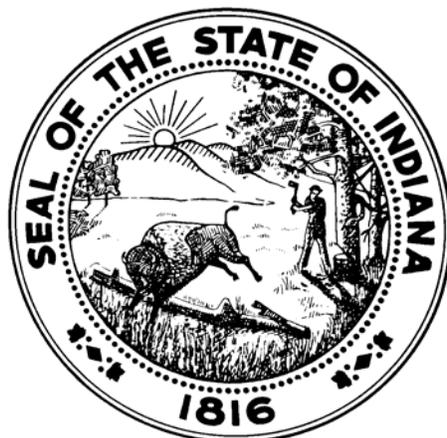


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF

PATOKA LAKE REGIONAL WATER  
AND SEWER DISTRICT  
DUBOIS COUNTY, INDIANA

January 1, 2005 to December 31, 2006



**FILED**

09/20/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Bruce Heeke	01-01-05 to 12-31-07
Water Transmission and Distribution Superintendent	Ronald E. Crews	01-01-05 to 06-30-06
	Vacant	07-01-06 to 07-02-06
	Shawn Kluesner	07-03-06 to 12-31-07
Water Plant Superintendent	Jerry W. Allstott	01-01-05 to 12-31-07
Wastewater Plant Superintendent	Shawn Kluesner	01-01-05 to 12-31-07
Controller	Stephen Allen	01-01-05 to 12-31-07
Treasurer	John Wade	01-01-05 to 12-31-07
President of the Board	Edwin H. Pieper	01-01-05 to 12-31-07



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE PATOKA LAKE REGIONAL WATER  
AND SEWER DISTRICT, DUBOIS COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Patoka Lake Regional Water and Sewer District (District), as of and for the years ended December 31, 2005 and 2006. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2005 and 2006, 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 of America.

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District 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

July 16, 2007

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
STATEMENT OF NET ASSETS  
December 31, 2005 And 2006

<u>Assets</u>	2005		2006	
	Water	Wastewater	Water	Wastewater
Current assets:				
Operating cash and cash equivalents	\$ 581,100	\$ 31,875	\$ 570,941	\$ 94,833
Improvement cash and cash equivalents	172,372	57,184	68,402	138,354
Construction cash and cash equivalents	-	214,107	-	-
Improvement investments	7,700,000	1,900,000	8,500,000	2,100,000
Construction investments	-	750,000	-	750,000
Interest receivable	57,698	26,540	74,894	30,736
Accounts receivable - customers	501,970	66,699	510,785	85,021
Accounts receivable - other	1,028	-	1,354	12,262
Contracts receivable	-	2,697	-	-
Inventories	562,545	80,713	721,810	77,420
Prepaid items	13,784	-	-	-
Land held for resale	42,163	129,537	35,030	106,948
Total current assets	<u>9,632,660</u>	<u>3,259,352</u>	<u>10,483,216</u>	<u>3,395,574</u>
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Bond and interest cash and investments	2,691,775	13,866	2,855,113	34,297
Debt service reserve cash and investments	-	317,373	-	317,373
Interest receivable	13,608	4,370	25,537	3,919
Total restricted assets	<u>2,705,383</u>	<u>335,609</u>	<u>2,880,650</u>	<u>355,589</u>
Assessments receivable	-	246,800	-	-
Deferred charges:				
Unamortized bond issue costs	276,745	10,507	249,903	7,099
Unamortized tank painting costs	270,854	-	221,531	-
Unamortized treatment plant painting costs	-	49,396	-	43,222
Total deferred charges	<u>547,599</u>	<u>59,903</u>	<u>471,434</u>	<u>50,321</u>
Capital assets:				
Land and construction in progress	822,356	78,532	1,399,279	89,585
Other capital assets (net of accumulated depreciation)	53,048,807	12,370,389	52,363,439	12,174,683
Total capital assets	<u>53,871,163</u>	<u>12,448,921</u>	<u>53,762,718</u>	<u>12,264,268</u>
Total noncurrent assets	<u>57,124,145</u>	<u>13,091,233</u>	<u>57,114,802</u>	<u>12,670,178</u>
Total assets	<u>66,756,805</u>	<u>16,350,585</u>	<u>67,598,018</u>	<u>16,065,752</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	108,719	15,633	98,278	20,245
Accrued payroll and withholdings payable	86,921	3,466	90,078	4,035
Contracts payable	20,628	-	15,322	4,735
Taxes payable	8,988	-	9,251	-
Advances for construction	29,798	250	21,843	2,108
Total current liabilities	<u>255,054</u>	<u>19,349</u>	<u>234,772</u>	<u>31,123</u>
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	16,013,937	225,762	15,044,996	155,380
Loans payable	2,554,000	4,781,000	2,515,000	4,710,000
Total noncurrent liabilities	<u>18,567,937</u>	<u>5,006,762</u>	<u>17,559,996</u>	<u>4,865,380</u>
Total liabilities	<u>18,822,991</u>	<u>5,026,111</u>	<u>17,794,768</u>	<u>4,896,503</u>
<u>Net Assets</u>				
Invested in capital assets, net of related debt	33,587,163	7,427,921	34,664,718	7,389,268
Restricted for debt service	2,691,775	331,239	2,855,113	351,670
Unrestricted	11,654,876	3,565,314	12,283,419	3,428,311
Total net assets	<u>\$ 47,933,814</u>	<u>\$ 11,324,474</u>	<u>\$ 49,803,250</u>	<u>\$ 11,169,249</u>

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
As Of And For The Years Ended December 31, 2005 And 2006

	2005		2006	
	Water	Wastewater	Water	Wastewater
Operating revenues:				
Unmetered water revenue	\$ 10,982	\$ -	\$ 485	\$ -
Metered water revenue:				
Commercial	2,238,950	-	2,232,794	-
Industrial	3,912,565	-	3,911,268	-
Measured revenue:				
Industrial	-	138,249	-	166,924
Commercial	-	655,002	-	729,925
Other	172,035	61,460	355,380	56,116
Total operating revenues	6,334,532	854,711	6,499,927	952,965
Operating expenses:				
Source of supply and expense/collection system expense:				
Operations and maintenance:				
Purchased water	75,036	-	76,120	-
Purchased power	289,949	27,295	308,698	32,715
Materials and supplies	-	10,868	1,363	452
Maintenance	10,357	41,072	-	30,404
Transmission and distribution:				
Salaries and wages	811,493	-	837,494	-
Storage facilities expense	9,988	-	7,294	-
Purchased power	47,035	-	50,489	-
Materials and supplies	56,672	-	63,791	-
Transportation expense	70,675	-	83,050	-
Maintenance	190,384	-	188,604	-
Other	8,500	-	8,500	-
Treatment and disposal - operations and maintenance:				
Salaries and wages	451,694	168,749	473,698	163,121
Chemicals	145,544	-	142,736	-
Purchased power	-	53,816	-	55,989
Materials and supplies	22,557	82,189	27,278	77,800
Transportation expense	3,547	-	5,533	-
Maintenance	20,182	3,985	23,613	17,230
Other	-	7,964	-	6,593
Customer accounts:				
Records and collections	29,262	4,549	31,653	4,233
Bad debt expense	1,439	-	52	-
Administration and general:				
Salaries and wages	235,130	14,216	243,419	14,645
Employee pensions and benefits	388,202	49,664	400,336	42,361
Materials and supplies	34,497	2,326	34,409	2,034
Contractual services	49,755	-	21,045	-
Transportation expenses	2,676	-	2,426	-
Insurance expense	97,328	18,683	111,286	19,954
Depreciation and amortization	1,514,510	178,980	1,546,217	414,703
Miscellaneous expenses	26,051	35,973	25,738	281,503
Total operating expenses	4,592,463	700,329	4,714,842	1,163,737
Operating income (loss)	1,742,069	154,382	1,785,085	(210,772)
Nonoperating revenues (expenses):				
Interest and investment revenue	365,468	122,550	607,323	172,838
Miscellaneous revenue	6,850	1,000	6,400	5,000
Amortization of bond issue costs	(26,841)	(3,407)	(26,842)	(3,407)
Interest expense	(1,120,872)	(199,920)	(1,073,276)	(193,608)
Miscellaneous expense	(2,206)	(3,504)	(2,670)	(4,974)
Total nonoperating expenses	(777,601)	(83,281)	(489,065)	(24,151)
Income (loss) before contributions	964,468	71,101	1,296,020	(234,923)
Capital contributions	626,077	1,553,575	573,416	79,698
Change in net assets	1,590,545	1,624,676	1,869,436	(155,225)
Total net assets - beginning	46,343,269	9,699,798	47,933,814	11,324,474
Total net assets - ending	\$ 47,933,814	\$ 11,324,474	\$ 49,803,250	\$ 11,169,249

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Years Ended December 31, 2005 And 2006

	2005		2006	
	Water	Wastewater	Water	Wastewater
<b>Cash flows from operating activities:</b>				
Receipts from customers and users	\$ 6,319,863	\$ 859,383	\$ 6,490,734	\$ 925,078
Payments to suppliers and contractors	(1,345,265)	(1,734,148)	(1,382,546)	(275,844)
Payments to employees	(1,877,682)	(232,522)	(1,951,790)	(219,558)
Other receipts	2,608	11,741	4,563	17,615
<b>Net cash provided by operating activities</b>	<b>3,099,524</b>	<b>(1,095,546)</b>	<b>3,160,961</b>	<b>447,291</b>
<b>Cash flows from capital and related financing activities:</b>				
Capital contributions	626,077	1,553,575	573,416	79,698
Acquisition and construction of capital assets	(857,262)	(301,640)	(1,388,449)	(219,141)
Principal paid on capital debt	(1,136,000)	(141,000)	(1,186,000)	(146,000)
Interest paid on capital debt	(942,813)	(195,302)	(895,217)	(188,989)
Proceeds from assessments receivable	-	6,000	-	3,500
Proceeds from sales of capital assets	6,850	1,000	6,300	5,000
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(2,303,148)</b>	<b>922,633</b>	<b>(2,889,950)</b>	<b>(465,932)</b>
<b>Cash flows from investing activities:</b>				
Proceeds from sales and maturities of investments	2,300,000	200,000	2,500,000	100,000
Purchase of investments	(3,300,000)	(300,000)	(3,500,000)	(300,000)
Interest received	356,918	118,363	578,198	169,093
<b>Net cash provided (used) by investing activities</b>	<b>(643,082)</b>	<b>18,363</b>	<b>(421,802)</b>	<b>(30,907)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>153,294</b>	<b>(154,550)</b>	<b>(150,791)</b>	<b>(49,548)</b>
Cash and cash equivalents, January 1	691,953	488,955	845,247	334,405
Cash and cash equivalents, December 31	<u>\$ 845,247</u>	<u>\$ 334,405</u>	<u>\$ 694,456</u>	<u>\$ 284,857</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 1,742,069	\$ 154,382	\$ 1,785,085	\$ (210,772)
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>				
Depreciation expense	1,514,510	178,980	1,546,217	414,703
Bad debt expense	1,439	-	52	-
Write-off of long-term contract	-	-	-	243,300
Nonoperating revenue	2,608	11,741	4,563	17,615
(Increase) decrease in assets:				
Accounts receivable	(14,669)	4,672	(9,193)	(27,887)
Inventories	(65,680)	(25,036)	(159,265)	3,293
Prepaid items	(13,784)	-	13,784	-
Increase (decrease) in liabilities:				
Accounts payable	(6,158)	(26,384)	(10,441)	4,612
Contracts payable	(64,368)	(10,249)	(5,306)	-
Taxes payable	(540)	-	263	-
Advances for construction	(4,740)	(1,383,759)	(7,955)	1,858
Accrued payroll and withholdings payable	8,837	107	3,157	569
<b>Total adjustments</b>	<b>1,357,455</b>	<b>(1,249,928)</b>	<b>1,375,876</b>	<b>658,063</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 3,099,524</b>	<b>\$ (1,095,546)</b>	<b>\$ 3,160,961</b>	<b>\$ 447,291</b>
<b>Noncash investing, capital and financing activities:</b>				
Transfer of construction-in-progress to capital asset	\$ 1,744,650	\$ 9,642,475	\$ 474,465	\$ 20,662
Amortization of unamortized bond issue costs	26,841	3,408	26,842	3,408
Disposal of capital assets fully depreciated	56,485	15,171	34,077	12,300

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The District (primary government) was established under the laws of the State of Indiana. The District operates under an appointed Board of Directors form of government and provides the following services: water distribution and treatment, and wastewater treatment.

The accompanying financial statements present the activities of the District. There are no significant component units which require inclusion.

B. Fund Financial Statements

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

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the District to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the 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 they are maintained in a separate bank account and 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 Threshold	Depreciation Method	Estimated Useful Life
Water Utility:			
Buildings	\$ 1,000	Straight-line	10 to 40 years
Improvements other than buildings	1,000	Straight-line	10 to 60 years
Machinery and equipment	1,000	Straight-line	5 to 60 years
Transportation equipment	1,000	Straight-line	5 to 7 years
Wastewater Utility:			
Buildings	1,000	Straight-line	5 to 40 years
Improvements other than buildings	1,000	Straight-line	5 to 60 years
Machinery and equipment	1,000	Straight-line	5 to 10 years
Transportation equipment	1,000	Straight-line	5 years

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.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

5. Compensated Absences

- a. Sick Leave – District employees earn sick leave at the rate of 4 hours per month. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – District employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – District employees earn personal leave at the rate of 3 days per year. Unused personal leave may be accumulated to sick leave at the end of the year.

No liability is reported for vacation, sick, and personal leave.

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits

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

B. Receivables

The following receivable accounts have timing and credit characteristics different from typical accounts receivable. Assessments receivable represents the balance owed to the Wastewater Utility through a contract for sewer extension entered into in 1984 with payments received annually for a 40 year period. The contract was renegotiated in 2006 and the remaining balance of the assessment receivable was written off.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Capital Assets

Capital asset activity for the years ended December 31, 2005 and 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2005:				
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 739,464	\$ 540	\$ -	\$ 740,004
Construction in progress	<u>1,289,611</u>	<u>537,391</u>	<u>1,744,650</u>	<u>82,352</u>
Total capital assets, not being depreciated	<u>2,029,075</u>	<u>537,931</u>	<u>1,744,650</u>	<u>822,356</u>
Capital assets, being depreciated:				
Buildings	14,959,194	3,273	-	14,962,467
Improvements other than buildings	52,979,545	1,935,511	-	54,915,056
Machinery and equipment	1,469,546	56,477	-	1,526,023
Transportation equipment	785,985	68,720	56,485	798,220
Organizational costs	<u>96,608</u>	<u>-</u>	<u>-</u>	<u>96,608</u>
Totals	<u>70,290,878</u>	<u>2,063,981</u>	<u>56,485</u>	<u>72,298,374</u>
Less accumulated depreciation for:				
Buildings	3,756,054	425,983	-	4,182,037
Improvements other than buildings	12,546,628	861,599	-	13,408,227
Machinery and equipment	887,862	126,361	-	1,014,223
Transportation equipment	553,712	51,245	56,485	548,472
Organizational costs	<u>96,608</u>	<u>-</u>	<u>-</u>	<u>96,608</u>
Totals	<u>17,840,864</u>	<u>1,465,188</u>	<u>56,485</u>	<u>19,249,567</u>
Total capital assets, being depreciated, net	<u>52,450,014</u>	<u>598,793</u>	<u>-</u>	<u>53,048,807</u>
Total capital assets, net	<u>\$ 54,479,089</u>	<u>\$ 1,136,724</u>	<u>\$ 1,744,650</u>	<u>\$ 53,871,163</u>
2006:				
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 740,004	\$ 483	\$ -	\$ 740,487
Construction in progress	<u>82,352</u>	<u>1,050,905</u>	<u>474,465</u>	<u>658,792</u>
Total capital assets, not being depreciated	<u>822,356</u>	<u>1,051,388</u>	<u>474,465</u>	<u>1,399,279</u>

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
2006: (continued)				
Water Utility (continued):				
Capital assets, being depreciated:				
Buildings	14,962,467	-	-	14,962,467
Improvements other than buildings	54,915,056	742,599	-	55,657,655
Machinery and equipment	1,526,023	28,359	-	1,554,382
Transportation equipment	798,220	40,568	34,077	804,711
Organizational costs	96,608	-	-	96,608
	<u>72,298,374</u>	<u>811,526</u>	<u>34,077</u>	<u>73,075,823</u>
Totals				
Less accumulated depreciation for:				
Buildings	4,182,037	426,310	-	4,608,347
Improvements other than buildings	13,408,227	880,682	-	14,288,909
Machinery and equipment	1,014,223	124,913	-	1,139,136
Transportation equipment	548,472	64,989	34,077	579,384
Organizational costs	96,608	-	-	96,608
	<u>19,249,567</u>	<u>1,496,894</u>	<u>34,077</u>	<u>20,712,384</u>
Totals				
Total capital assets, being depreciated, net	<u>53,048,807</u>	<u>(685,368)</u>	<u>-</u>	<u>52,363,439</u>
Total capital assets, net	<u>\$ 53,871,163</u>	<u>\$ 366,020</u>	<u>\$ 474,465</u>	<u>\$ 53,762,718</u>
2005:				
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 78,522	\$ 10	\$ -	\$ 78,532
Construction in progress	9,380,521	261,954	9,642,475	-
	<u>9,459,043</u>	<u>261,964</u>	<u>9,642,475</u>	<u>78,532</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	2,288,340	-	-	2,288,340
Improvements other than buildings	3,523,050	9,679,693	-	13,202,743
Machinery and equipment	107,850	2,458	-	110,308
Transportation equipment	119,388	-	15,171	104,217
Organizational costs	16,319	-	-	16,319
	<u>6,054,947</u>	<u>9,682,151</u>	<u>15,171</u>	<u>15,721,927</u>
Totals				

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
2005 (continued):				
Wastewater Utility (continued):				
Less accumulated depreciation for:				
Buildings	1,267,268	58,806	-	1,326,074
Improvements other than buildings	1,777,222	88,279	-	1,865,501
Machinery and equipment	73,049	16,055	-	89,104
Transportation equipment	66,573	9,257	15,171	60,659
Organizational costs	9,792	408	-	10,200
Totals	3,193,904	172,805	15,171	3,351,538
Total capital assets, being depreciated, net	2,861,043	9,509,346	-	12,370,389
Total capital assets, net	\$ 12,320,086	\$ 9,771,310	\$ 9,642,475	\$ 12,448,921
2006:				
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 78,532	\$ 24	\$ -	\$ 78,556
Construction in progress	-	109,405	98,376	11,029
Total capital assets, not being depreciated	78,532	109,429	98,376	89,585
Capital assets, being depreciated:				
Buildings	2,288,340	14,977	-	2,303,317
Improvements other than buildings	13,202,743	132,197	-	13,334,940
Machinery and equipment	110,308	65,649	12,300	163,657
Transportation equipment	104,217	-	-	104,217
Organizational costs	16,319	-	-	16,319
Totals	15,721,927	212,823	12,300	15,922,450
Less accumulated depreciation for:				
Buildings	1,326,074	58,150	-	1,384,224
Improvements other than buildings	1,865,501	324,167	-	2,189,668
Machinery and equipment	89,104	16,055	12,300	92,859
Transportation equipment	60,659	9,749	-	70,408
Organizational costs	10,200	408	-	10,608
Totals	3,351,538	408,529	12,300	3,747,767
Total capital assets, being depreciated, net	12,370,389	(195,706)	-	12,174,683
Total capital assets, net	\$ 12,448,921	\$ (86,277)	\$ 98,376	\$ 12,264,268

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The capital asset "other property" that was included in the prior audit report has been reclassified as "land held for resale" on the Statement of Net Assets which more accurately describes the asset.

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

2005:	
Water	\$ 1,465,188
Wastewater	<u>172,805</u>
Total depreciation expense	<u>\$ 1,637,993</u>
2006:	
Water	\$ 1,496,894
Wastewater	<u>408,529</u>
Total depreciation expense	<u>\$ 1,905,423</u>

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Wastewater Factory Lift Station	\$ 11,029	\$ 11,029	\$ -	\$ -
Water Phase VII	12,859	12,859	-	-
Water Pike County Tank	5,411	5,411	-	-
Water Dubois Water	100,909	100,909	-	-
Water Ireland Tank	1,343	1,343	-	-
Water Branchville Line	450,826	450,826	-	-
Water Ferdinand Meter Pit	7,944	7,944	-	-
Water Treatment Plant Expansion	<u>79,500</u>	<u>79,500</u>	-	-
Totals	<u>\$ 669,821</u>	<u>\$ 669,821</u>	<u>\$ -</u>	<u>\$ -</u>

E. Long-Term Liabilities

1. Revenue Bonds

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Purpose	Interest Rates	Amount
1994 Series A Junior Waterworks Revenue Bonds, Phase VI Construction	4.50%	\$ 862,000
1994 Series B Junior Waterworks Revenue Bonds, Phase VI Construction	4.50%	1,066,000
1998 Waterworks Refunding Revenue Bonds	4.65% to 5.00%	8,330,000
2004 Waterworks Refunding Revenue Bonds	2.50% to 4.125%	6,325,000
1995 Wastewater Works Refunding Revenue Bonds	5.45%	<u>165,000</u>
Total		<u>\$ 16,748,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2007	\$ -	\$ 365,713	\$ -	\$ 4,496
2008	1,192,000	706,780	80,000	6,813
2009	1,242,000	656,345	85,000	2,316
2010	1,292,000	602,468	-	-
2011	1,347,000	544,445	-	-
2012-2016	7,785,000	1,705,269	-	-
2017-2021	2,147,000	445,224	-	-
2022-2026	500,000	312,300	-	-
2027-2031	628,000	188,550	-	-
2032-2036	<u>450,000</u>	<u>40,950</u>	-	-
Totals	<u>\$ 16,583,000</u>	<u>\$ 5,568,044</u>	<u>\$ 165,000</u>	<u>\$ 13,625</u>

2. Loans Payable

The District has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$2,361,375, \$2,613,213, \$392,350, and \$600,000 are as follows:

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Water Rural Development Loan	Wastewater Rural Development Loan	Wastewater State Revolving Fund Loan	Wastewater Loan from Dubois County
2007	\$ 56,588	\$ 50,469	\$ 24,238	\$ 24,000
2008	155,207	101,914	122,162	24,000
2009	153,273	101,866	124,450	24,000
2010	150,360	101,819	126,563	24,000
2011	151,402	101,771	123,587	24,000
2012-2016	720,240	508,144	629,288	120,000
2017-2021	693,535	506,956	627,062	120,000
2022-2026	742,300	821,061	-	120,000
2027-2031	735,155	818,494	-	1,320,000
2032-2036	732,725	816,656	-	-
2037-2041	585,590	809,063	-	-
Totals	<u>\$ 4,876,375</u>	<u>\$ 4,738,213</u>	<u>\$ 1,777,350</u>	<u>\$ 1,800,000</u>

3. Advance Refunding

In prior years, the District 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, 2006, were considered defeased:

	<u>Amount</u>
1992 Waterworks Revenue Bonds, Series A	\$ 2,495,000
1992 Waterworks Revenue Bonds	1,575,000
1993 Waterworks Revenue Bonds, Series B	620,000
1994 Waterworks Revenue Bonds, Series A	4,215,000
1996 Waterworks Revenue Bonds, Series A	4,575,000
1997 Waterworks Revenue Bonds, Series B	1,580,000
1998 Wastewater Works Revenue Refunding Bonds	271,000

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2005 and 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2005:					
Water Utility:					
Revenue bonds payable	\$ 18,827,000	\$ -	\$ 1,097,000	\$ 17,730,000	\$ -
Less unamortized discount	193,818	-	17,453	176,365	-
Less deferred amount on refunding	<u>1,700,304</u>	<u>-</u>	<u>160,606</u>	<u>1,539,698</u>	<u>-</u>
Total revenue bonds payable	16,932,878	-	918,941	16,013,937	-
Loans payable	<u>2,593,000</u>	<u>-</u>	<u>39,000</u>	<u>2,554,000</u>	<u>-</u>
Total long-term liabilities	<u>\$ 19,525,878</u>	<u>\$ -</u>	<u>\$ 957,941</u>	<u>\$ 18,567,937</u>	<u>\$ -</u>
2006:					
Water Utility:					
Revenue bonds payable	\$ 17,730,000	\$ -	\$ 1,147,000	\$ 16,583,000	\$ -
Less unamortized discount	176,365	-	17,453	158,912	-
Less deferred amount on refunding	<u>1,539,698</u>	<u>-</u>	<u>160,606</u>	<u>1,379,092</u>	<u>-</u>
Total revenue bonds payable	16,013,937	-	968,941	15,044,996	-
Loans payable	<u>2,554,000</u>	<u>-</u>	<u>39,000</u>	<u>2,515,000</u>	<u>-</u>
Total long-term liabilities	<u>\$ 18,567,937</u>	<u>\$ -</u>	<u>\$ 1,007,941</u>	<u>\$ 17,559,996</u>	<u>\$ -</u>
2005:					
Wastewater Utility:					
Revenue bonds payable	\$ 310,000	\$ -	\$ 70,000	\$ 240,000	\$ -
Less deferred amount on refunding	<u>18,855</u>	<u>-</u>	<u>4,617</u>	<u>14,238</u>	<u>-</u>
Total revenue bonds payable	291,145	-	65,383	225,762	-
Loans payable	<u>4,852,000</u>	<u>-</u>	<u>71,000</u>	<u>4,781,000</u>	<u>-</u>
Total long-term liabilities	<u>\$ 5,143,145</u>	<u>\$ -</u>	<u>\$ 136,383</u>	<u>\$ 5,006,762</u>	<u>\$ -</u>

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2006:					
Wastewater Utility (continued):					
Revenue bonds payable	\$ 240,000	\$ -	\$ 75,000	\$ 165,000	\$ -
Less deferred amount on refunding	<u>14,238</u>	<u>-</u>	<u>4,618</u>	<u>9,620</u>	<u>-</u>
Total revenue bonds payable	225,762	-	70,382	155,380	-
Loans payable	<u>4,781,000</u>	<u>-</u>	<u>71,000</u>	<u>4,710,000</u>	<u>-</u>
Total long-term liabilities	<u>\$ 5,006,762</u>	<u>\$ -</u>	<u>\$ 141,382</u>	<u>\$ 4,865,380</u>	<u>\$ -</u>

F. Restricted Assets

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

	<u>December 31 2006</u>
Water Utility:	
Bond and interest account	<u>\$ 2,855,113</u>
Wastewater Utility:	
Bond and interest account	\$ 34,297
Debt service reserve account	<u>317,373</u>
Total restricted assets	<u>\$ 351,670</u>

III. Other Information

A. Risk Management

The District 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; job related illnesses or injuries to employees; 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.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Medical Benefits to Employees, Retirees, and Dependents

The District has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$1,500 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for employee payroll. The total charge allocated to each of the funds is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred. However, claim liabilities cannot be reasonably estimated.

B. Postemployment Benefits

In addition to the pension benefits described below, the District provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the District on or after attaining age 55 with at least 15 years of service. Currently, two retirees meet these eligibility requirements. The employee receives ½% off the monthly insurance premium for each year of service (maximum of 20%) plus 1% off the monthly insurance premium for each 48 hours of unused sick leave at the time of retirement (maximum of 30%). The employee is responsible for the balance of the monthly premium. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, expenditures of \$395 were recognized for postemployment benefits.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the District on November 8, 2004. The Utility has 4,413 customers.

2. Wastewater Utility

The current rate structure was approved by the District on May 31, 2006. The Utility has 1,069 customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District 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 District authority to contribute to the plan.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 three percent 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 District's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 120,905
Interest on net pension obligation	(3,809)
Adjustment to annual required contribution	4,341
Annual pension cost	121,437
Contributions made	108,120
Increase in net pension obligation	13,317
Net pension obligation, beginning of year	(52,537)
Net pension obligation, end of year	\$ (39,220)
Contribution rates:	
District	6.50%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Assumptions	PERF
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 Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 89,979	110%	\$ (38,897)
	06-30-05	94,317	114%	(52,537)
	06-30-06	121,437	115%	(39,220)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 893,211	\$ 1,205,165	\$ (311,954)	74%	\$ 1,523,815	(20%)
07-01-05	979,089	1,478,668	(499,579)	66%	1,706,514	(29%)
07-01-06	1,312,868	1,640,275	(327,407)	80%	1,732,039	(19%)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on July 16, 2007, with Stephen Allen, Controller; Edwin H. Pieper, President of the Board; John Wade, Treasurer; and Bruce Heeke, General Manager. Our audit disclosed no material items that warrant comment at this time.