

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

FINANCIAL STATEMENTS

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

MONTGOMERY COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
04/23/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utility Controller	Ronald L. Gable	01-01-12 to 12-31-13
Utility Manager	Phillip R. Goode	01-01-12 to 12-31-13
President of the Utility Service Board	Roger Tarter	01-01-12 to 12-31-13
Clerk-Treasurer	Terri J. Gadd	01-01-12 to 12-31-15
Mayor	Todd D. Barton	01-01-12 to 12-31-15



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CRAWFORDSVILLE ELECTRIC LIGHT & POWER,
CITY OF CRAWFORDSVILLE, MONTGOMERY COUNTY, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Crawfordsville Electric Light & Power (Utility), a department of the City of Crawfordsville, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Utility as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

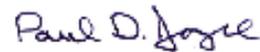
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Going Concern

The accompanying financial statements have been prepared assuming that the Telecom Division will continue as a going concern. As discussed in Note 15 to the financial statements, Accelplus, the Telecom Division of Crawfordsville Electric Light & Power has suffered recurring losses from operations and has not been able to meet their debt service funding requirements for 2011, 2012, and 2013. Due to the underfunded debt service requirements, the Utility defaulted on the \$300,000, \$425,000, and \$500,000 principal amounts due January 1, 2011, 2012, and 2013, respectively, and accrued interest as of December 31, 2012, was \$1,710,538 with additional interest payments of \$471,073 and \$458,073 in default as of January 1, 2013, and July 1, 2013, respectively. These defaults raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.


Paul D. Joyce, CPA
State Examiner

December 23, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

This discussion and analysis of Crawfordsville Electric Light and Power's ("CEL&P") consolidated financial performance provides an overview of the CEL&P's activities for the fiscal year ended December 31, 2012. This discussion only includes the activity of the two divisions of CEL&P and does not present information relative to the activities and financial performance of the City of Crawfordsville. This analysis should only be read in conjunction with the accompanying financial statements and the accompanying notes to the financial statements.

CEL&P includes two separate operating divisions governed by the Utility Service Board. The Electric division provides electric utility service in the City of Crawfordsville and its assigned service territory outside of the City's limits. Accelplus provides internet and cable television service in the same general service territory as Electric. All intra-divisional accounts are eliminated in the consolidated financial statements.

FINANCIAL STATEMENTS PRESENTED

CEL&P presents accrual statements of net position, statements of revenues, expenses and changes in net position and statements of cash flow on a consolidated basis and individually for Electric and Accelplus. The primary revenue source is from the sale of electricity to utility customers, which represented 93% of 2012 revenues.

CONDENSED COMPARITIVE FINANCIAL DATA

Net Assets	<u>2012</u>	<u>2011</u>
Current and other assets	\$7,883,857	\$7,077,891
Capital Assets	<u>30,788,918</u>	<u>31,540,748</u>
Total Assets	\$38,672,775	\$38,618,639
Capital Lease Obligations, net	\$16,660,000	\$16,660,000
Other Liabilities	<u>6,084,716</u>	<u>5,181,327</u>
Total Liabilities	<u>\$22,744,716</u>	<u>\$21,841,327</u>
Net Position:	<u>\$15,928,059</u>	<u>\$16,777,312</u>

INCOME

Operating Revenues	\$36,145,386	\$34,545,568
Operating Expense	<u>35,077,657</u>	<u>34,456,896</u>
Operating Income (loss)	\$1,067,729	\$88,672
Non-operating expenses	<u>(1,916,982)</u>	<u>(2,003,084)</u>
Change in net Position	<u>(\$849,253)</u>	<u>(\$1,914,412)</u>

FINANCIAL HIGHLIGHTS

The consolidated change in net position was a decrease of \$1 million from the previous year due mainly to the loss suffered by the Accelplus division. The national recession and the global economy played a major role in the 2012 financial results. Unemployment continued to hover around 9% in Montgomery County in 2012, and the weak employment had a negative impact on electric consumption and the addition of new customers for Accelplus.

Total revenues for Electric increased by \$1.5 million due to a higher tracker caused by increased purchased power costs that pass through the tracker, along with a 4.7% increase in Accelplus sales compared to prior year. Purchased power cost increased by \$0.7 million due to an increase in the tracker charge from IMPA. Steam power generation costs had a slight decrease due to the boiler testing that was run in August of 2011 that was not performed in 2012. In summation, the increase in revenues was partially offset by the increase in purchased power costs and resulted in a positive change in net position of \$288M for the year for Electric, compared to a \$0.7 million loss in 2011.

While revenues for Accelplus grew by 4.7%, the growth in Accelplus customers fell well short of the need for 2012. Continued competition from national internet and cable providers and the weak economy both hindered the growth of Accelplus. The division continues to be a drain on CEL&P's financial position with a loss of \$1.1 million in 2012. Because of continued poor operating results, the high cost of adding additional customers and the need for additional capital to grow the division, the Utility Service Board has continued investigating the sale or outsourcing of Accelplus operations. During 2012, Accelplus failed to make the full monthly interest payments and the initial principal payment to U.S. Bank as scheduled in the original bond amortization, and, in doing that, has continued to face significant pressure from current Certificate of Participation holders.

SIGNIFICANT CAPITAL ASSET ADDITIONS

During 2012, the only significant capital project is the Kentucky Street switchgear which was placed in service in March 2012.

COMPANY DEBT

Neither Electric nor Accelplus issued any new debt in 2012.

SUBSEQUENT EVENTS

Power Plant Sale: Crawfordsville Energy LLC (CE) failed to close the purchase of the power plant as required by the November 2011 asset purchase agreement with CELP. Negotiations continued throughout 2013, and CE and CELP agreed to extend the closing in order to allow CE to obtain the necessary financing to close the transaction. When CE failed to close or pay additional consideration for another extension for closing in August 2013, the parties entered into negotiations to resolve CELP's threatened litigation for breach of the purchase agreement. In November 2013, CE and CELP agreed to resolve their dispute. Under the terms of this agreement, CE agreed to pay \$100,000 for the assets of the power plant and close on or before 30 December 2013, to allow CELP to retain \$55,000 in payments from CE for the down payment and closing extension payments, to file air and water permit transfer documents with the appropriate regulatory agencies, and perform other obligations relating to the transaction. This resolution allowed CELP to avoid expensive and uncertain litigation, sell the power plant in a timely manner, and avoid the ongoing operational expenses associated with the ongoing operation of the plant. Since the entry of this settlement, CE has filed the air and water permit transfer documents, taken affirmative steps to operate the plant on 31 December 2013, and indicated that it has sufficient funds to pay the \$100,000 final payment on or before 30 December 2013. CELP's management is committed to taking all necessary steps necessary to close the transaction as scheduled, and management has filed all appropriate documents to relinquish its permits at the closing.

ACCELPLUS: In 2012, management committed itself to resolving the underperformance of ACCELPLUS (AP) by taking affirmative steps to generate increased net revenues, exploring outsourcing or sale of the going concern, and negotiating a resolution with the holders of Certificates of Participation (investors). These efforts continued in 2013. In the second and third quarter of 2013, these negotiations intensified, and the investors threatened litigation against AP, CELP, the City of Crawfordsville and the ACCELPLUS Building Corporation. In November 2013, the parties reached a verbal agreement which would resolve the pending dispute. Under the terms of this agreement, the assets of AP will be sold to Metronet for the sum of \$5.2 Million. The City will provide Metronet with certain economic development incentives. All of the purchase price will be paid by AP to U.S. Bank for the certificate holders. CELP

will also pay \$400,000 in order to obtain a release of liability. AP and the City will also be released from any liability. This verbal settlement was approved in concept by AP, CELP, the Crawfordsville Utility Service Board, Crawfordsville City Council, the Mayor of Crawfordsville, the Crawfordsville Board of Works, ACCELPLUS Building Corporation, and Crawfordsville Redevelopment Commission, with the last of these approvals being made on 9 December 2013. The parties are currently completing the final documents for the transaction. The Trustee, U.S. Bank, will obtain court approval for the settlement. The parties expect this approval in the first quarter of 2014, and the transaction should close shortly thereafter. AP and Metronet are currently engaged in meetings designed to facilitate the transition of ownership, and all of the parties are actively moving toward the closing of this transaction. Management is committed to take all actions necessary to bring this sale to closing in a timely manner.

FINANCIAL STATEMENTS

The financial statements and accompanying notes were prepared by management of the Utility. The financial statements and notes are presented as intended by the Utility.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF NET POSITION

ELECTRIC AND TELECOM DIVISIONS

	<u>12/31/2012</u>
ASSETS:	
Current Assets:	
Unrestricted cash and cash equivalents	\$1,415,584
Accounts receivable	2,403,634
Miscellaneous accounts receivable	4,557
Fuel stock	241,041
Plant materials and operating supplies	1,011,288
Prepaid maintenance charges	77,079
Prepaid insurance	115,201
Other prepayments	161,585
Other	177,405
	<u>5,607,374</u>
Total Current Assets	
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	1,090,073
Investments	-
Debt service reserve held with trustee	892,785
Interest receivable	-
	<u>1,982,858</u>
Total Restricted Assets	
Other Assets:	
Other deferred debits	293,625
	<u>293,625</u>
Capital Assets:	
Electric plant, net	16,785,661
Telecom plant, net	14,003,257
	<u>30,788,918</u>
Total Capital Assets	
TOTAL ASSETS	
	<u><u>\$38,672,775</u></u>

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF NET POSITION
ELECTRIC AND TELECOM DIVISIONS
(Continued)

	<u>12/31/2012</u>
LIABILITIES:	
Current Liabilities:	
Accounts payable	\$3,921,996
Accrued payroll	142,624
State sales tax payable	89,501
Accrued pension	11,227
Customer deposits	185,596
Project Safe vouchers received (not applied)	-
Accrued interest	1,710,538
Other accrued liabilities	<u>23,234</u>
Total Current Liabilities	<u>6,084,716</u>
Long term lease payable	<u>16,660,000</u>
TOTAL LIABILITIES	<u><u>\$22,744,716</u></u>
NET POSITION:	
Net Investment in Capital Assets	\$14,128,918
Restricted	1,797,262
Unrestricted	<u>1,879</u>
TOTAL NET POSITION	<u><u>\$15,928,059</u></u>

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

ELECTRIC AND TELECOM DIVISIONS

	2012
Operating Revenues:	
Electric operating revenues	\$33,677,786
Telecom revenues	2,467,600
	36,145,386
Operating Expenses:	
Purchased power	25,073,309
Steam power generation	869,459
Transmission and distribution	1,662,470
Telecom operating and marketing expense	1,455,990
Customer accounts expense	628,145
Administrative and general	3,130,083
US Bank legal fees	54,208
Taxes	759,266
	33,632,930
Sub-Totals	33,632,930
Depreciation expense	1,444,727
	35,077,657
Total Operating Expenses	35,077,657
Operating Income (Loss)	1,067,729
Nonoperating Income and Expense:	
Interest income	7,714
Miscellaneous income	18,626
Amortization expense	(634,092)
Revenue from contract work	208,625
Cost of contract work	(114,238)
Gain/Loss on disposal assets	(19,571)
Miscellaneous income deductions	(545)
Interest on long-term capital lease	(958,500)
	(1,491,981)
Total Nonoperating Income and Expense	(1,491,981)
Net Income before Capital Contributions and Transfers	(424,252)
Payment in lieu of taxes	(425,001)
	(849,253)
Change in Net Position	(849,253)
Adjustments to prior year	
Total Net Position - Beginning	16,777,312
Total Net Position - Ending	\$15,928,059

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF CASH FLOWS

ELECTRIC AND TELECOM DIVISIONS

	<u>2012</u>
Cash Flow from Operating Activities:	
Receipts from customers	\$ 35,019,063
Payments to suppliers and employees	<u>(33,675,924)</u>
Net Cash from Operating Activities	1,343,139
Cash Flow from Capital and Related Financing Activities:	
Transfers out	(425,001)
Reimbursements from related party (Building Corporation)	-
Purchases and construction of capital assets	(1,326,988)
Miscellaneous income	92,897
Interest paid on capital lease	<u>(120,000)</u>
Net Cash from Capital Financing Activities	<u>(1,779,092)</u>
Cash Flow from Investing Activities:	
Interest	<u>7,714</u>
Net Cash from Investing Activities	<u>7,714</u>
Net increase (decrease) in cash and cash equivalents	(428,239)
Balances - Beginning of the Year	<u>3,826,681</u>
Balances - End of the Year	<u>\$ 3,398,442</u>
Displayed As:	
Unrestricted cash and cash equivalents	\$ 1,415,584
Investments	-
Restricted cash and investments	<u>1,982,858</u>
Total Cash and Investments	<u>\$ 3,398,442</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 1,067,729
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) By Operating Activities:	
Depreciation and amortization expense	1,444,727
Changes In Assets and Liabilities	
Receivables, net	(1,125,671)
Miscellaneous receivables, net	(652)
Prepaid and other assets	64,686
Fuel and materials and supplies	(172,568)
Accounts and other payables	64,889
Prior period adjustment	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,343,139</u>

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF NET POSITION

ELECTRIC DIVISION

	<u>12/31/2012</u>
ASSETS:	
Current Assets:	
Unrestricted cash and cash equivalents	\$ 1,235,225
Accounts receivable	2,059,669
Accounts receivable - project safe	1,880
Fuel stock	241,041
Plant materials and operating supplies	618,307
Prepaid maintenance charges	51,412
Prepaid insurance	115,201
Other prepayments	160,249
Other	<u>163,823</u>
Total Current Assets	<u>4,646,807</u>
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	1,074,698
Investments	-
Interest receivable	<u>-</u>
Total Restricted Assets	<u>1,074,698</u>
Other Assets:	
Advance of operating expenses to Telecom	1,288,969
Telecom division loan receivable	1,814,314
Other deferred debits	<u>293,525</u>
Total Other Noncurrent Assets	<u>3,396,808</u>
Capital Assets:	
Utility plant in service	53,804,312
Accumulated depreciation	<u>(37,295,376)</u>
Net utility plant in service	16,508,936
Construction work in progress	<u>276,725</u>
Total Capital Assets	<u>16,785,661</u>
TOTAL ASSETS	<u>\$ 25,903,974</u>

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF NET POSITION

ELECTRIC DIVISION

(Continued)

	<u>12/31/2012</u>
LIABILITIES:	
Current Liabilities:	
Accounts payable	\$ 3,800,904
Accrued payroll	142,624
Sales tax payable	80,932
Accrued pension	11,227
Customers meter deposits payable	170,221
Project Safe vouchers received (not applied)	-
Other accrued liabilities	<u>23,234</u>
Total Current Liabilities	<u>4,229,142</u>
TOTAL LIABILITIES	<u>\$ 4,229,142</u>
NET POSITION	
Net Investment in Capital Assets	\$ 16,785,661
Restricted funds	904,477
Unrestricted	<u>3,984,694</u>
TOTAL NET POSITION	<u>\$ 21,674,832</u>

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

ELECTRIC DIVISION

	<u>2012</u>
Operating Revenues:	
Residential sales	\$ 8,515,096
Commercial and industrial sales	24,367,484
Outdoor and street lighting sales	280,522
Sales to other authorities	125,987
IMPA capacity payment	-
Other operating revenue	388,697
	<u>33,677,786</u>
Total Operating Revenues	<u>33,677,786</u>
Operating Expenses:	
Purchased power	25,073,309
Steam power generation	869,459
Transmission and distribution	1,662,470
Administrative and general	2,853,753
Customer accounts expense	596,141
Utility receipts tax	470,980
F.I.C.A. tax	233,026
Unemployment tax	-
Other taxes	280
	<u>280</u>
Sub-Totals	31,759,418
Depreciation expense	1,304,809
	<u>1,304,809</u>
Total Operating Expenses	<u>33,064,227</u>
Operating Income (Loss)	<u>613,559</u>
Nonoperating Income and Expense:	
Interest income	6,844
Miscellaneous income	18,626
Revenue from contract work	208,625
Cost of contract work	(114,238)
Gain/Loss on disposal assets	(19,571)
Miscellaneous income deductions	(545)
	<u>(545)</u>
Total Nonoperating Income and Expense	<u>99,741</u>
Net Income before Capital Contributions and Transfers	<u>713,300</u>
Payments in Lieu of Taxes	<u>(425,001)</u>
Change in Net Position	288,299
Adjustments to prior year	
Total Net Position - Beginning	<u>21,386,533</u>
Total Net Position - Ending	<u>\$ 21,674,832</u>

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF CASH FLOWS

ELECTRIC DIVISION

	<u>2012</u>
Cash Flow from Operating Activities:	
Receipts from customers	\$ 32,611,224
Payments to suppliers and employees	<u>(31,648,327)</u>
Net Cash from Operating Activities	<u>962,897</u>
Cash Flow from Capital and Related Financing Activities:	
Transfers out	(425,001)
Interfund loans - proceeds and collections	(30,432)
Purchases and construction of capital assets	(1,042,165)
Miscellaneous income	<u>92,897</u>
Net Cash from Capital Financing Activities	<u>(1,404,701)</u>
Cash Flow from Investing Activities:	
Interest	<u>6,844</u>
Net Cash from Investing Activities	<u>6,844</u>
Net Increase in Cash and Cash Equivalents	(434,960)
Balances - Beginning of the Year	<u>2,744,883</u>
Balances - End of the Year	<u>\$ 2,309,923</u>
Displayed As:	
Unrestricted cash and cash equivalents	\$ 1,235,225
Restricted cash and cash equivalents	1,074,698
Restricted Investments	<u>-</u>
Total Cash and Investments	<u>\$ 2,309,923</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 613,559
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation expense	1,304,809
Changes In Assets and Liabilities	
Accounts receivables, net	(1,066,562)
Miscellaneous receivables, net	-
Prepaid and other assets	69,844
Fuel and materials inventory	1,958
Accounts and other payables	17,532
Accrued payroll and pensions	12,262
Taxes payable	(2,369)
Meter deposits payable	9,762
Project Safe vouchers payable	-
Other payables	2,102
Adjustments to prior year	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 962,897</u>

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF NET POSITION

TELECOM DIVISION

	<u>12/31/2012</u>
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 180,359
Accounts receivable	343,965
Miscellaneous accounts receivable	2,677
Prepaid maintenance charges	25,667
Prepaid other	1,336
Materials and supplies	27,626
Inventory	365,355
Other assets	<u>13,582</u>
Total Current Assets	<u>960,567</u>
Noncurrent Assets:	
Restricted Assets:	
Customer deposits - cash	15,375
Debt service reserve held with fiscal agent	<u>892,785</u>
Total Restricted Assets	<u>908,160</u>
Noncurrent Assets:	
Deferred Debits	<u>100</u>
Capital Assets:	
Leased Telecom facilities	15,185,000
Accumulated amortization on leased facilities	<u>(3,800,556)</u>
Net Leased Assets	11,384,444
Telecom plant owned, net of accumulated depreciation	2,609,507
Telecom plant under construction	<u>9,306</u>
Total Capital Assets	<u>14,003,257</u>
TOTAL ASSETS	<u>\$ 15,872,084</u>
LIABILITIES:	
Current Liabilities:	
Account payable	\$ 121,092
Customer deposits	15,375
Accrued interest	1,710,538
Accrued taxes payable	<u>8,569</u>
Total Current Liabilities	<u>1,855,574</u>
Noncurrent Liabilities:	
Long-term capital lease obligation	16,660,000
Due to Electric for operating expenses	1,288,970
Notes payable to Electric	<u>1,814,314</u>
Total Noncurrent Liabilities	<u>19,763,284</u>
TOTAL LIABILITIES	<u>\$ 21,618,858</u>
NET POSITION	
Net Investment in Capital Assets	\$ (5,760,027)
Restricted Funds	-
Unrestricted	<u>13,253</u>
TOTAL NET POSITION	<u>\$ (5,746,774)</u>

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

TELECOM DIVISION

	<u>2012</u>
Operating Revenues:	
Internet / video revenue	\$ 2,273,250
Other revenue	194,350
	<u>2,467,600</u>
Total Operating Revenues	<u>2,467,600</u>
Operating Expenses:	
Content fees	881,518
Operating expense	572,031
Customer accounts expense	32,004
Marketing and advertising	2,441
Administrative and general expense	276,331
US Bank legal fees	54,208
F.I.C.A. tax	24,980
Other taxes	30,000
	<u>1,873,513</u>
Sub-Totals	<u>1,873,513</u>
Depreciation expense	139,918
	<u>2,013,431</u>
Total Operating Expenses	<u>2,013,431</u>
Operating Income (Loss)	<u>454,169</u>
Nonoperating Income and Expense:	
Interest income	870
Amortization	(634,092)
Interest on long-term capital lease	(958,500)
	<u>(1,591,722)</u>
Total Nonoperating Income and Expense	<u>(1,591,722)</u>
Net Income before Capital Contributions and Transfers	<u>(1,137,553)</u>
Change in Net Position	(1,137,553)
Total Net Position - Beginning	(4,609,221)
Prior Period Adjustment	<u>-</u>
Total Net Position - Ending	<u>\$ (5,746,774)</u>

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER

STATEMENT OF CASH FLOWS

TELECOM DIVISION

	2012
Cash Flow from Operating Activities:	
Receipts from customers	\$ 2,407,839
Payments to suppliers	(2,027,597)
Net Cash from Operating Activities	380,242
Cash Flow from Capital and Related Financing Activities:	
Interfund loans - proceeds and collections	30,433
Purchases and construction of capital assets	(284,824)
Interest paid on capital lease	(120,000)
Net Cash from Capital Financing Activities	(374,391)
Cash Flow from Investing Activities:	
Interest income	870
Net Cash from Investing Activities	870
Net increase in cash and cash equivalents	6,721
Balances - Beginning of the Year	1,081,798
Balances - End of the Year	\$ 1,088,519
Displayed As:	
Cash and cash equivalents	\$ 180,359
Restricted cash and investments	908,160
Total Cash and Investments	\$ 1,088,519
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 454,169
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation expense	139,918
Changes In assets and liabilities	
Accounts receivables, net	(59,109)
Miscellaneous receivables, net	(652)
Prepaid and other assets	(5,158)
Materials and supplies inventory	(174,526)
Other assets	-
Accounts and other payables	24,575
Customer deposits payable	1,025
Prior period adjustment	-
Net Cash Provided (Used) by Operating Activities	\$ 380,242

The accompanying notes are an integral part of the above financial statements.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. Organization and Significant Accounting Policies

Reporting Entity

Crawfordsville Electric Light and Power (the "Utility") was established by the City of Crawfordsville under the laws of the State of Indiana. The Utility operates two divisions, and both divisions are accounted for as proprietary funds. The Electric Division ("Electric") provides all power and energy requirements to approximately 10,000 customers in and around the City of Crawfordsville. Electric provides power from a long-term purchase power agreement with Indiana Municipal Power Agency and Electric's 24 megawatts of owned capacity. The Utility also operates a Telecom Division doing business as Accelplus. Internet and cable television services are provided to approximately 2,000 customers in and around the City of Crawfordsville by Accelplus. The majority of Accelplus assets are leased from the Accelplus Building Corporation, a quasi governmental unit. The Utility did not guarantee any of the lease payments.

Governance of the Utility has been delegated to the Utility Service Board. However, the City Council maintains authority over rates and the issuance of debt. Electric also remains under the jurisdiction of the Indiana Utility Regulatory Commission for the setting of rates, issuance of debt and other matters. Accordingly, separate statements of net position, changes in net position and cash flows are maintained and presented in these financial statements. While separate asset, liability, revenue and expense accounts are maintained, Accelplus does not employ any staff of their own, allocations of payroll and other expenses are necessary to properly allocate charges between the two divisions.

Basis of Presentation

The Utility follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The consolidated financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles accepted in the United States of America.

When both restricted and unrestricted resources are available for use, the Utility's policy is to use restricted resources first, then unrestricted resources as they are needed.

Utility Plant and Depreciation

Capital assets, included in the electric utility plant account, are carried at cost and are depreciated ratably during the year at 3% per year on the historic cost for all assets purchased prior to 1-1-80; all purchased after 1-1-80, are depreciated per an acceptable table of life years per asset type.

Accelplus owned assets are carried at cost and are depreciated on a straight line basis over 20 years. Leased assets are amortized over the life of the lease.

Capital Asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activity:				
Capital assets, not being depreciated:				
Land	\$ 373,309	\$ -	\$ -	\$ 373,309
Intangible property	183,715	-	-	183,715
Construction in progress	782,931	1,068,846	1,565,746	286,031
Total capital assets, not being depreciated	1,339,955	1,068,846	1,565,746	843,055
Capital assets, being depreciated:				
Buildings	6,601,400	-	-	6,601,400
Machinery and equipment	63,235,777	1,243,623	53,825	64,425,574
Totals	69,837,177	1,243,623	53,825	71,026,975
Less accumulated depreciation for:				
Buildings	3,324,893	84,620	-	3,409,514
Machinery and equipment	36,311,491	1,360,107	-	37,671,598
Totals	39,636,384	1,444,727	-	41,081,112
Total capital assets, being depreciated, net	30,200,793	(201,105)	53,825	29,945,863
Total business-type activity capital assets, net	\$ 31,540,748	\$ 867,741	\$ 1,619,572	\$ 30,788,918

Inventories

The Utility's inventory is comprised of fuel stock, plant material and operating supplies. Inventory is carried primarily on a historical weighted average cost basis.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Cash and Cash Equivalents

The Utility considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted and Unrestricted Investments

Investments are stated at cost. Changes in fair value of the investments are reported as income in the year of the sale of the investment.

Interdivisional Receivables and Payables

At December 31, 2012, Accelplus owed Electric \$3.1 million.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

1. Organization and Significant Accounting Policies - Continued

Income Taxes

The Utility is exempt from federal and state income taxes.

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 position because their use is limited by applicable bond covenants.

Restricted Net Position

The financial statements report \$1,797,262 of restricted net position, of which \$1,797,262 is restricted by enabling legislation.

Use of Estimates

The preparation of these financial statements is in conformity with generally accepted accounting principles and requires management to make estimates and assumptions that affect the reported assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capacity Payments and Purchased Power

In conformity with generally accepted accounting practices and the power sales contract Electric has with Indiana Municipal Power, Sales of Electric's generation is reflected as wholesale sales of electricity and not as credit to the purchased power account (expense).

Revenue Recognition

CEL&P records revenues for Electric and Accelplus as billed to its customers. Electric does not recognize any unbilled revenues that occur between meter readings. This accounting for revenues follows the rate making process of the Indiana Utility Regulatory Commission.

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 Utility are charges to customers for sales and services. Operating expenses for the Utility 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.

2. Deposits and Investments

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utility does not have a deposit policy for custodial credit risk. At December 31, 2012 the Utility had deposit balances in the amount of \$2,505,657.

The remaining bank balances were insured by the Federal Deposit Insurance Corporation of the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Investments

The utility does not currently have any investments

3. Cash, Cash Equivalents and Investments

Cash deposits and investments are governed by Indiana State Statutes. At December 31, 2012, cash and cash equivalents include money market investments. The carrying amount of cash, cash equivalents and demand deposits approximates fair value due to the short maturity of the investments.

	2012	
	Cost	Estimated Fair Value
<u>Cash and Cash Equivalents:</u>		
Unrestricted - General Fund	<u>\$1,415,584</u>	<u>\$1,415,584</u>
Restricted		
Depreciation Fund	905,030	905,030
HSA Deposit Fund	100	100
Meter Deposit	184,943	184,943
Flex Benefits	-	-
Debt Service Reserve - Accelplus	<u>892,785</u>	<u>892,785</u>
Total Restricted	<u>1,982,858</u>	<u>1,982,858</u>
Total Cash and Cash Equivalents	<u>3,398,442</u>	<u>3,398,442</u>

CRAWFORDSVILLE ELECTRIC LIGHT & POWER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

4. Leased Telecom Facilities and Capital Lease Obligations:

In May 2003, the City Council approved the establishment of a separate division within the Utility (Accelplus) for the operation of a fiber to the user project. Later in 2004, the City of Crawfordsville entered into a long-term lease agreement with Accelplus Building Corporation, an Indiana Not-for-Profit Company. The agreement provided for the City to make lease payments from the net revenues from a fiber to the user project financed by the Accelplus Building Corporation. In June of 2006, the City of Crawfordsville and Accelplus Building Corporation updated the lease agreement and participated in a tax exempt offering of \$16,660,000 in Certificates of Participation.

The proceeds from the Certificates of Participation were used to build the fiber to the user system and to pay start-up costs for the Accelplus Division of the Utility. Accelplus has capitalized \$15 million of leased facilities from the proceeds from the Certificates of Participation. An additional \$1.4 million of telecom plant has been acquired through subordinate loans from electric.

Interest began accruing on the lease on January 1, 2008. The first principal payment was due on January 1, 2011, but has not been made to date. Net rental payments made by Accelplus were \$120,000 in 2012. Accelplus makes monthly rental payments to a trustee for the Accelplus Building Corporation. Interest expense represents the interest portion of rental payments that should have been made. The actual payments made in 2012 were less than the required payment amounts. Remaining payments on the lease are as follows:

Year Ended December 31,	Minimum Lease Payments			
	Interest	Principal	Executory	Total
2011	481,910	300,000	5,180	787,090
2012	952,983	425,000	5,518	1,383,500
2013	929,145	500,000	5,855	1,435,000
2014	902,233	525,000	5,768	1,433,000
2015	873,335	555,000	5,665	1,434,000
2016	842,125	590,000	5,375	1,437,500
2017	807,000	630,000	5,500	1,442,500
2018-2029	5,785,650	13,135,000	60,350	18,981,000
	<u>\$11,574,380</u>	<u>\$16,660,000</u>	<u>\$99,210</u>	<u>28,333,590</u>

The lease with the Accelplus Building Corporation imputes interest at 6.03%. Lease payments are only made from the net revenues of Accelplus. Net revenues are defined revenues collected less the operating expenses of the division.

5. Contracts

Electric has a long-term power supply contract with the Indiana Municipal Power Agency ("IMPA") that runs through 2042. Under this contract, IMPA is required to supply, and Electric is required to purchase from IMPA all of its energy requirements. Electric has also dedicated its 24 MW generating capacity to IMPA. In return, IMPA makes capacity payments and reimburses Electric for generating expenses. There were no reimbursement payments from IMPA for dedicated capacity and energy generated in 2012. IMPA utilizes economic dispatch and only calls for Electric to generate when economical. During 2012, Electric was not called upon by IMPA to generate. Electric's contract for capacity payments ended on May 31, 2011 and was not renewed. The amount Electric generates has impact on operating income as reimbursements are reconciled through the Energy Cost Adjustment mechanism described more fully in Note 6.

6. Rate Increase

In September of 2009, Electric filed for an increase in its base rates in Cause No. 43773. On May 10, 2010, Electric and the Office of the Utility Consumer Counselor reached a tentative settlement in Cause No. 43773 which was approved shortly thereafter by the Indiana Utility Regulatory Commission. The settlement provided for an increase in retail revenues of approximately \$1.7 million annually, representing a 5.99% increase. The approved rates were put in place for the October 2010 billing cycle.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

7. Energy Cost Adjustment Factor

Pursuant to Rate Tariffs approved by the Indiana Utility Regulatory Commission in Cause #39381, an Energy Cost Adjustment Factor is used by Electric to recover the cost of power delivered to customers. Changes in the cost of power are tracked and a quarterly adjustment factor is used to reconcile variances in the cost of energy. Capacity and energy sales to IMPA are deducted from the cost of the energy purchased.

8. Construction Work in Progress

The Construction Work in Progress balance at December 31, 2012 totaled \$286,031. Projects include both projects constructed with Electric personnel and outside contractors. All costs are accumulated until the projects are completed and transferred to capital assets. Once the projects are transferred to Utility Plant in Service accounts, depreciation expense will begin on the assets.

9. Pensions

The utility contributes to the Public Employees' Retirement Fund (PERF), an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for state employees of the various subdivisions of the State of Indiana.

All full-time employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) govern most requirements of the system, including the benefits which vest after ten years of service and give the utility authority to contribute. Employees who have reached fifty years of age may receive retirement benefits with fifteen years of service. An employee may receive benefits at age sixty-five with ten years of service.

Employees are required to contribute 3% of compensation to an annuity savings account. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system wide fund for all members. Upon retirement, members may select a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of this savings account.

Since employees may receive a refund of this savings account, and the employer financed pension is not effected by it, the corresponding information for the savings account is not included in the determination of the pension benefit obligation or related funding and has not been included in this report.

The utility is a department of the City of Crawfordsville. As such, the net pension obligation is considered an obligation of the City and not the Utility.

10. Bad Debts

CEL&P's policy is to write off customer accounts when any one of the following has occurred:

1. When after pursuit of all legal collection action has been completed and no contact is made:
2. Bankruptcy proceedings have been finalized:
3. The debtor has deceased.

Bad debt expense totaled \$73,000 in 2012. The reserve for uncollectible accounts was \$103,332 at December 31, 2012.

11. 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 and nature disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for several years. There were no significant reductions in insurance by major category of risk.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012
(Continued)

12. Job Related Illness and Injuries

During 1990, the Utility joined together with other governmental entities to form the Indiana Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for over 1,200 member governmental entities. 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 Utility 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.

13. Postemployment Benefits

In addition to the pension benefits described in note 9, Electric provides postemployment health insurance benefits for employees taking early retirement as authorized by IC 5-10-8. The benefit ceases when the retiree turns 65. Eligibility is restricted to employees who retire from the Utility on or after attaining age sixty with at least fifteen years of service whose years of service plus their age equals eighty-five or greater. Benefits are based on the employee's age at retirement according to the following schedule:

	Age 55-59	Age 60	Age 61	Age 62-65
Utility Pays	-0-	25%	50%	100%

During 2012, one retiree met the eligibility requirements for postemployment health insurance, which brings the total to two employees. Based on materiality, postemployment health insurance expenses are recorded on a pay-as-you-go basis.

Electric also sponsors a Utility Retirement Payment based on the number of years of service for the utility. The employee must meet PERF eligibility requirements. Electric pays \$20 for each year of service which is expensed in the year the employee retires.

14. Compensated Absences

CEL&P requires all vacation to be used in the year earned. Upon retirement, an employee is eligible to received \$5 for each day of unused sick time up to a maximum of 120 days. Unpaid sick time is recorded on a pay-as-you-go basis.

15. Subsequent Events

Power Plant Sale: Crawfordsville Energy LLC (CE) failed to close the purchase of the power plant as required by the November 2011 asset purchase agreement with CELP. Negotiations continued throughout 2013, and CE and CELP agreed to extend the closing in order to allow CE to obtain the necessary financing to close the transaction. When CE failed to close or pay additional consideration for another extension for closing in August 2013, the parties entered into negotiations to resolve CELP's threatened litigation for breach of the purchase agreement. In November 2013, CE and CELP agreed to resolve their dispute. Under the terms of this agreement, CE agreed to pay \$100,000 for the assets of the power plant and close on or before 30 December 2013, to allow CELP to retain \$55,000 in payments from CE for the down payment and closing extension payments, to file air and water permit transfer documents with the appropriate regulatory agencies, and perform other obligations relating to the transaction. This resolution allowed CELP to avoid expensive and uncertain litigation, sell the power plant in a timely manner, and avoid the ongoing operational expenses associated with the ongoing operation of the plant. Since the entry of this settlement, CE has filed the air and water permit transfer documents, taken affirmative steps to operate the plant on 31 December 2013, and indicated that it has sufficient funds to pay the \$100,000 final payment on or before 30 December 2013. CELP's management is committed to taking all necessary steps necessary to close the transaction as scheduled, and management has filed all appropriate documents to relinquish its permits at the closing.

ACCELPLUS: In 2012, management committed itself to resolving the underperformance of ACCELPLUS (AP) by taking affirmative steps to generate increased net revenues, exploring outsourcing or sale of the going concern, and negotiating a resolution with the holders of Certificates of Participation (investors). These efforts continued in 2013. In the second and third quarter of 2013, these negotiations intensified, and the investors threatened litigation against AP, CELP, the City of Crawfordsville and the ACCELPLUS Building Corporation. In November 2013, the parties reached a verbal agreement which would resolve the pending dispute. Under the terms of this agreement, the assets of AP will be sold to Metronet for the sum of \$5.2 Million. The City will provide Metronet with certain economic development incentives. All of the purchase price will be paid by AP to U.S. Bank for the certificate holders. CELP will also pay \$400,000 in order to obtain a release of liability. AP and the City will also be released from any liability. This verbal settlement was approved in concept by AP, CELP, the Crawfordsville Utility Service Board, Crawfordsville City Council, the Mayor of Crawfordsville, the Crawfordsville Board of Works, ACCELPLUS Building Corporation, and Crawfordsville Redevelopment Commission, with the last of these approvals being made on 9 December 2013. The parties are currently completing the final documents for the transaction. The Trustee, U.S. Bank, will obtain court approval for the settlement. The parties expect this approval in the first quarter of 2014, and the transaction should close shortly thereafter. AP and Metronet are currently engaged in meetings designed to facilitate the transition of ownership, and all of the parties are actively moving toward the closing of this transaction. Management is committed to take all actions necessary to bring this sale to closing in a timely manner.

CRAWFORDSVILLE ELECTRIC LIGHT & POWER
AUDIT RESULTS AND COMMENTS

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS

Net revenues from the operations of Accelplus, a division of Crawfordsville Electric Light & Power (Utility), were not sufficient to make all payments required by the debt financing. Accelplus operates a telecommunications company providing fiber-optic cable television service and internet communication services to customers within the service territory of Utility. The trust agreement required transfers from Accelplus to US Bank, custodian of the Accelplus funds. Transfers made to US Bank in 2012 were \$120,000 compared to the required transfer amount of \$952,983, resulting in a deficiency of \$832,983.

Due to the underfunded debt service requirements, the Utility defaulted on the \$300,000, \$425,000, and \$500,000 principal amounts due January 1, 2011, 2012, and 2013, respectively, and accrued interest as of December 31, 2012, was \$1,710,538 with additional interest payments of \$471,073 and \$458,073 in default as of January 1, 2013, and July 1, 2013, respectively. These defaults raise substantial doubt about the ability of Accelplus to continue as a going concern.

A similar comment was made in Report B41766.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS

Internal controls over the additions, deletions, recording, and accounting for the capital assets were insufficient; a physical inventory is not taken annually.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CRAWFORDSVILLE ELECTRIC LIGHT & POWER
EXIT CONFERENCE

The contents of this report were discussed on December 23, 2013, with Ronald L. Gable, Utility Controller; Phillip R. Goode, Utility Manager; Todd D. Barton, Mayor; Lyle E. Fogel, Utility Service Board Secretary; Terri J. Gadd, Clerk-Treasurer; Heather Perkins-Dennison, City Council Liaison; and Daniel L. Taylor, Utility Service Board Attorney. The officials concurred with our audit findings.