesses or injuries to employees 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.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on October 22, 1997. The Utility has 1,724 customers.

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Wastewater Utility

The current rate structure was approved by the Town Council on August 6, 2001. The Utility has 1,675 customers.

3. Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on September 7, 1988. The Utility has 2,634 customers.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utilities authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utilities' annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the Town and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the Town as a whole and is not presented as an asset/liability of the proprietary funds.

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

|  | PERF   |
|--|--|
| Annual required contribution               | \$ 75,853  |
| Interest on net pension obligation         | (3,867)  |
| Adjustment to annual required contribution | 4,407  |
| Annual pension cost                        | 76,393   |
| Contributions made                         | 92,142   |
| Decrease in net pension obligation         | (15,749)   |
| Net pension obligation, beginning of year  | (53,344)   |
| Net pension obligation, end of year        | \$ (69,093)                                      |
| Contribution rates:                        |  |
| Utilities                                  | 5.75%  |
| Plan members                               | 3%   |
| Actuarial valuation date                   | 07-01-05   |
| Actuarial cost method                      | Entry age  |
| Amortization method                        | Level percentage of<br>projected payroll, closed |
| Amortization period                        | 40 years   |
| Amortization period (from date)            | 07-01-97   |
| Asset valuation method                     | 4 year smoothed market                           |

Actuarial Assumptions

|                                    |       |
|------------------------------------|-------|
| Investment rate of return          | 7.25% |
| 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<br>Pension Cost<br>(APC) | Percentage<br>of APC<br>Contributed | Net<br>Pension<br>Obligation |
|------|-------------|---------------------------------|-------------------------------------|------------------------------|
| PERF | 06-30-03    | \$ 91,695                       | 88%                                 | \$ (33,883)                  |
|      | 06-30-04    | 71,358                          | 127%                                | (53,344)                     |

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

PERF Pension Plan

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Excess of<br>Assets Over<br>(Unfunded)<br>AAL<br>(a-b) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | Excess<br>(Unfunded)<br>AAL as a<br>Percentage<br>of Covered<br>Payroll<br>((a-b)/c) |
|--------------------------------|--|---|--|--------------------------|---------------------------|--|
| 07-01-03                       | \$ 2,219,358                           | \$ 2,135,237                                      | \$ 84,121  | 104%                     | \$ 1,764,288              | 5%   |
| 07-01-04                       | 2,234,058                              | 2,200,805   | 33,253   | 102%                     | 1,774,375                 | 2%   |

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
AUDIT RESULTS AND COMMENTS

DEPOSITS

As stated in the prior report, there were instances receipts were deposited later than the next business day.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

CAPITAL ASSET RECORDS

Information presented for audit indicates the Utilities do not maintain sufficient detailed records of capital assets for Utility Plant in Service accounts. Upon purchase, the costs of capital assets are added to an aggregate Utility Plant in Service account, and to subsidiary accounts for land, buildings, etc., in the General Ledger. However, records providing historical costs for some of the utilities' capital assets are not available, and records classifying and summarizing the utilities' capital assets are incomplete.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
AUDIT RESULTS AND COMMENTS  
(Continued)

DELINQUENT UTILITY ACCOUNTS

Delinquent utility fees and penalties have not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
  - (B) a description of the premises, as shown by the records of the county auditor;  
and
  - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

WATER, WASTEWATER, AND ELECTRIC UTILITIES  
TOWN OF EDINBURGH  
EXIT CONFERENCE

The contents of this report were discussed on March 26, 2007, with Jackie Smith, Clerk-Treasurer; John R. Drybread, Council member; and Mary Patterson, Deputy Clerk-Treasurer. The officials concurred with our audit findings.