

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

FINANCIAL STATEMENTS AND  
FEDERAL SINGLE AUDIT REPORT  
PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
DUBOIS COUNTY, INDIANA  
January 1, 2012 to December 31, 2013



**FILED**  
03/13/2015



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Bruce Heeke	01-01-12 to 12-31-15
Water Transmission and Distribution Superintendent	Shawn Kluesner	01-01-12 to 12-31-15
Water Plant Superintendent	Jerry Allstott	01-01-12 to 12-31-15
Wastewater Superintendent	Troy Wheeler	01-01-12 to 12-31-15
Controller	Doug Merkel	01-01-12 to 12-31-15
Treasurer	Thomas Lamb	01-01-12 to 12-31-15
President of the Board	John Noblitt	01-01-12 to 12-31-15



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INDEPENDENT AUDITOR'S REPORT

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

***Report on the Financial Statements***

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, 2012 and 2013, and the related notes to the financial statements, which collectively comprise the District'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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 District'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 statements.

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

INDEPENDENT AUDITOR'S REPORT  
(Continued)

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2012 and 2013, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress, 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America, requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

  
Paul D. Joyce, CPA  
State Examiner

January 22, 2015



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2012 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 22, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in item 2013-001 of the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(Continued)

***Compliance and Other Matters***

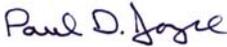
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Regional Water and Sewer District's Response to Findings***

The District's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

January 22, 2015

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## BASIC FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
STATEMENT OF NET POSITION  
As of December 31, 2012 and 2013

	2012		2013	
	Water	Wastewater	Water	Wastewater
<u>Assets</u>				
Current Assets:				
Unrestricted:				
Operating Cash and Cash Equivalents	\$ 648,915	\$ 136,824	\$ 717,565	\$ 93,600
Accounts Receivable - Customers	586,590	90,265	662,291	98,302
Accounts Receivable - Other	1,750	-	945	-
Inventories	834,219	93,811	821,008	99,934
Prepaid Items	53,030	-	46,641	-
Land Held For Resale	32,070	97,910	32,070	97,910
	<u>2,156,574</u>	<u>418,810</u>	<u>2,280,520</u>	<u>389,746</u>
Total Unrestricted Current Assets				
Restricted:				
Restricted Cash, Cash Equivalents and Investments:				
Bond and Interest Cash and Cash Equivalents	86,296	1,000	153,779	1,000
Bond and Interest Investments	-	-	1,425,540	-
Debt Service Reserve Investments	600,000	140,000	1,767,829	140,000
Improvement Cash and Cash Equivalents	1,253,205	59,324	202,982	31,700
Construction Cash and Cash Equivalents	254	-	1,350,740	-
Improvement Investments	11,980,765	2,988,292	11,194,242	3,357,564
Construction Investments	-	-	11,000,000	-
Interest Receivable	1,444	801	5,467	1,432
	<u>13,921,964</u>	<u>3,189,417</u>	<u>27,100,579</u>	<u>3,531,696</u>
Total Restricted Current Assets				
Noncurrent Assets:				
Capital Assets:				
Land, Improvements to Land, and Construction in Progress	805,683	315,238	1,450,533	314,634
Other Capital Assets (Net of Accumulated Depreciation)	65,974,495	9,900,680	64,888,549	9,603,749
	<u>66,780,178</u>	<u>10,215,918</u>	<u>66,339,082</u>	<u>9,918,383</u>
Total Capital Assets				
Total Assets	<u>82,858,716</u>	<u>13,824,145</u>	<u>95,720,181</u>	<u>13,839,825</u>
Deferred Outflows of Resources:				
Deferred Amount on Refunding	622,674	-	454,246	-
Unamortized Regulatory Assets	268,450	-	944,688	-
Unamortized Tank Painting Costs	13,842	-	6,921	-
Unamortized Treatment Plant Painting Costs	-	6,174	-	-
	<u>904,966</u>	<u>6,174</u>	<u>1,405,855</u>	<u>-</u>
Total Deferred Outflows of Resources				
Total Assets and Deferred Outflows	<u>\$ 83,763,682</u>	<u>\$ 13,830,319</u>	<u>\$ 97,126,036</u>	<u>\$ 13,839,825</u>

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
STATEMENT OF NET POSITION  
As of December 31, 2012 and 2013  
(Continued)

	2012		2013	
	Water	Wastewater	Water	Wastewater
<u>Liabilities</u>				
Current Liabilities:				
Unrestricted:				
Accounts Payable	\$ 604,295	\$ 3,470	\$ 106,738	\$ 22,504
Accrued Payroll and Withholdings Payable	44,346	4,467	60,031	5,167
Taxes Payable	12,414	-	13,023	-
Advances for Construction	8,406	6,891	42,805	-
Total Unrestricted Current Liabilities	<u>669,461</u>	<u>14,828</u>	<u>222,597</u>	<u>27,671</u>
Restricted:				
Accrued Interest Payable	-	-	132,779	-
Revenue Bonds Payable	-	-	-	-
Loans Payable	-	-	20,000	-
Contracts Payable	-	-	-	-
Total Restricted Current Liabilities	<u>-</u>	<u>-</u>	<u>152,779</u>	<u>-</u>
Total Current Liabilities	<u>669,461</u>	<u>14,828</u>	<u>375,376</u>	<u>27,671</u>
Noncurrent Liabilities:				
Unrestricted:				
Accrued Unused Sick Pay Payable	<u>334,477</u>	<u>28,140</u>	<u>360,170</u>	<u>28,663</u>
Restricted:				
Revenue Bonds Payable (net of unamortized discounts/premiums)	9,630,701	-	22,071,529	-
Loans Payable	<u>8,111,648</u>	<u>2,075,000</u>	<u>8,151,000</u>	<u>1,980,000</u>
Total Restricted Noncurrent Liabilities	<u>17,742,349</u>	<u>2,075,000</u>	<u>30,222,529</u>	<u>1,980,000</u>
Total Noncurrent Liabilities	<u>18,076,826</u>	<u>2,103,140</u>	<u>30,582,699</u>	<u>2,008,663</u>
Total Liabilities	<u>\$ 18,746,287</u>	<u>\$ 2,117,968</u>	<u>\$ 30,958,075</u>	<u>\$ 2,036,334</u>
<u>Net Position</u>				
Invested in Capital Assets, Net of Related Debt	\$ 49,942,795	\$ 8,147,092	\$ 49,853,148	\$ 7,938,383
Restricted	13,587,487	3,161,277	14,256,890	3,503,033
Unrestricted	<u>1,487,113</u>	<u>403,982</u>	<u>2,057,923</u>	<u>362,075</u>
Total Net Position	<u>\$ 65,017,395</u>	<u>\$ 11,712,351</u>	<u>\$ 66,167,961</u>	<u>\$ 11,803,491</u>

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION  
For the Twelve Months Ended December 31, 2012 and 2013

	2012		2013	
	Water	Wastewater	Water	Wastewater
<b>Operating Revenues:</b>				
Unmetered Water Revenue	\$ 741	\$ -	\$ -	\$ -
Metered Water Revenue				
Residential	2,542,896	-	2,550,197	-
Wholesale	4,784,791	-	4,687,221	-
Measured Revenue				
Residential/Commercial	-	790,548	-	802,132
Industrial	-	235,228	-	251,759
Other	42,099	17,934	44,146	17,731
<b>Total Operating Revenues</b>	<u>7,370,527</u>	<u>1,043,710</u>	<u>7,281,564</u>	<u>1,071,622</u>
<b>Operating Expenses:</b>				
Source of Supply and Expense/Collection System Expense:				
Operations and Maintenance	333,429	76,321	363,145	91,412
Transmission and Distribution	1,280,614	-	1,378,895	-
Treatment and Disposal - Operations and Maintenance	1,128,170	299,783	1,173,018	323,966
Customer Accounts	43,492	7,916	48,823	8,539
Administration and General	1,010,516	103,344	1,014,360	100,139
Depreciation and Amortization	1,742,460	430,036	2,044,328	435,869
<b>Total Operating Expenses</b>	<u>5,538,681</u>	<u>917,400</u>	<u>6,022,569</u>	<u>959,925</u>
<b>Operating Income</b>	<u>1,831,846</u>	<u>126,310</u>	<u>1,258,995</u>	<u>111,697</u>
<b>Nonoperating Revenues (Expenses):</b>				
Interest and Investment Revenue	151,113	30,256	118,971	24,175
Miscellaneous Revenue	-	-	107,308	2,155
Amortization of Bond Issue Costs	(38,661)	-	(45,126)	-
Interest Expense	(871,463)	(57,950)	(657,354)	(54,625)
Miscellaneous Expense	(226,103)	(3,507)	(1,590)	(2,660)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(985,114)</u>	<u>(31,201)</u>	<u>(477,791)</u>	<u>(30,955)</u>
<b>Income Before Contributions</b>	846,732	95,109	781,204	80,742
<b>Capital Contributions</b>	<u>1,607,398</u>	<u>2,050</u>	<u>369,362</u>	<u>10,398</u>
<b>Change in Net Position</b>	2,454,130	97,159	1,150,566	91,140
<b>Total Net Position - Beginning</b>	<u>62,563,265</u>	<u>11,615,192</u>	<u>65,017,395</u>	<u>11,712,351</u>
<b>Total Net Position - Ending</b>	<u>\$ 65,017,395</u>	<u>\$ 11,712,351</u>	<u>\$ 66,167,961</u>	<u>\$ 11,803,491</u>

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
STATEMENT OF CASH FLOWS  
For the Twelve Months Ended December 31, 2012 and 2013

	2012		2013	
	Water	Wastewater	Water	Wastewater
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers and users	\$ 7,361,518	\$ 1,042,715	\$ 7,205,480	\$ 1,065,741
Payments to Suppliers	(1,160,633)	(249,076)	(2,077,119)	(275,633)
Payments to Employees	(2,260,724)	(254,865)	(2,301,505)	(241,181)
Other Receipts (Payments)	(2,398)	(3,507)	18,526	(2,660)
<b>Net Cash Provided (Used) By Operating Activities</b>	<b>3,937,763</b>	<b>535,267</b>	<b>2,845,382</b>	<b>546,267</b>
<b>Cash Flows From Capital and Related Financial Activities:</b>				
Capital contributions	1,607,398	2,050	369,362	10,398
Acquisition and construction of capital assets	(8,473,917)	(74,753)	(1,509,118)	(132,160)
Principal Paid on Capital Debt	(9,917,000)	(95,000)	(1,635,000)	(95,000)
Interest Paid on Capital Debt	(727,711)	(57,950)	(361,772)	(54,625)
Principal Borrowed on Capital Debt	13,191,417	-	13,419,441	-
<b>Net Cash Used By Capital and Related Financing Activities</b>	<b>(4,319,813)</b>	<b>(225,653)</b>	<b>10,282,913</b>	<b>(271,387)</b>
<b>Cash Flows From Investing Activities:</b>				
Proceeds from Sales and Maturities of Investments	6,597,598	439,927	6,083,146	303,234
Purchase of Investments	(4,899,399)	(769,817)	(18,889,992)	(672,506)
Interest Received	179,676	34,817	114,948	23,544
<b>Net Cash Provided (Used) By Investing Activities</b>	<b>1,877,875</b>	<b>(295,073)</b>	<b>(12,691,898)</b>	<b>(345,728)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>1,495,825</b>	<b>14,541</b>	<b>436,397</b>	<b>(70,848)</b>
<b>Cash and Cash Equivalents, January 1</b>	<b>492,845</b>	<b>182,607</b>	<b>1,988,670</b>	<b>197,148</b>
<b>Cash and Cash Equivalents, December 31</b>	<b>\$ 1,988,670</b>	<b>\$ 197,148</b>	<b>\$ 2,425,067</b>	<b>\$ 126,300</b>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</b>				
Operating Income	\$ 1,831,846	\$ 126,310	\$ 1,258,995	\$ 111,696
<b>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:</b>				
Depreciation Expense	1,742,460	430,036	2,044,328	435,869
Bad Debt Expense	614	-	1,187	-
Nonoperating Revenue (Expense)	(2,398)	(3,507)	18,526	(504)
<b>(Increase) Decrease in Assets:</b>				
Accounts Receivable	(9,009)	(994)	(76,084)	(8,037)
Inventories	(29,191)	(12,870)	13,211	(6,124)
Prepaid Items	423	-	6,389	-
<b>(Increase) Decrease in Liabilities:</b>				
Accounts Payable	488,285	(8,021)	(497,557)	19,034
Advances for Construction	(116,226)	6,891	34,400	(6,891)
Accrued Payroll and Withholdings Payable	5,754	206	15,685	701
Compensated Absences Payable	24,050	(2,784)	25,693	523
Taxes Payable	1,155	-	609	-
<b>Total Adjustments</b>	<b>2,105,917</b>	<b>408,957</b>	<b>1,586,387</b>	<b>434,571</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 3,937,763</b>	<b>\$ 535,267</b>	<b>\$ 2,845,382</b>	<b>\$ 546,267</b>
<b>Noncash Investing, Capital and Financing Activities:</b>				
Transfer of Construction-in-Progress to Capital Asset	\$ 9,172,876	\$ 31,110	\$ 366,498	\$ 35,953
Amortization of Unamortized Bond Issue Costs	38,661	-	45,126	-
Disposal of Capital Assets Fully Depreciated	164,289	-	214,686	28,849

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 collection and treatment.

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

B. Financial Statements

Business-type activity financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; 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.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenue of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services and administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities, and Net Position

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.

Investment income, including changes in the fair value of investments, is reported as non-operating revenue in the operating statement.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

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 Position because their use is limited by applicable bond covenants.

The financial statements report \$13,921,964 and \$3,189,417 of restricted assets as of December 31, 2012, for water and wastewater, respectively, and \$27,100,579 and \$3,531,696 of restricted assets as of December 31, 2013, for water and wastewater, respectively. All of the restricted assets were restricted by enabling legislation.

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
<b>Water Utility:</b>			
Infrastructure	\$ 5,000	Straight-line	10 to 60 years
Buildings	5,000	Straight-line	10 to 40 years
Improvements other than buildings	5,000	Straight-line	10 to 60 years
Machinery and equipment	5,000	Straight-line	5 to 60 years
Transportation equipment	5,000	Straight-line	5 to 7 years
Organization Costs	5,000	Straight-line	15 years
<b>Wastewater Utility:</b>			
Buildings	5,000	Straight-line	5 to 40 years
Improvements other than buildings	5,000	Straight-line	5 to 60 years
Machinery and equipment	5,000	Straight-line	5 to 10 years
Transportation equipment	5,000	Straight-line	5 years
Organization Costs	5,000	Straight-line	40 years

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The total interest expense incurred by the District during the year ended December 31, 2012, was \$871,463 and \$57,950 for water and wastewater, respectively, and during the year ended December 31, 2013, was \$657,354 and \$54,625 for water and wastewater, respectively. None of the interest expense was included as part of the cost of capital assets under construction.

5. Deferred Outflow of Resources

The District has chosen to reflect debt issuance costs as a regulatory asset per GASB No. 62 and amortize them over the life of that debt.

6. 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. However, if the employee retires at age 65 with at least 10 years of service, the employee will be paid for their accumulated sick leave at the employee's regular rate of pay up to a maximum of \$20,000.
- 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. However, up to 4 weeks of vacation leave is permitted to be carried over to the next 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.

7. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. 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 outflow of resources and amortized over the term of the related debt.

8. Equity Classification

Equity is classified as net position and displayed in three components:

- a. Restricted Net Position – Consists of net position with constraints placed on it either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions enabling legislation.
- b. Unrestricted Net Position - All other net position amounts that do not meet the definition of "restricted."
- c. Net Investment in Capital Assets – Consists of investments in capital assets net of related debt.

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

It is the District's policy to first use restricted net position prior to the use of unrestricted net position when a disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

9. Revenues and Expenditures

Operating revenues and expenditures for the District result from providing potable water and wastewater collection and treatment services. They also include all revenues and expenditures not related to capital and related financing, noncapital financing, or investing activities.

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 District does not have a deposit policy for custodial credit risk. At December 31, 2012, the District had deposit balances in the amount of \$17,894,875 and at December 31, 2013, the District had deposit balances in the amount of \$31,436,541.

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. Capital Assets

Capital asset activity for the years ended December 31, 2012, and December 31, 2013, were as follows:

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

Water Utility: <u>2012</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 726,340	\$ -	\$ -	\$ 726,340
Construction in progress	1,330,299	7,921,920	9,172,876	79,343
<b>Total capital assets, not being depreciated</b>	<b>2,056,639</b>	<b>7,921,920</b>	<b>9,172,876</b>	<b>805,683</b>
Capital assets, being depreciated:				
Infrastructure	71,057,052	2,170,830	313,189	72,914,693
Buildings	11,137,548	3,750,511	-	14,888,059
Improvements other than buildings	8,000	-	-	8,000
Machinery and equipment	2,531,014	3,805,224	125,108	6,211,130
Transportation equipment	853,770	41,976	39,181	856,565
Organizational costs	96,608	-	-	96,608
<b>Totals</b>	<b>85,683,992</b>	<b>9,768,541</b>	<b>477,478</b>	<b>94,975,055</b>
Less accumulated depreciation for:				
Infrastructure	19,703,183	1,244,295	45,817	20,901,661
Buildings	5,940,812	278,344	-	6,219,156
Improvements other than buildings	7,200	400	-	7,600
Machinery and equipment	1,103,570	136,360	125,109	1,114,821
Transportation equipment	643,184	56,711	39,181	660,714
Organizational costs	96,608	-	-	96,608
<b>Totals</b>	<b>27,494,557</b>	<b>1,716,110</b>	<b>210,107</b>	<b>29,000,560</b>
<b>Total capital assets, being depreciated, net</b>	<b>58,189,435</b>	<b>8,052,431</b>	<b>267,371</b>	<b>65,974,495</b>
<b>Total capital assets, net</b>	<b>\$ 60,246,074</b>	<b>\$ 15,974,351</b>	<b>\$ 9,440,247</b>	<b>\$ 66,780,178</b>
<u>2013</u>				
Capital assets, not being depreciated:				
Land	\$ 726,340	\$ -	\$ -	\$ 726,340
Construction in progress	79,343	1,011,348	366,498	724,193
<b>Total capital assets, not being depreciated</b>	<b>805,683</b>	<b>1,011,348</b>	<b>366,498</b>	<b>1,450,533</b>
Capital assets, being depreciated:				
Infrastructure	72,914,693	601,732	270,404	73,246,021
Buildings	14,888,059	27,300	-	14,915,359
Improvements other than buildings	8,000	-	-	8,000
Machinery and equipment	6,211,130	443,639	226,322	6,428,447
Transportation equipment	856,565	56,432	48,196	864,801
Organizational costs	96,608	-	-	96,608
<b>Totals</b>	<b>94,975,055</b>	<b>1,129,103</b>	<b>544,922</b>	<b>95,559,236</b>
Less accumulated depreciation for:				
Infrastructure	20,901,661	1,275,350	214,073	21,962,938
Buildings	6,219,156	373,332	-	6,592,488
Improvements other than buildings	7,600	400	-	8,000
Machinery and equipment	1,114,821	329,716	116,647	1,327,890
Transportation equipment	660,714	70,244	48,195	682,763
Organizational costs	96,608	-	-	96,608
<b>Totals</b>	<b>29,000,560</b>	<b>2,049,042</b>	<b>378,915</b>	<b>30,670,687</b>
<b>Total capital assets, being depreciated, net</b>	<b>65,974,495</b>	<b>(919,939)</b>	<b>166,007</b>	<b>64,888,549</b>
<b>Total capital assets, net</b>	<b>\$ 66,780,178</b>	<b>\$ 91,409</b>	<b>\$ 532,505</b>	<b>\$ 66,339,082</b>

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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Wastewater Utility: <u>2012</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 314,634	\$ -	\$ -	\$ 314,634
Construction in progress	-	604	-	604
<b>Total capital assets, not being depreciated</b>	<b>314,634</b>	<b>604</b>	<b>-</b>	<b>315,238</b>
Capital assets, being depreciated:				
Buildings	2,364,287	-	-	2,364,287
Improvements other than buildings	13,336,936	55,562	-	13,392,498
Machinery and equipment	125,325	-	-	125,325
Transportation equipment	139,503	18,588	-	158,091
Organizational costs	16,319	-	-	16,319
<b>Totals</b>	<b>15,982,370</b>	<b>74,150</b>	<b>-</b>	<b>16,056,520</b>
Less accumulated depreciation for:				
Buildings	1,686,725	62,876	-	1,749,601
Improvements other than buildings	3,836,182	345,331	-	4,181,513
Machinery and equipment	117,423	5,682	-	123,105
Transportation equipment	79,001	9,564	-	88,565
Organizational costs	12,648	408	-	13,056
<b>Totals</b>	<b>5,731,979</b>	<b>423,861</b>	<b>-</b>	<b>6,155,840</b>
<b>Total capital assets, being depreciated, net</b>	<b>10,250,391</b>	<b>(349,711)</b>	<b>-</b>	<b>9,900,680</b>
<b>Total capital assets, net</b>	<b>\$ 10,565,025</b>	<b>\$ (349,107)</b>	<b>\$ -</b>	<b>\$ 10,215,918</b>
<u>2013</u>				
Capital assets, not being depreciated:				
Land	\$ 314,634	\$ -	\$ -	\$ 314,634
Construction in progress	604	35,349	35,953	-
<b>Total capital assets, not being depreciated</b>	<b>315,238</b>	<b>35,349</b>	<b>35,953</b>	<b>314,634</b>
Capital assets, being depreciated:				
Buildings	2,364,287	56,334	-	2,420,621
Improvements other than buildings	13,392,498	66,430	-	13,458,928
Machinery and equipment	125,325	10,000	32,034	103,291
Transportation equipment	158,091	20,400	17,215	161,276
Organizational costs	16,319	-	-	16,319
<b>Totals</b>	<b>16,056,520</b>	<b>153,164</b>	<b>49,249</b>	<b>16,160,435</b>
Less accumulated depreciation for:				
Buildings	1,749,601	62,877	-	1,812,478
Improvements other than buildings	4,181,513	349,211	-	4,530,724
Machinery and equipment	123,105	3,917	32,034	94,988
Transportation equipment	88,565	33,682	17,215	105,032
Organizational costs	13,056	408	-	13,464
<b>Totals</b>	<b>6,155,840</b>	<b>450,095</b>	<b>49,249</b>	<b>6,556,686</b>
<b>Total capital assets, being depreciated, net</b>	<b>9,900,680</b>	<b>(296,931)</b>	<b>-</b>	<b>9,603,749</b>
<b>Total capital assets, net</b>	<b>\$ 10,215,918</b>	<b>\$ (261,582)</b>	<b>\$ 35,953</b>	<b>\$ 9,918,383</b>

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

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

	2012	2013	
Water	\$ 1,716,108	\$ 2,049,042	
Wastewater	423,862	450,095	
Total depreciation expense	\$ 2,139,970	\$ 2,499,137	

C. Construction Commitments

Construction work in progress is composed of the following:

Project	2012		2013	
	Expended to December 31	Committed	Expended to December 31	Committed
Water Utility:				
Pike County Tank	\$ 48,866	\$ 37,500	\$ 48,866	\$ 37,500
Ireland Tank	1,342	-	1,342	-
Baseline Road Tank	4,519	330,275	113,039	2,339,480
Booster Stn 1 Pump Upgrade	4,097	-	-	-
New Panel Oakland City	5,252	-	-	-
SR 150 CR 225 Reloc	15,266	-	-	-
Santine Road Relocation	-	-	24,902	-
Phase VIII Water Plt Expans	-	882,541	366,941	8,410,278
Phase VIII Ph I Main Reinf	-	1,282,168	169,103	1,114,648
Wastewater Utility:				
Lechner Line Extension	604	-	-	-
Totals	\$ 79,946	\$ 2,532,484	\$ 724,193	\$ 11,901,906

D. 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  
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Purpose	Interest Rates	Balance at December 31	Less: Unamortized (Premium) Discount	Amount
2008 Waterworks Refunding Revenue Bonds	3.50 to 4.00%	\$ 1,075,000	\$ (5,437)	\$ 1,080,437
2012a Waterworks Refunding Revenue Bonds	1.450%	4,960,000	-	4,960,000
2012b Waterworks Refunding Revenue Bonds	2.90 to 3.30%	1,975,000	-	1,975,000
2013 Waterworks Revenue Bonds	3.00 to 4.75%	<u>14,000,000</u>	<u>(56,092)</u>	<u>14,056,092</u>
Totals		<u>\$ 22,010,000</u>	<u>\$ (61,529)</u>	<u>\$ 22,071,529</u>

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility	
	Principal	Interest
2014	\$ -	\$ 424,045
2015	1,695,000	736,777
2016	1,745,000	698,131
2017	1,770,000	672,647
2018	565,000	652,347
2019-2023	3,025,000	3,018,915
2024-2028	3,500,000	2,460,948
2029-2033	4,215,000	1,709,002
2034-2038	4,500,000	759,708
2039-2043	<u>995,000</u>	<u>23,631</u>
Totals	<u>\$ 22,010,000</u>	<u>\$ 11,156,151</u>

2. Loans Payable

The District has entered into loans. Annual debt service requirements to maturity for the loans, including interest of \$7,060,111, \$113,225, and \$432,000, are as follows:

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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	Water Rural Development Loan	Wastewater State Revolving Fund Loan	Wastewater Loan from Dubois County
2014	\$ 285,233	\$ 127,300	\$ 24,000
2015	284,583	128,800	24,000
2016	284,916	125,125	24,000
2017	285,217	126,450	24,000
2018	325,820	127,600	24,000
2019-2023	1,624,239	257,950	120,000
2024-2028	1,623,964	-	120,000
2029-2033	1,622,862	-	1,272,000
2034-2038	2,260,842	-	-
2039-2043	2,858,644	-	-
2040-2044	3,146,749	-	-
2049-2053	628,042	-	-
Totals	<u>\$ 15,231,111</u>	<u>\$ 893,225</u>	<u>\$ 1,632,000</u>

3. Advance Refunding

On November 27, 2012, the District issued \$7,535,000 in refunding revenue bonds for the Water Utility with an average interest rate of 2.37% to advance refund \$1,918,000 of outstanding 1994 Series A Junior Waterworks Revenue Bonds with an average interest rate of 4.5%, \$2,291,000 of outstanding USDA Rural Development loans with an average interest rate of 4.5% and \$4,685,000 of outstanding 2004 Waterworks Refunding Revenue Bonds with an average interest rate of 3.94%. The net proceeds of \$7,286,417 (after payment of \$154,963 in issuance costs and \$93,620 in Underwriter's discount and placement fee) and local contributions of \$1,835,741 were used to purchase government securities. \$4,209,000 was paid to the USDA as early payoff on the 1994 bonds and the loan and \$4,685,000 of securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 bonds. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position. The refunding resulted in the accounting loss of \$343,756 which has been recognized on the Statement of Net Position as deferral of loss on refunding. This amount will be amortized using the straight-line method and charged to interest expense over the next 25 years. The District in effect decreased its aggregate debt service payment by \$118,343 over the next 25 years and recognized an economic gain (difference between the present values of the old and new debt service payments) of \$1,077,613.

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, 2013, were considered defeased:

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	Amount
1994 Waterworks Revenue Bonds, Series A	\$ 2,445,000
1996 Waterworks Revenue Bonds, Series A	3,550,000
1997 Waterworks Revenue Bonds, Series B	685,000
2004 Waterworks Revenue Bonds, Series A	4,325,000

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012 and 2013, were as follows:

<u>Water Utility:</u> <u>2012</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	\$ 9,718,000	\$ 7,535,000	\$ 7,608,000	\$ 9,645,000	\$ -
Less: unamortized discount	48,215	25,173	48,215	25,173	-
Plus: unamortized premium	16,311	-	5,437	10,874	-
Total revenue bonds payable	9,686,096	7,509,827	7,565,222	9,630,701	-
Loans payable	4,515,648	5,905,000	2,309,000	8,111,648	-
Accrued Unused Sick Pay Payable	310,426	24,051	-	334,477	-
Total Long-term liabilities	<u>\$ 14,512,170</u>	<u>\$ 13,438,878</u>	<u>\$ 9,874,222</u>	<u>\$ 18,076,826</u>	<u>\$ -</u>
 <u>2013</u>					
Revenue bonds payable	\$ 9,645,000	\$ 14,000,000	\$ 1,635,000	\$ 22,010,000	\$ -
Less: unamortized discount	25,173	-	25,173	-	-
Plus: unamortized premium	10,874	56,280	5,625	61,529	-
Total revenue bonds payable	9,630,701	14,056,280	1,615,452	22,071,529	-
Loans payable	8,111,648	59,352	-	8,171,000	20,000
Accrued Unused Sick Pay Payable	334,477	25,693	-	360,170	-
Total Long-term liabilities	<u>\$ 18,076,826</u>	<u>\$ 14,141,325</u>	<u>\$ 1,615,452</u>	<u>\$ 30,602,699</u>	<u>\$ 20,000</u>
 <u>Wastewater Utility:</u> <u>2012</u>					
Loans payable	\$ 2,170,000	\$ -	\$ 95,000	\$ 2,075,000	\$ -
Accrued Unused Sick Pay Payable	30,925	-	2,785	28,140	-
Total Long Term Liabilities	<u>\$ 2,200,925</u>	<u>\$ -</u>	<u>\$ 97,785</u>	<u>\$ 2,103,140</u>	<u>\$ -</u>
 <u>2013</u>					
Loans payable	\$ 2,075,000	\$ -	\$ 95,000	\$ 1,980,000	\$ -
Accrued Unused Sick Pay Payable	28,140	523	-	28,663	-
Total Long Term Liabilities	<u>\$ 2,103,140</u>	<u>\$ 523</u>	<u>\$ 95,000</u>	<u>\$ 2,008,663</u>	<u>\$ -</u>

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

Accrued Unused Sick Pay Payable has been liquidated with current assets - operating cash and cash equivalents in prior years.

E. Restricted Assets

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

	<u>2012</u>	<u>2013</u>
Water Utility:		
Bond and interest	\$ 86,296	\$ 1,579,319
Debt service reserve	600,000	1,767,829
Improvement	13,235,414	11,402,691
Construction	<u>254</u>	<u>12,350,740</u>
Total restricted assets	<u>\$ 13,921,964</u>	<u>\$ 27,100,579</u>
Wastewater Utility:		
Bond and interest	\$ 1,000	\$ 1,000
Debt service reserve	140,000	140,000
Improvement	<u>3,048,417</u>	<u>3,390,696</u>
Total restricted assets	<u>\$ 3,189,417</u>	<u>\$ 3,531,696</u>

F. Revenues Pledged

Water Utility Revenues Pledged

The District has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2008. Proceeds from the bonds provided financing for refunding of the 1998 bonds that were originally issued to finance treatment plant improvements. The bonds are payable solely from water net revenues and are payable through 2015. Annual principal and interest payments are expected to require 34 % of net revenues.

The District has pledged future water revenues, net of specified operating expenditures, to repay revenues bonds issued in 2012. Proceeds from the bonds provided financing for refunding of the 1994 bonds originally issued to finance Phase IV improvements, the 2000 USDA loan originally issued to finance Phase VI improvements, and the 2004 bonds originally issued to refund the 1996 and 1997 bonds originally issued to finance Phase V and V-A improvements. The bonds are payable solely from water net revenues and are payable through 2037. Annual principal and interest payments are expected to require 6% to 57% of net revenues.

The District has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2013. Proceeds from the bonds provided financing for Phase VIII improvements. The bonds are payable solely from water net revenues and are payable through 2038. Annual principal and interest payments are expected to require 4% to 32% of net revenues.

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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 3 years. There were no significant reductions in insurance by major category of risk.

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 accounted for in the Water Operating Fund. An excess policy through commercial insurance covers individual claims in excess of \$7,000 for single plans and \$14,000 for family plans per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past two years.

B. Subsequent Events

Phase VIII Water Project

The District is in the process of the Phase VIII water project which is divided into four divisions. Division I is water treatment expansion going from maximum treatment capacity of 10,000,000 gallon per day to 15,000,000 gallon per day. Division II is a 1,000,000 gallon elevated water storage tank. Division III and IV are transmission/distribution improvements. The project has been financed with a revenue bond issue of \$14,000,000 that was closed on December 5, 2013, and a second revenue bond issue of \$13,000,000 that was closed on November 19, 2014.

Bids were awarded on December 9, 2013, to Mitchell and Stark Construction Co., Inc., in the amount of \$7,796,000 for Division I water treatment expansion and to Mid-Atlantic Storage Solutions, Inc., in the amount of \$2,143,000 for Division II elevated water storage tank. Division I is scheduled for completion in April 2015, and Division II is scheduled for completion in January 2015. Bids were awarded on June 9, 2014, to Reed and Sons Construction Co., Inc., in the amount of \$683,841 for Division IV main reinforcement to the north and on December 8, 2014, to Infrastructure Systems, Inc., in the amount of \$10,262,000 for Division III main reinforcement of Phase I. Division IV is scheduled to be completed January 2015 and Division III is scheduled to be completed December 2015.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the District on May 12, 2008. The Utility has 4,987 customers.

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

2. Wastewater Utility

The current rate structure was approved by the District on May 31, 2006. The Utility has 1,088 customers.

D. Pension Plan

Public Employees' Retirement Fund Plan Description

The District contributes to the Indiana Public Retirement System (INPRS), a defined benefit pension plan. INPRS 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 INPRS Board, most requirements of the system and give the District authority to contribute to the plan. The INPRS 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.

INPRS 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:

Indiana Public Retirement System  
One North Capitol Street, Suite 001  
Indianapolis, IN 46204  
[www.inprs.in.gov](http://www.inprs.in.gov)  
Ph. (317) 233-4162

Funding Policy

INPRS members are required to contribute 3 percent of their annual covered salary. The District is required to contribute at an actuarially determined rate; the current rate is 10.0 percent of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the INPRS Board of Trustees.

Annual Pension Cost

For 2013, the District's annual pension cost of \$189,034 for INPRS was equal to the District's required and actual contributions.

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 193,743
Interest of 6.75% on 06-30-12 net pension obligation	4,683
Adjustment to annual required contribution	(5,451)
Annual pension cost	192,975
Contributions made 07-01-12 to 06-30-13	185,486
Increase in net pension obligation	7,489
Net pension obligation, as of 06-30-12	69,373
Net pension obligation, as of 06-30-13	\$ 76,862

Contribution rates:	
Government	10.00%
Plan members	3%
Actuarial valuation date	06-30-13
Actuarial cost method	Entry age normal cost - level percent of payroll
Amortization method	Level dollar, closed amortization period
Amortization period	30 years
Amortization period (from date)	07-01-13
Asset valuation method	4 year smoothing of gains/losses on market value with a 20% corridor

Actuarial Assumptions	PERF
Investment rate of return	6.75%
Projected future salary increases:	Age-based rates ranging from 3.25% - 4.5%, based on 2005-2010 experience
Cost-of-living adjustments	1.0%

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Employer Contribution	Percentage of APC Contributed	Net Pension Obligation
INPRS	06-30-11	\$ 188,948	\$ 105,688	56%	\$ 24,253
	06-30-12	200,674	155,554	78%	69,373
	06-30-13	192,975	185,486	96%	76,862

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date is as follows:

Retirement Plan	Actuarial Value of Plan Asset ("AVA") (a)	Actuarial Accrued Liability ("AAL") Entry Age (b)	AVA Excess/ (Shortfall) (AVA- AAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	AVA Excess/ (Shortfall) as a % of Covered Payroll ((b-a)/c)
06-30-13	<u>\$ 1,483,335</u>	<u>\$ 2,921,853</u>	<u>\$(1,438,518)</u>	51%	<u>\$1,935,901</u>	74%

The Schedule of Funding Progress, presented as RSI for the above plans following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

E. VEBA Trust

The District established a Voluntary Employees' Benefit Association (VEBA) trust on January 1, 1998, to provide for the payment of life, sickness, accident or other benefits to employees as members of such association or their dependents or designated beneficiaries of the trust.

The trust is funded from reserves set aside in previous years for this purpose, District contributions, and reinvested net earnings. A summary of the activity in the trust for the years ending December 31, 2012 and 2013, is as follows:

	2012	2013
Beginning fund balance January 1	\$ 175,743	\$ 176,399
Transfer of employer contributions	-	-
Disbursements	-	-
Reinvested net earnings	<u>656</u>	<u>348</u>
Ending fund balance December 31	<u>\$ 176,399</u>	<u>\$ 176,747</u>

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Retirement Plan	Actuarial Value of Plan Asset ("AVA") (a)	Actuarial Accrued Liability ("AAL") Entry Age (b)	AVA Excess/ (Shortfall) (AVA-AAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	AVA Excess/ (Shortfall) as a % of Covered Payroll ((b-a)/c)
06-30-06	\$ 1,312,868	\$ 1,640,275	\$ (327,407)	80%	\$ 1,732,039	19%
06-30-07	1,422,398	1,761,601	(339,203)	81%	1,781,900	19%
06-30-08	1,576,708	2,000,396	(423,688)	79%	1,790,938	24%
06-30-09	1,761,487	2,283,158	(521,671)	77%	1,953,224	27%
06-30-10	1,410,646	2,402,656	(992,010)	59%	1,883,750	53%
06-30-11	1,165,905	2,435,085	(1,269,180)	48%	1,893,412	67%
06-30-12	1,184,727	2,790,074	(1,605,347)	42%	1,955,438	82%
06-30-13	1,483,335	2,921,853	(1,438,518)	51%	1,935,901	74%

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

***Report on Compliance for the Major Federal Program***

We have audited the Patoka Lake Regional Water and Sewer District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the years ended December 31, 2012 and 2013. The District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on the Major Federal Program***

In our opinion, the District complied in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the years ended December 31, 2012 and 2013.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

***Report on Internal Control Over Compliance***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

January 22, 2015

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

The Schedule of Expenditures of Federal Awards and accompanying note presented were prepared by management of the District. The schedule and note are presented as intended by the District.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Years Ended December 31, 2012 and 2013

Federal Grantor Agency/ Pass-Through Entity <u>Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Entity (or Other) Identifying Number</u>	<u>Total Federal Awards Expended 12-31-12</u>	<u>Total Federal Awards Expended 12-31-13</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Program Cluster				
ARRA - Water and Waste Disposal				
Systems for Rural Communities	10.781	IN-703-91-26	\$ 5,905,000	\$ 59,352
Total federal awards expended			<u>\$ 5,905,000</u>	<u>\$ 59,352</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

***Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Patoka Lake Regional Water and Sewer District (primary government) and is presented in conformity with accounting principles generally accepted in the United States of America which is the basis of accounting used in the presentation of the financial statements. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of <i>OMB Circular A-133</i> ?	no

Identification of Major Program:

\_\_\_\_\_ Name of Federal Program or Cluster \_\_\_\_\_

Water and Waste Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	no

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section II - Financial Statement Findings**

**FINDING 2013-001 - INTERNAL CONTROLS OVER REPORTING**

We noted a deficiency in the internal control system of the District related to reporting. We believe the following deficiency constitutes a material weakness. The Controller prepares the financial statements and notes from the detailed trial balance report with no review or approval by any other employees or the governing board. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the District's financial statements and then determining how those identified risks should be managed. The District has not identified risks to the preparation of reliable financial statements and, as a result, has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including the notes to the financial statements.

During the audit of the financial statements and notes to the financial statements, we noted several errors that occurred as a result of the lack of controls.

Audit adjustments were proposed to and accepted by the District and made to the financial statements and notes to the financial statements presented in this report.

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.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

**Section III - Federal Award Findings and Questioned Costs**

No matters are reportable.

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AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the District. The document is presented as intended by the District.



## Patoka Lake Regional Water & Sewer District

2647 N SR 545, Dubois, Indiana 47527-9750  
Phone: 812-678-5781 Fax: 812-678-2250

### CORRECTIVE ACTION PLAN

#### **FINDING 2013-001**

Contact Person Responsible for Corrective Action: Doug Merkel, Controller  
Contact Phone Number: 812-678-8304

#### Description of Corrective Action Plan:

The District understands the need and benefit of strong internal controls. Going forward with the 2014 financial statements and every year thereafter, the District will contract the District's financial advisor, HJ Umbaugh & Assoc. to provide training and assist management to conduct an annual review of the financial statements and accompanying notes prior to release to the Indiana State Board of Accounts and other parties. Any adjustments found will be documented and corrected by the District and be communicated and accepted by management. The adjustments will be incorporated into the financials statements prior to final presentation.

Anticipated Completion Date: Annually, by February 28.

A handwritten signature in blue ink, appearing to read "Doug Merkel", is written above a horizontal line.

(Signature)

The word "CONTROLLER" is handwritten in blue, all-caps letters above a horizontal line.

(Title)

#### OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the District. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.