

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

EXAMINATION REPORT  
OF  
PATOKA LAKE REGIONAL WATER  
AND SEWER DISTRICT  
DUBOIS COUNTY, INDIANA  
January 1, 2007 to December 31, 2009



**FILED**  
12/28/2010



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Bruce A. Heeke	01-01-07 to 12-31-10
Water Transmission and Distribution Superintendent	Shawn Kluesner	01-01-07 to 12-31-10
Water Plant Superintendent	Jerry Allstott	01-01-07 to 12-31-10
Wastewater Plant Superintendent	Shawn Kluesner Troy Wheeler	01-01-07 to 12-31-08 01-01-09 to 12-31-10
Controller	Stephen Allen Doug Merkel	01-01-07 to 09-25-09 09-26-09 to 12-31-10
Treasurer	John Wade	01-01-07 to 12-31-10
President of the Board	Edwin H. Pieper	01-01-07 to 12-31-10



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows of the Patoka Lake Regional Water and Sewer District (District), for the period of January 1, 2007 to December 31, 2009. The District's management is responsible for the financial statement presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statement presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial statement of the District for the years ended December 31, 2007, 2008, and 2009, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

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 examine the information and express no opinion on it.

The District has not presented Management's Discussion and Analysis 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

October 20, 2010

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
STATEMENT OF NET ASSETS  
December 31, 2007, 2008, And 2009

	2007		2008		2009	
	Water	Wastewater	Water	Wastewater	Water	Wastewater
<b>Assets</b>						
Current assets:						
Operating cash and cash equivalents	\$ 589,545	\$ 97,863	\$ 622,701	\$ 101,629	\$ 649,521	\$ 107,111
Improvement cash and cash equivalents	183,659	89,612	2,282	232,772	276,909	119,127
Improvement Investments	9,800,000	2,399,000	10,600,000	2,599,000	11,500,000	3,150,000
Construction Investments	-	750,000	-	750,000	-	800,000
Interest receivable	71,038	25,027	78,847	33,214	58,983	22,371
Accounts receivable (net of allowance) - customers	489,377	88,950	596,414	92,487	538,652	90,090
Accounts receivable - other	938	-	-	-	723	-
Inventories	634,313	79,721	640,144	75,233	707,631	75,864
Prepaid items	3,028	-	14,467	-	69,337	4,194
Land held for resale	35,030	106,948	35,030	106,948	33,550	102,429
<b>Total current assets</b>	<b>11,806,928</b>	<b>3,637,121</b>	<b>12,589,885</b>	<b>3,991,283</b>	<b>13,835,306</b>	<b>4,471,186</b>
Noncurrent assets:						
Restricted cash, cash equivalents and investments:						
Bond and interest cash and investments	232,831	55,140	6,723	66,216	93,422	93,372
Debt service reserve cash and investments	2,230,247	316,373	1,784,700	317,373	1,784,700	217,373
Interest receivable	12,563	3,198	13,512	3,008	4,236	1,820
<b>Total restricted assets:</b>	<b>2,475,641</b>	<b>374,711</b>	<b>1,804,935</b>	<b>386,597</b>	<b>1,882,358</b>	<b>312,565</b>
Deferred charges:						
Unamortized bond issue costs	223,061	3,692	271,532	-	232,139	-
Unamortized tank painting costs	185,263	-	148,996	-	112,728	-
Unamortized treatment plant painting costs	-	37,047	-	30,872	-	24,698
<b>Total deferred charges</b>	<b>408,324</b>	<b>40,739</b>	<b>420,528</b>	<b>30,872</b>	<b>344,867</b>	<b>24,698</b>
Capital assets:						
Land and construction in progress	1,266,331	83,797	1,170,114	78,632	1,621,179	78,644
Other capital assets (net of accumulated depreciation)	52,317,976	11,866,201	51,816,218	11,554,626	50,454,355	11,181,498
<b>Total capital assets</b>	<b>53,584,307</b>	<b>11,949,998</b>	<b>52,986,332</b>	<b>11,633,258</b>	<b>52,075,534</b>	<b>11,260,142</b>
<b>Total noncurrent assets</b>	<b>56,468,272</b>	<b>12,365,448</b>	<b>55,211,795</b>	<b>12,050,727</b>	<b>54,302,759</b>	<b>11,597,405</b>
<b>Total assets</b>	<b>68,275,200</b>	<b>16,002,569</b>	<b>67,801,680</b>	<b>16,042,010</b>	<b>68,138,065</b>	<b>16,068,591</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	212,609	11,325	175,029	10,529	76,814	7,944
Accrued payroll and withholdings payable	45,891	5,025	65,828	6,904	65,834	7,205
Taxes payable	9,616	-	11,046	-	10,788	-
Advances for construction	17,386	1,750	33,075	2,013	403,593	-
<b>Total current liabilities</b>	<b>285,502</b>	<b>18,100</b>	<b>284,978</b>	<b>19,446</b>	<b>557,029</b>	<b>15,149</b>
Noncurrent liabilities:						
Revenue bonds payable (net of unamortized discounts, premiums and deferred amount on refunding)	14,031,055	79,997	12,275,733	-	11,234,522	-
Loans payable	2,472,000	4,634,000	2,429,000	4,553,000	2,387,000	4,467,000
<b>Total noncurrent liabilities</b>	<b>16,503,055</b>	<b>4,713,997</b>	<b>14,704,733</b>	<b>4,553,000</b>	<b>13,621,522</b>	<b>4,467,000</b>
<b>Total liabilities</b>	<b>16,788,557</b>	<b>4,732,097</b>	<b>14,989,711</b>	<b>4,572,446</b>	<b>14,178,551</b>	<b>4,482,149</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	35,721,307	7,230,998	37,023,332	7,080,258	37,386,534	6,793,142
Restricted for debt service	2,463,078	371,513	1,791,423	383,589	1,878,122	310,745
Unrestricted	13,302,258	3,667,961	13,997,214	4,005,717	14,694,858	4,482,555
<b>Total net assets</b>	<b>\$ 51,486,643</b>	<b>\$ 11,270,472</b>	<b>\$ 52,811,969</b>	<b>\$ 11,469,564</b>	<b>\$ 53,959,514</b>	<b>\$ 11,586,442</b>

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 OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Years Ended December 31, 2007, 2008, And 2009

	2007		2008		2009	
	Water	Wastewater	Water	Wastewater	Water	Wastewater
Operating revenues:						
Unmetered water revenue	\$ 3,094	\$ -	\$ -	\$ -	\$ 760	\$ -
Metered water revenue:						
Residential	2,336,357	-	2,338,710	-	2,308,985	-
Wholesale	4,071,054	-	4,231,293	-	4,215,988	-
Measured revenue:						
Residential/commercial	-	795,950	-	830,054	-	808,635
Industrial	-	200,732	-	226,328	-	225,778
Other	126,847	20,809	99,326	19,021	109,098	20,675
<b>Total operating revenues</b>	<b>6,537,352</b>	<b>1,017,491</b>	<b>6,669,329</b>	<b>1,075,403</b>	<b>6,634,831</b>	<b>1,055,088</b>
Operating expenses:						
Source of supply and expense/collection system expense:						
Operations and maintenance:						
Purchased water	80,231	-	81,209	-	78,044	-
Purchased power	158,528	32,494	166,998	35,938	195,883	43,263
Materials and supplies	-	1,319	-	-	-	244
Maintenance	25,330	54,936	9,356	38,069	42,729	32,377
Transmission and distribution:						
Salaries and wages	726,246	-	852,658	-	877,828	-
Storage facilities expense	1,748	-	3,069	-	3,196	-
Purchased power	60,527	-	65,705	-	68,333	-
Materials and supplies	74,007	-	69,548	-	72,722	-
Transportation expense	78,338	-	106,091	-	81,061	-
Maintenance	166,644	-	300,109	-	165,224	-
Other	8,500	-	8,500	-	8,500	-
Treatment and disposal - operations and maintenance:						
Salaries and wages	493,901	163,582	517,262	157,658	537,975	178,229
Chemicals	179,341	-	210,797	-	223,264	-
Purchased power	164,562	48,629	174,656	55,156	195,258	60,673
Materials and supplies	30,912	53,995	33,987	57,989	35,021	85,846
Transportation expense	7,151	-	5,722	-	4,740	-
Maintenance	14,740	21,806	10,486	15,156	53,118	26,725
Other	-	9,304	-	7,747	-	10,447
Customer accounts	41,776	6,201	41,670	2,005	42,919	7,464
Administration and general:						
Salaries and wages	217,050	11,026	263,327	9,305	301,749	14,932
Employee pension and benefits	461,543	51,481	517,000	47,210	521,117	50,274
Materials and supplies	30,492	2,244	43,567	1,920	34,605	2,279
Contractual services	17,868	-	30,233	-	16,801	-
Transportation expense	4,276	-	4,091	-	2,405	-
Insurance expense	60,295	14,132	60,136	13,602	60,326	13,085
Depreciation and amortization	1,516,883	423,237	1,524,477	426,626	1,553,277	433,343
Miscellaneous expense	40,287	16,712	87,672	14,101	84,469	12,409
<b>Total operating expenses</b>	<b>4,661,176</b>	<b>911,098</b>	<b>5,188,326</b>	<b>882,482</b>	<b>5,260,564</b>	<b>971,590</b>
<b>Operating income</b>	<b>1,876,176</b>	<b>106,393</b>	<b>1,481,003</b>	<b>192,921</b>	<b>1,374,267</b>	<b>83,498</b>
Nonoperating revenues (expenses):						
Interest and investment revenue	693,535	181,837	642,821	178,356	512,087	147,882
Miscellaneous revenue	38,164	-	11,981	1,752	12,347	49,440
Amortization of bond issue costs	(26,842)	(3,407)	(32,595)	(3,692)	(39,393)	-
Interest expense	(1,022,569)	(187,023)	(907,553)	(180,375)	(828,212)	(167,892)
Miscellaneous expense	(2,579)	(4,686)	(2,579)	(4,686)	(2,852)	(4,600)
<b>Total nonoperating revenues (expenses)</b>	<b>(320,291)</b>	<b>(13,279)</b>	<b>(287,925)</b>	<b>(8,645)</b>	<b>(346,023)</b>	<b>24,830</b>
<b>Income before contributions</b>	<b>1,555,885</b>	<b>93,114</b>	<b>1,193,078</b>	<b>184,276</b>	<b>1,028,244</b>	<b>108,328</b>
Capital contributions	127,508	8,109	132,248	14,816	119,301	8,550
<b>Change in net assets</b>	<b>1,683,393</b>	<b>101,223</b>	<b>1,325,326</b>	<b>199,092</b>	<b>1,147,545</b>	<b>116,878</b>
<b>Total net assets - beginning</b>	<b>49,803,250</b>	<b>11,169,249</b>	<b>51,486,643</b>	<b>11,270,472</b>	<b>52,811,969</b>	<b>11,469,564</b>
<b>Total net assets - ending</b>	<b>\$ 51,486,643</b>	<b>\$ 11,270,472</b>	<b>\$ 52,811,969</b>	<b>\$ 11,469,564</b>	<b>\$ 53,959,514</b>	<b>\$ 11,586,442</b>

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, 2007, 2008, And 2009

	2007		2008		2009	
	Water	Wastewater	Water	Wastewater	Water	Wastewater
<b>Cash flows from operating activities:</b>						
Receipts from customers and users	\$ 6,558,746	\$ 1,025,824	\$ 6,561,228	\$ 1,071,866	\$ 6,690,119	\$ 1,057,322
Payments to suppliers and contractors	(1,065,736)	(278,086)	(1,549,331)	(237,728)	(1,317,179)	(304,073)
Payments to employees	(1,942,927)	(225,099)	(2,130,310)	(212,294)	(2,238,663)	(243,134)
Other receipts (expenses)	(2,579)	(4,686)	(2,579)	(4,684)	4,975	18,759
<b>Net cash provided by operating activities</b>	<b>3,547,504</b>	<b>517,953</b>	<b>2,879,008</b>	<b>617,160</b>	<b>3,139,252</b>	<b>528,874</b>
<b>Cash flows from capital and related financing activities:</b>						
Capital contributions	127,508	8,109	132,248	14,816	119,301	8,550
Acquisition and construction of capital assets	(1,276,041)	(102,792)	(883,735)	(103,711)	(600,211)	(54,052)
Principal paid on capital debt	(1,235,000)	(156,000)	(1,190,000)	(166,000)	(1,274,000)	(86,000)
Interest paid on capital debt	(844,510)	(182,406)	(723,659)	(175,372)	(637,423)	(167,892)
Defeasance of bonds	-	-	(873,281)	-	-	-
Proceeds from sales of capital assets	12,000	-	5,480	1,750	-	30,600
<b>Net cash used by capital and related financing activities</b>	<b>(3,216,043)</b>	<b>(433,089)</b>	<b>(3,532,947)</b>	<b>(428,517)</b>	<b>(2,392,333)</b>	<b>(268,794)</b>
<b>Cash flows from investing activities:</b>						
Proceeds from sales and maturities of investments	3,100,000	600,000	5,099,000	700,000	5,000,000	899,000
Purchase of investments	(3,999,000)	(898,000)	(5,200,000)	(901,000)	(6,000,000)	(1,400,000)
Interest received	710,365	188,267	634,063	170,359	541,227	159,913
<b>Net cash provided (used) by investing activities</b>	<b>(188,635)</b>	<b>(109,733)</b>	<b>533,063</b>	<b>(30,641)</b>	<b>(458,773)</b>	<b>(341,087)</b>
<b>Net increase in cash and cash equivalents</b>	<b>142,826</b>	<b>(24,869)</b>	<b>(120,876)</b>	<b>158,002</b>	<b>288,146</b>	<b>(81,007)</b>
<b>Cash and cash equivalents, January 1</b>	<b>694,456</b>	<b>284,857</b>	<b>837,282</b>	<b>259,988</b>	<b>716,406</b>	<b>417,990</b>
<b>Cash and cash equivalents, December 31</b>	<b>\$ 837,282</b>	<b>\$ 259,988</b>	<b>\$ 716,406</b>	<b>\$ 417,990</b>	<b>\$ 1,004,552</b>	<b>\$ 336,983</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>						
Operating income	\$ 1,876,176	\$ 106,393	\$ 1,481,003	\$ 192,921	\$ 1,374,267	\$ 83,498
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>						
Depreciation expense	1,516,884	423,237	1,524,477	426,626	1,553,277	433,342
Bad debt expense	430	-	2,002	-	1,751	163
Nonoperating revenue(expense)	(2,579)	(4,686)	(2,579)	(4,684)	4,975	18,759
<b>(Increase) decrease in assets:</b>						
Accounts receivable	21,394	8,333	(108,101)	(3,537)	55,288	2,234
Inventories	87,497	(2,301)	(5,831)	4,488	(67,487)	(631)
Prepaid items	(3,028)	-	(11,439)	-	(54,870)	(4,194)
<b>Increase (decrease) in liabilities:</b>						
Accounts payable	114,331	(8,920)	(37,580)	(796)	(98,215)	(2,585)
Advances for construction	(4,457)	(358)	15,689	263	370,518	(2,013)
Contracts payable	(15,322)	(4,735)	-	-	-	-
Accrued payroll and withholdings payable	(44,187)	990	19,937	1,879	6	301
Taxes payable	365	-	1,430	-	(258)	-
<b>Total adjustments</b>	<b>1,671,328</b>	<b>411,560</b>	<b>1,398,005</b>	<b>424,239</b>	<b>1,764,985</b>	<b>445,376</b>
<b>Net cash provided by operating activities</b>	<b>\$ 3,547,504</b>	<b>\$ 517,953</b>	<b>\$ 2,879,008</b>	<b>\$ 617,160</b>	<b>\$ 3,139,252</b>	<b>\$ 528,874</b>
<b>Noncash investing, capital and financing activities:</b>						
Transfer of construction-in-progress to capital asset	\$ 759,871	\$ 28,876	\$ 711,489	\$ 54,211	\$ -	\$ 24,447
Amortization of unamortized bond issue costs	26,842	3,407	32,595	3,692	39,393	-
Disposal of capital assets fully depreciated	131,428	-	85,263	2,500	54,304	49,136

On July 15, 2008, \$6,740,000 in refunding water revenue bonds were issued to refund \$7,450,000 of outstanding 1998 serial bonds. The net proceeds of \$6,634,267 (after payment of \$140,844 in issuance costs) and local contributions of \$873,281 were deposited in an irrevocable trust with an escrow agent. The accounting loss of \$167,766 has been recognized on the Balance Sheet as Deferral of Loss on Refunding and will be amortized using the straight line method charged to interest expense over the next seven years.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating revenues and expenses from nonoperating 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 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 and administrative costs. All revenues and expenses not meeting this definition are reported as nonoperating 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 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.

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

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 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 both government-wide and fund financial statements.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization 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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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.

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. 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.
- 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 District does not have a deposit policy for custodial credit risk. At December 31, 2009, the District had deposit balances in the amount of \$19,152,887.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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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 year ended December 31, 2007, 2008, and 2009, was as follows:

Water Utility: <u>2007</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 740,487	\$ 464	\$ -	\$ 740,951
Construction in progress	658,792	626,460	759,872	525,380
Total capital assets, not being depreciated	<u>1,399,279</u>	<u>626,924</u>	<u>759,872</u>	<u>1,266,331</u>
Capital assets, being depreciated:				
Buildings	14,962,467	13,184	-	14,975,651
Improvements other than buildings	55,657,655	1,172,222	51,834	56,778,043
Machinery and equipment	1,554,382	194,617	97,150	1,651,849
Transportation equipment	804,711	32,486	17,000	820,197
Organizational costs	96,608	-	-	96,608
Totals	<u>73,075,823</u>	<u>1,412,509</u>	<u>165,984</u>	<u>74,322,348</u>
Less accumulated depreciation for:				
Buildings	4,608,347	374,626	-	4,982,973
Improvements other than buildings	14,288,909	930,635	17,278	15,202,266
Machinery and equipment	1,139,136	110,197	154,350	1,094,983
Transportation equipment	579,384	65,158	17,000	627,542
Organizational costs	96,608	-	-	96,608
Totals	<u>20,712,384</u>	<u>1,480,616</u>	<u>188,628</u>	<u>22,004,372</u>
Total capital assets, being depreciated, net	<u>52,363,439</u>	<u>(68,107)</u>	<u>(22,644)</u>	<u>52,317,976</u>
Total capital assets, net	<u>\$ 53,762,718</u>	<u>\$ 558,817</u>	<u>\$ 737,228</u>	<u>\$ 53,584,307</u>
<u>2008</u>				
Capital assets, not being depreciated:				
Land	\$ 740,951	\$ 376	\$ -	\$ 741,327
Construction in progress	525,380	614,896	711,489	428,787
Total capital assets, not being depreciated	<u>1,266,331</u>	<u>615,272</u>	<u>711,489</u>	<u>1,170,114</u>
Capital assets, being depreciated:				
Buildings	14,975,651	-	-	14,975,651
Improvements other than buildings	56,778,043	163,204	-	56,941,247
Machinery and equipment	1,651,849	736,127	-	2,387,976
Transportation equipment	820,197	87,121	85,263	822,055
Organizational costs	96,608	-	-	96,608
Totals	<u>74,322,348</u>	<u>986,452</u>	<u>85,263</u>	<u>75,223,537</u>

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

Water Utility (continued): <u>2008 (continued)</u>	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	4,982,973	375,286	-	5,358,259
Improvements other than buildings	15,202,266	962,212	-	16,164,478
Machinery and equipment	1,094,983	97,219	-	1,192,202
Transportation equipment	627,542	53,493	85,263	595,772
Organizational costs	96,608	-	-	96,608
	<u>22,004,372</u>	<u>1,488,210</u>	<u>85,263</u>	<u>23,407,319</u>
Totals				
Total capital assets, being depreciated, net	<u>52,317,976</u>	<u>(501,758)</u>	<u>-</u>	<u>51,816,218</u>
Total capital assets, net	<u>\$ 53,584,307</u>	<u>\$ 113,514</u>	<u>\$ 711,489</u>	<u>\$ 52,986,332</u>
 <u>2009</u>				
Capital assets, not being depreciated:				
Land	\$ 741,327	\$ 2,274	\$ -	\$ 743,601
Construction in progress	<u>428,787</u>	<u>448,791</u>	<u>-</u>	<u>877,578</u>
Total capital assets, not being depreciated	<u>1,170,114</u>	<u>451,065</u>	<u>-</u>	<u>1,621,179</u>
Capital assets, being depreciated:				
Buildings	14,975,651	-	-	14,975,651
Improvements other than buildings	56,941,247	104,014	-	57,045,261
Machinery and equipment	2,387,976	14,771	10,698	2,392,049
Transportation equipment	822,055	36,361	43,606	814,810
Organizational costs	96,608	-	-	96,608
	<u>75,223,537</u>	<u>155,146</u>	<u>54,304</u>	<u>75,324,379</u>
Totals				
Less accumulated depreciation for:				
Buildings	5,358,259	375,286	-	5,733,545
Improvements other than buildings	16,164,478	968,044	-	17,132,522
Machinery and equipment	1,192,202	112,537	10,698	1,294,041
Transportation equipment	595,772	61,142	43,606	613,308
Organizational costs	96,608	-	-	96,608
	<u>23,407,319</u>	<u>1,517,009</u>	<u>54,304</u>	<u>24,870,024</u>
Totals				
Total capital assets, being depreciated, net	<u>51,816,218</u>	<u>(1,361,863)</u>	<u>-</u>	<u>50,454,355</u>
Total capital assets, net	<u>\$ 52,986,332</u>	<u>\$ (910,798)</u>	<u>\$ -</u>	<u>\$ 52,075,534</u>
 Wastewater Utility:				
<u>2007</u>				
Capital assets, not being depreciated:				
Land	\$ 78,556	\$ 72	\$ -	\$ 78,628
Construction in progress	<u>11,029</u>	<u>23,016</u>	<u>28,876</u>	<u>5,169</u>
Total capital assets, not being depreciated	<u>89,585</u>	<u>23,088</u>	<u>28,876</u>	<u>83,797</u>

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

Wastewater Utility (continued): <u>2007 (continued)</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings	2,303,317	11,299	-	2,314,616
Improvements other than buildings	13,334,940	47,458	-	13,382,398
Machinery and equipment	163,657	8,823	-	172,480
Transportation equipment	104,217	41,000	-	145,217
Organizational costs	16,319	-	-	16,319
	<u>15,922,450</u>	<u>108,580</u>	<u>-</u>	<u>16,031,030</u>
Totals				
Less accumulated depreciation for:				
Buildings	1,384,224	56,812	-	1,441,036
Improvements other than buildings	2,189,668	330,890	-	2,520,558
Machinery and equipment	92,859	16,239	-	109,098
Transportation equipment	70,408	12,713	-	83,121
Organizational costs	10,608	408	-	11,016
	<u>3,747,767</u>	<u>417,062</u>	<u>-</u>	<u>4,164,829</u>
Totals				
Total capital assets, being depreciated, net	12,174,683	(308,482)	-	11,866,201
Total capital assets, net	<u>\$ 12,264,268</u>	<u>\$ (285,394)</u>	<u>\$ 28,876</u>	<u>\$ 11,949,998</u>
<u>2008</u>				
Capital assets, not being depreciated:				
Land	\$ 78,628	\$ 4	\$ -	\$ 78,632
Construction in progress	5,169	49,042	54,211	-
	<u>83,797</u>	<u>49,046</u>	<u>54,211</u>	<u>78,632</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	2,314,616	20,950	-	2,335,566
Improvements other than buildings	13,382,398	79,712	-	13,462,110
Machinery and equipment	172,480	8,214	-	180,694
Transportation equipment	145,217	-	2,500	142,717
Organizational costs	16,319	-	-	16,319
	<u>16,031,030</u>	<u>108,876</u>	<u>2,500</u>	<u>16,137,406</u>
Totals				
Less accumulated depreciation for:				
Buildings	1,441,036	57,734	-	1,498,770
Improvements other than buildings	2,520,558	333,319	-	2,853,877
Machinery and equipment	109,098	16,911	-	126,009
Transportation equipment	83,121	12,079	2,500	92,700
Organizational costs	11,016	408	-	11,424
	<u>4,164,829</u>	<u>420,451</u>	<u>2,500</u>	<u>4,582,780</u>
Totals				
Total capital assets, being depreciated, net	11,866,201	(311,575)	-	11,554,626
Total capital assets, net	<u>\$ 11,949,998</u>	<u>\$ (262,529)</u>	<u>\$ 54,211</u>	<u>\$ 11,633,258</u>

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

Wastewater Utility (continued): <u>2009</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 78,632	\$ 12	\$ -	\$ 78,644
Construction in progress	-	24,477	24,477	-
Total capital assets, not being depreciated	<u>78,632</u>	<u>24,489</u>	<u>24,477</u>	<u>78,644</u>
Capital assets, being depreciated:				
Buildings	2,335,566	-	-	2,335,566
Improvements other than buildings	13,462,110	42,246	-	13,504,356
Machinery and equipment	180,694	11,794	42,616	149,872
Transportation equipment	142,717	-	6,520	136,197
Organizational costs	16,319	-	-	16,319
Totals	<u>16,137,406</u>	<u>54,040</u>	<u>49,136</u>	<u>16,142,310</u>
Less accumulated depreciation for:				
Buildings	1,498,770	61,924	-	1,560,694
Improvements other than buildings	2,853,877	338,005	-	3,191,882
Machinery and equipment	126,009	18,195	42,616	101,588
Transportation equipment	92,700	8,636	6,520	94,816
Organizational costs	11,424	408	-	11,832
Totals	<u>4,582,780</u>	<u>427,168</u>	<u>49,136</u>	<u>4,960,812</u>
Total capital assets, being depreciated, net	<u>11,554,626</u>	<u>(373,128)</u>	<u>-</u>	<u>11,181,498</u>
Total capital assets, net	<u>\$ 11,633,258</u>	<u>\$ (348,639)</u>	<u>\$ 24,477</u>	<u>\$ 11,260,142</u>

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Water	\$ 1,480,616	\$ 1,488,210	\$ 1,517,009
Wastewater	417,062	420,451	427,168
Total depreciation expense	<u>\$ 1,897,678</u>	<u>\$ 1,908,661</u>	<u>\$ 1,944,177</u>

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

C. Construction Commitments

Construction work in progress is composed of the following:

Project	2007		2008		2009	
	Expended to December 31,	Committed	Expended to December 31,	Committed	Expended to December 31,	Committed
Water Utility:						
Phase VII	\$ 36,887	\$ -	\$ 142,131	\$ -	\$ 268,815	\$ -
Pike County Tank	7,294	-	7,294	-	7,294	-
Ireland Tank	1,342	-	1,342	-	1,342	-
Ferdinand Meter Pit	7,944	-	-	-	-	-
WTP Expansion	79,500	-	79,500	-	-	-
Intake Electric	371,102	-	-	-	-	-
Taste & Odor Equipment	5,771	-	150,348	-	382,171	-
Media Filter	14,540	-	-	-	-	-
Extensions	1,000	-	-	-	-	-
GIS	-	-	47,728	-	103,728	-
US 231 and CR 600	-	-	444	-	64,277	-
SR 145	-	-	-	-	40,052	-
SR 37 Relocation	-	-	-	-	2,099	-
Springs Valley Line	-	-	-	-	7,800	-
Wastewater Utility:						
Andy Klem II	1,750	-	-	-	-	-
Marina Hill Lift Station	3,419	-	-	-	-	-
Totals	<u>\$ 530,549</u>	<u>\$ -</u>	<u>\$ 428,787</u>	<u>\$ -</u>	<u>\$ 877,578</u>	<u>\$ -</u>

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:

Purpose	Interest Rates	Balance at December 31	Less: Unamortized (Premium) Discount	Less: Deferral on Refunding	Amounts
1994 Series A Junior Waterworks Revenue Bonds, Phase IV Construction	4.50%	\$ 859,000	\$ -	\$ -	\$ 859,000
1994 Series B Junior Waterworks Revenue Bonds, Phase IV Construction	4.50%	1,063,000	-	-	1,063,000
2004 Waterworks Refunding Revenue Bonds	3.250 to 4.125%	5,370,000	67,501	329,864	4,972,635
2008 Waterworks Refunding Revenue Bonds	3.50 to 4.00%	5,010,000	(27,183)	697,296	4,339,887
Totals		<u>\$ 12,302,000</u>	<u>\$ 40,318</u>	<u>\$ 1,027,160</u>	<u>\$ 11,234,522</u>

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

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility	
	Principal	Interest
2010	\$ -	\$ 244,274
2011	1,272,000	466,652
2012	1,312,000	420,631
2013	1,367,000	370,823
2014	1,412,000	317,314
2015-2019	5,190,000	747,457
2020-2024	456,000	354,330
2025-2029	575,000	241,425
2030-2034	718,000	99,720
	<u>\$ 12,302,000</u>	<u>\$ 3,262,626</u>
Totals	<u>\$ 12,302,000</u>	<u>\$ 3,262,626</u>

2. Loans Payable

The District has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$2,027,655, \$2,310,542, \$254,975, and \$528,000, are as follows:

	Water Rural Development Loan	Wastewater Rural Development Loan	Wastewater State Revolving Fund Loan	Wastewater Loan from Dubois County
2010	\$ 53,707	\$ 50,397	\$ 20,037	\$ 24,000
2011	151,403	101,771	123,588	24,000
2012	155,242	101,724	125,525	24,000
2013	154,903	101,676	127,287	24,000
2014	152,518	101,629	123,963	24,000
2015-2019	654,197	507,431	625,912	120,000
2020-2024	744,193	694,970	253,663	120,000
2025-2029	736,112	819,819	-	120,000
2030-2034	732,863	818,906	-	1,248,000
2035-2039	733,300	809,256	-	-
2040-2044	146,217	324,963	-	-
	<u>\$ 4,414,655</u>	<u>\$ 4,432,542</u>	<u>\$ 1,399,975</u>	<u>\$ 1,728,000</u>
Totals	<u>\$ 4,414,655</u>	<u>\$ 4,432,542</u>	<u>\$ 1,399,975</u>	<u>\$ 1,728,000</u>

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

3. Advance Refunding

On July 15, 2008, the District issued \$6,740,000 in refunding revenue bonds for the Water Utility with an average interest rate of 3.61% to advance refund \$7,450,000 of outstanding 1998 waterworks refunding revenue bonds with an average interest rate of 4.89%. The net proceeds of \$6,634,267 (after payment of \$140,844 in issuance costs) and local contributions of \$873,281 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 bonds. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet. The refunding resulted in the accounting loss of \$167,766 which has been recognized on the balance sheet as deferral of loss on refunding and netted with bonds payable. This amount will be amortized using the straight-line method and charged to interest expense over the next seven years. The District in effect decreased its aggregate debt service payment by \$270,130 over the next seven years and recognized an economic gain (difference between the present values of the old and new debt service payments) of \$1,307,436.

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, 2009, were considered defeased:

	Amount
1992 Waterworks Revenue Bonds, Series A	\$ 2,000,000
1993 Waterworks Revenue Bonds, Series B	620,000
1994 Waterworks Revenue Bonds, Series A	3,870,000
1996 Waterworks Revenue Bonds, Series A	4,180,000
1997 Waterworks Revenue Bonds, Series B	1,240,000

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, 2008, and 2009, was as follows:

Wastewater Utility: <u>2007</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	\$ 165,000	\$ -	\$ 80,000	\$ 85,000	\$ -
Less: deferred amount on refunding	9,620	-	4,617	5,003	-
Total revenue bonds payable	155,380	-	75,383	79,997	-
Loans payable	4,710,000	-	76,000	4,634,000	-

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

Wastewater Utility (continued): <u>2008</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	85,000	-	85,000	-	-
Less: deferred amount on refunding	<u>5,003</u>	<u>-</u>	<u>5,003</u>	<u>-</u>	<u>-</u>
Total revenue bonds payable	79,997	-	79,997	-	-
Loans payable	<u>4,634,000</u>	<u>-</u>	<u>81,000</u>	<u>4,553,000</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 4,713,997</u>	<u>\$ -</u>	<u>\$ 160,997</u>	<u>\$ 4,553,000</u>	<u>\$ -</u>
 <u>2009</u>					
Loans payable	<u>\$ 4,553,000</u>	<u>\$ -</u>	<u>\$ 86,000</u>	<u>\$ 4,467,000</u>	<u>\$ -</u>

E. Restricted Assets

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Water Utility:</b>			
Bond and interest	\$ 232,831	\$ 6,723	\$ 93,422
Debt service reserve	<u>2,230,247</u>	<u>1,784,700</u>	<u>1,784,700</u>
Total restricted assets	<u>\$ 2,463,078</u>	<u>\$ 1,791,423</u>	<u>\$ 1,878,122</u>
 <b>Wastewater Utility:</b>			
Bond and interest	\$ 55,140	\$ 66,216	\$ 93,372
Debt service reserve	<u>316,373</u>	<u>317,373</u>	<u>217,373</u>
Total restricted assets	<u>\$ 371,513</u>	<u>\$ 383,589</u>	<u>\$ 310,745</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 1994. Proceeds from the bonds provided financing for Phase IV improvements. The bonds are payable solely from water net revenues and are payable through 2034. Annual principal and interest payments are expected to require from 3 to 6 percent of net revenues over the term of the bond issue.

The District has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2004. Proceeds from the bonds provided financing for refunding of the 1996 Series A and 1997 Series B bonds that were originally issued to finance Phase V and V-A improvements. The bonds are payable solely from water net revenues and are payable through 2017. Annual principal and interest payments are expected to require from 19 to 65 percent of net revenues over the term of the bond issue.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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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 38 percent of net revenues.

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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

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 \$5,000 for single plans and \$10,000 for family plans 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 based upon the percentage of each fund's current payroll as it relates to total payroll.

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. Subsequent Events

Phase VII Water Project

The District is in the process of the Phase VII water project which is divided into three divisions. Division I is transmission/distribution improvements and booster station number 6; Division II is a 500,000 gallon elevated water storage tank; Division III is water treatment plant improvements. The project will be financed with a USDA loan of \$8,207,000 that was closed on June 24, 2010, and a grant from the Indiana Office of Community and Rural Affairs that was awarded to Orange County and the District is the subrecipient. The grant amount is \$3,497,561.

A bid was awarded on February 8, 2010, to Trojan Equipment for the UV AOP Project which is part of Division III water treatment plant improvements. The amount of the bid was \$1,850,000.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
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Bids were also awarded on May 10, 2010, to Reynolds, Inc., in the amount of \$3,427,637.80 for Division I and to Phoenix Fabricators and Erectors in the amount of \$923,997 for the elevated water storage tank.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the District on May 12, 2008. The Utility has 4,561 customers.

2. Wastewater Utility

The current rate structure was approved by the District on May 31, 2006. The Utility has 1,096 customers.

D. Pension Plan

Agent Multiple-Employer Defined Benefit 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. 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

PERF members are required to contribute 3% of their annual covered salary. The District is required to contribute at an actuarially determined rate; the current rate is 7.25% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the PERF Board of Trustees.

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

Annual Pension Cost

For 2009, the District's annual pension cost of \$138,158 for PERF was equal to the District's required and actual contributions.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 134,320
Interest on net pension obligation	(2,855)
Adjustment to annual required contribution	3,254
Annual pension cost	134,719
Contributions made	131,892
Increase in net pension obligation	2,827
Net pension obligation, beginning of year	(39,381)
Net pension obligation, end of year	\$ (36,554)
Contribution rates:	
Government	7%
Plan members	3%
Actuarial valuation date	07-01-09
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar, closed amortization period
Amortization period	30 years
Amortization period (from date)	07-01-07
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	4.00%
Cost-of-living adjustments	1.50%

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

	Three Year Trend Information			
	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-07	\$ 117,228	98%	\$ (36,296)
	06-30-08	123,542	102%	(39,381)
	06-30-09	134,719	98%	(36,554)

Funded Status and Funding Progress for the Above Plan

The funded status of each plan as of July 1, 2009, the most recent actuarial valuation date is as follows:

Retirement Plan	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
PERF	\$ 1,761,487	\$ 2,283,158	\$ 521,671	77%	\$ 1,953,224	27%

The Schedule of Funding Progress, presented as RSI for the above plans following the notes to the 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, 2007, 2008, and 2009, is as follows:

	2007	2008	2009
Beginning fund balance January 1	\$ 153,461	\$ 162,312	\$ 168,304
Transfer of employer contributions	-	-	69,022
Disbursements	-	-	(70,767)
Reinvested net earnings	8,851	5,992	4,620
Ending fund balance December 31	162,312	168,304	171,179

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%)
07-01-07	1,422,398	1,761,601	(339,203)	81%	1,781,900	(19%)
07-01-08	1,576,708	2,000,396	(423,688)	79%	1,790,938	(24%)
07-01-09	1,761,487	2,283,158	(521,671)	77%	1,953,224	(27%)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on October 20, 2010, with Doug Merkel, Controller; Edwin H. Pieper, President of the Board; John Wade, Treasurer; and Bruce A. Heeke, General Manager. Our examination disclosed no material items that warrant comment at this time.