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

AUDIT REPORT

OF

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT

DUBOIS COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
07/24/2012

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Bruce Heeke	01-01-10 to 12-31-12
Water Transmission and Distribution Superintendent	Shawn Kluesner	01-01-10 to 12-31-12
Water Plant Superintendent	Jerry W. Allstott	01-01-10 to 12-31-12
Wastewater Plant Superintendent	Troy Wheeler	01-01-10 to 12-31-12
Controller	Doug Merkel	01-01-10 to 12-31-12
Treasurer	John Wade Thomas Lamb	01-01-10 to 01-08-12 01-09-12 to 12-31-12
President of the Board	Edwin H. Pieper (Vacant) John Noblitt	01-01-10 to 09-30-11 10-01-11 to 01-08-12 01-09-12 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

We have audited the accompanying financial statements of the business-type activities of the Patoka Lake Regional Water and Sewer District (District), as of and for the years ended December 31, 2010, and 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the respective financial position of the business-type activities, of the District as of December 31, 2010 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 20, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

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 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented Management's Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

June 20, 2012



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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 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, 2010, and 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 20, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.

This report is intended solely for the information and use of the District's management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 20, 2012

PATOKA LAKE REGIONAL WATER & SEWER DISTRICT
2647 N. State Road 545
Dubois, Indiana 47527

January 1, 2010 to December 31, 2011



PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF NET ASSETS
December 31, 2010 and 2011

	<u>2010</u>		<u>2011</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Assets				
Current Assets:				
Operating Cash and Cash Equivalents	\$ 643,424	\$ 111,133	\$ 490,184	\$ 91,333
Improvement Cash and Cash Equivalents	161,956	234,833	1,518	90,274
Construction Cash and Cash Equivalents	635	-	431	-
Improvement Investments	13,040,901	3,486,216	12,445,871	1,837,734
Construction Investments	-	809,109	-	816,878
Interest Receivable	26,620	11,410	30,007	5,361
Accounts Receivable - Customers	558,045	83,371	579,426	89,271
Accounts Receivable - Other	-	-	520	-
Inventories	755,956	85,943	805,028	80,941
Prepaid Items	16,873	-	53,453	-
Land Held For Resale	33,550	102,429	32,070	97,910
Total Current Assets	15,237,960	4,924,444	14,438,508	3,109,702
Noncurrent Assets:				
Restricted Cash, Cash Equivalents and Investments:				
Bond and Interest Cash and Investments	164,736	1,458	712	4,790
Debt Service Reserve Cash and Investments	1,802,529	217,373	1,833,093	140,000
Interest Receivable	-	756	-	-
Total Restricted Assets	1,967,265	219,587	1,833,805	144,790
Deferred Charges:				
Unamortized Bond Issue Costs	192,745	-	153,352	-
Unamortized Tank Painting Costs	76,461	-	40,193	-
Unamortized Treatment Plant Painting Costs	-	18,523	-	12,349
Total Deferred Charges	269,206	18,523	193,545	12,349
Capital Assets:				
Land and Construction in Progress	5,434,177	314,634	2,056,639	314,634
Other Capital Assets (Net of Accumulated Depreciation)	49,516,438	10,598,259	58,189,435	10,250,391
Total Capital Assets	54,950,615	10,912,893	60,246,074	10,565,025
Total Noncurrent Assets	57,187,086	11,151,003	62,273,424	10,722,164
Total Assets	72,425,046	16,075,447	76,711,932	13,831,866
Liabilities				
Current Liabilities:				
Accounts Payable	72,757	11,330	116,010	11,491
Accrued Payroll and Withholdings Payable	43,087	4,027	38,592	4,259
Accrued Unused Sick Pay Payable	283,683	31,007	310,426	30,925
Accrued Interest Payable	13,878	-	-	-
Taxes Payable	11,691	-	11,259	-
Advances for Construction	387,943	-	124,632	-
Total Current Liabilities	813,039	46,364	600,919	46,675
Revenue Bonds Payable (net of unamortized discounts, premiums and deferred amount on refunding)	10,153,311	-	9,032,100	-
Loans Payable	3,277,500	4,381,000	4,515,648	2,170,000
Total Noncurrent Liabilities	13,430,811	4,381,000	13,547,748	2,170,000
Total Liabilities	14,243,850	4,427,364	14,148,667	2,216,675
Net Assets				
Invested in capital assets, net of related debt	40,643,115	6,531,893	46,012,426	8,395,025
Restricted for debt service	1,967,265	218,831	1,833,805	144,790
Unrestricted	15,570,816	4,897,359	14,717,034	3,075,376
Total Net Assets	\$ 58,181,196	\$ 11,648,083	\$ 62,563,265	\$ 11,615,191

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF REVENUE, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
December 31, 2010 and 2011

	2010		2011	
	Water	Wastewater	Water	Wastewater
Operating Revenues:				
Unmetered Water Revenue	\$ 4,660	\$ -	\$ -	\$ -
Metered Water Revenue				
Residential	2,371,196	-	2,344,727	-
Wholesale	4,333,695	-	4,315,210	-
Measured Revenue				
Residential/Commercial	-	776,860	-	777,443
Industrial	-	261,076	-	236,156
Other	210,776	19,307	55,993	18,926
Total Operating Revenues	6,920,327	1,057,243	6,715,930	1,032,525
Operating Expenses:				
Source of Supply and Expense/Collection System Expense:				
Operations and Maintenance:				
Purchased Water	78,119	-	78,736	-
Purchased Power	208,138	43,828	241,907	52,784
Materials and Supplies	-	992	-	23
Maintenance	3,598	9,402	9,856	30,003
Transmission and Distribution:				
Salaries and Wages	817,833	-	797,176	-
Storage Facilities Expense	(375)	-	8,028	-
Purchased Power	75,331	-	74,461	-
Materials and Supplies	44,118	-	22,739	-
Transportation	70,257	-	97,321	-
Maintenance	200,593	-	188,830	-
Other	8,500	-	8,500	-
Treatment and Disposal - Operations and Maintenance:				
Salaries and Wages	540,503	169,279	554,887	175,825
Chemicals	208,563	-	189,857	-
Purchased Power	206,064	58,136	205,061	65,647
Materials & Supplies	28,255	67,022	27,913	56,042
Transportation	5,829	-	5,582	-
Maintenance	23,612	8,398	24,650	12,570
Other	-	8,072	-	11,415
Customer Accounts	47,250	12,655	44,323	7,943
Administration and General:				
Salaries & Wages	204,197	6,021	221,500	12,533
Employee Pensions & Benefits	810,895	79,778	560,017	55,635
Materials & Supplies	38,751	5,409	46,288	1,974
Contractual Services	26,262	4,497	62,226	6,249
Transportation	2,136	8,122	795	8,807
Insurance	49,331	10,670	38,969	8,467
Depreciation and Amortization	1,545,101	433,331	1,564,714	436,330
Miscellaneous	167,675	1,506	34,436	2,182
Total Operating Expenses	5,410,536	927,118	5,108,772	944,429
Operating Income	1,509,791	130,125	1,607,158	88,096
Nonoperating Revenues (Expenses):				
Interest and Investment Revenue	323,950	95,666	171,229	44,200
Miscellaneous Revenue	150	2,493	23,736	8,985
Amortization of Bond Issue Costs	(39,394)	-	(39,393)	-
Interest Expense	(800,540)	(164,870)	(794,725)	(130,421)
Miscellaneous Expense	(138,699)	(3,873)	(3,526)	(46,923)
Total Nonoperating Revenues (Expenses)	(654,533)	(70,584)	(642,679)	(124,159)
Income Before Contributions	855,258	59,541	964,479	(36,063)
Capital Contributions	3,366,424	2,100	3,417,590	3,171
Change in Net Assets	4,221,682	61,641	4,382,069	(32,892)
Total Net Assets - Beginning	53,959,514	11,586,442	58,181,196	11,648,083
Total Net Assets - Ending	\$ 58,181,196	\$ 11,648,083	\$ 62,563,265	\$ 11,615,191

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF REVENUE, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
December 31, 2010 and 2011

	<u>2010</u>		<u>2011</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 6,897,772	\$ 1,063,962	\$ 6,692,017	\$ 1,026,625
Payments to Suppliers	(1,502,787)	(241,208)	(1,714,608)	(258,943)
Payments to Employees	(2,112,492)	(227,249)	(2,111,332)	(243,843)
Other Receipts (Payments)	(26,110)	(1,113)	80,662	10,830
Net Cash Provided (Used) By Operating Activities	<u>3,256,383</u>	<u>594,392</u>	<u>2,946,739</u>	<u>534,669</u>
Cash Flows From Capital and Related Financial Activities:				
Capital contributions	3,366,424	2,100	3,417,590	3,171
Acquisition and construction of capital assets	(4,496,354)	(80,174)	(6,882,877)	(126,537)
Principal Paid on Capital Debt	(1,317,000)	(86,000)	(1,381,000)	(2,211,000)
Interest Paid on Capital Debt	(595,873)	(164,870)	(617,814)	(130,421)
Principal Borrowed on Capital Debt	935,500	-	1,307,148	-
Net Cash Used By Capital and Related Financing Activities	<u>(2,107,303)</u>	<u>(328,944)</u>	<u>(4,156,953)</u>	<u>(2,464,787)</u>
Cash Flows From Investing Activities:				
Proceeds from Sales and Maturities of Investments	2,814,560	705,553	4,910,324	2,601,058
Purchase of Investments	(4,276,318)	(1,053,435)	(4,427,530)	(901,578)
Interest Received	360,549	107,691	167,842	51,005
Net Cash Provided (Used) By Investing Activities	(1,101,209)	(240,191)	650,636	1,750,485
Net Increase in Cash and Cash Equivalents	47,871	25,257	(559,578)	(179,633)
Cash and Cash Equivalents, January 1	1,004,552	336,983	1,052,423	362,240
Cash and Cash Equivalents, December 31	<u>\$ 1,052,423</u>	<u>\$ 362,240</u>	<u>\$ 492,845</u>	<u>\$ 182,607</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:				
Operating Income	\$ 1,509,791	\$ 130,125	\$ 1,607,158	\$ 88,096
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	1,545,101	433,331	1,564,714	436,330
Bad Debt Expense	3,885	-	2,012	-
Nonoperating Revenue (Expense)	(26,110)	(1,113)	80,662	10,830
(Increase) Decrease in Assets:				
Accounts Receivable	(22,555)	6,719	(23,913)	(5,900)
Inventories	(48,325)	(10,079)	(49,072)	5,002
Prepaid Items	52,464	4,194	(36,580)	-
(Increase) Decrease in Liabilities:				
Accounts Payable	(4,057)	3,386	43,253	161
Advances for Construction	(15,650)	-	(263,311)	-
Accrued Payroll and Withholdings Payable	(22,747)	(3,178)	(4,495)	232
Compensated Absences Payable	283,683	31,007	26,743	(82)
Taxes Payable	903	-	(432)	-
Total Adjustments	<u>1,746,592</u>	<u>464,267</u>	<u>1,339,581</u>	<u>446,573</u>
Net Cash Provided by Operating Activities	<u>\$ 3,256,383</u>	<u>\$ 594,392</u>	<u>\$ 2,946,739</u>	<u>\$ 534,669</u>
Noncash Investing, Capital and Financing Activities:				
Transfer of Construction-in-Progress to Capital Asset	\$ 504,563	\$ 59,159	\$ 9,745,297	\$ 57,262
Amortization of Unamortized Bond Issue Costs	39,394	-	33,393	-
Disposal of Capital Assets Fully Depreciated	287,521	25,451	125,227	60,694

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 Government 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 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 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 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 Assets or Equity

1. Deposits and Investments

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

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

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

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.

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

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets balance sheet because 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Water Utility:			
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
Wastewater Utility:			
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

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the District during the year ended December 31, 2011, was \$794,725 and \$130,421 for water and wastewater, respectively. None of the interest expense was included as part of the cost of capital assets under construction.

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. 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 one week 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.

Reporting of the potential liability for accumulated sick and personal leave began in 2010.

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.

7. Long-Term Obligations

The financial statements report \$1,833,805 and \$144,790 of restricted net asset as of December 31, 2011 for water and wastewater, respectively. All of the restricted net assets were restricted by enabling legislation.

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, 2011, the District had deposit balances in the amount of \$18,091,275.

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.

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

B. Capital Assets

Capital asset activity for the years ended December 31, 2010 and 2011 was as follows:

Water Utility:	Beginning Balance	Increases	Decreases	Ending Balance
2010				
Capital assets, not being depreciated:				
Land	\$ 743,601	\$ -	\$ 17,261	\$ 726,340
Construction in progress	<u>877,578</u>	<u>4,334,822</u>	<u>504,563</u>	<u>4,707,837</u>
Net Cash Provided (Used) By Operating Activities	1,621,179	4,334,822	521,824	5,434,177
Capital assets, being depreciated:				
Buildings	14,975,651	-	24,051	14,951,600
Improvements other than buildings	57,045,261	376,158	50,051	57,371,368
Machinery and equipment	2,392,049	357,124	370,076	2,379,097
Transportation equipment	814,810	16,888	22,596	809,102
Organizational costs	<u>96,608</u>	<u>-</u>	<u>-</u>	<u>96,608</u>
Totals	<u>75,324,379</u>	<u>750,170</u>	<u>466,774</u>	<u>75,607,775</u>
Less accumulated depreciation for:				
Buildings	5,733,545	375,286	19,691	6,089,140
Improvements other than buildings	17,132,522	969,779	10,239	18,092,062
Machinery and equipment	1,294,041	103,583	237,905	1,159,719
Transportation equipment	613,308	60,186	19,686	653,808
Organizational costs	<u>96,608</u>	<u>-</u>	<u>-</u>	<u>96,608</u>
Totals	<u>24,870,024</u>	<u>1,508,834</u>	<u>287,521</u>	<u>26,091,337</u>
Total capital assets, being depreciated, net	<u>50,454,355</u>	<u>(758,664)</u>	<u>179,253</u>	<u>49,516,438</u>
Total capital assets, net	<u>\$ 52,075,534</u>	<u>\$ 3,576,158</u>	<u>\$ 701,077</u>	<u>\$ 54,950,615</u>
2011				
Capital assets, not being depreciated:				
Land	\$ 726,340	\$ -	\$ -	\$ 726,340
Construction in progress	<u>4,707,837</u>	<u>6,368,887</u>	<u>9,746,425</u>	<u>1,330,299</u>
Net Cash Provided (Used) By Operating Activities	5,434,177	6,368,887	9,746,425	2,056,639
Capital assets, being depreciated:				
Buildings	14,951,600	949,093	51,000	15,849,693
Improvements other than buildings	57,371,368	8,981,539	-	66,352,907
Machinery and equipment	2,379,097	217,277	65,360	2,531,014
Transportation equipment	809,102	112,508	67,840	853,770
Organizational costs	<u>96,608</u>	<u>-</u>	<u>-</u>	<u>96,608</u>
Totals	<u>75,607,775</u>	<u>10,260,417</u>	<u>184,200</u>	<u>85,683,992</u>
Less accumulated depreciation for:				
Buildings	6,089,140	374,660	40,800	6,423,000
Improvements other than buildings	18,092,062	976,616	-	19,068,678
Machinery and equipment	1,159,719	130,262	16,588	1,273,393
Transportation equipment	653,808	46,910	67,840	632,878
Organizational costs	<u>96,608</u>	<u>-</u>	<u>-</u>	<u>96,608</u>
Totals	<u>26,091,337</u>	<u>1,528,448</u>	<u>125,228</u>	<u>27,494,557</u>
Total capital assets, being depreciated, net	<u>49,516,438</u>	<u>8,731,969</u>	<u>58,972</u>	<u>58,189,435</u>
Total capital assets, net	<u>\$ 54,950,615</u>	<u>\$ 15,100,856</u>	<u>\$ 9,805,397</u>	<u>\$ 60,246,074</u>

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

Wastewater Utility:

2010

Capital assets, not being depreciated:				
Land	\$ 78,644	\$ 244,162	\$ 8,172	\$ 314,634
Construction in progress	-	59,159	59,159	-
	<u>78,644</u>	<u>303,321</u>	<u>67,331</u>	<u>314,634</u>
Net Cash Provided (Used) By Operating Activities	78,644	303,321	67,331	314,634
Capital assets, being depreciated:				
Buildings	2,335,566	19,948	-	2,355,514
Improvements other than buildings	13,504,356	68,799	244,162	13,328,993
Machinery and equipment	149,872	8,307	32,854	125,325
Transportation equipment	136,197	-	1,572	134,625
Organizational costs	16,319	-	-	16,319
	<u>16,142,310</u>	<u>97,054</u>	<u>278,588</u>	<u>15,960,776</u>
Totals	16,142,310	97,054	278,588	15,960,776
Less accumulated depreciation for:				
Buildings	1,560,694	62,714	-	1,623,408
Improvements other than buildings	3,191,882	339,624	-	3,531,506
Machinery and equipment	101,588	20,310	23,879	98,019
Transportation equipment	94,816	4,100	1,572	97,344
Organizational costs	11,832	408	-	12,240
	<u>4,960,812</u>	<u>427,156</u>	<u>25,451</u>	<u>5,362,517</u>
Totals	4,960,812	427,156	25,451	5,362,517
Total capital assets, being depreciated, net	<u>11,181,498</u>	<u>(330,102)</u>	<u>253,137</u>	<u>10,598,259</u>
Total capital assets, net	<u>\$ 11,260,142</u>	<u>\$ (26,781)</u>	<u>\$ 320,468</u>	<u>\$ 10,912,893</u>

2011

Capital assets, not being depreciated:				
Land	\$ 314,634	\$ -	\$ -	\$ 314,634
Construction in progress	-	-	-	-
	<u>314,634</u>	<u>-</u>	<u>-</u>	<u>314,634</u>
Net Cash Provided (Used) By Operating Activities	314,634	-	-	314,634
Capital assets, being depreciated:				
Buildings	2,355,514	8,773	-	2,364,287
Improvements other than buildings	13,328,993	90,443	82,500	13,336,936
Machinery and equipment	125,325	-	-	125,325
Transportation equipment	134,625	27,322	22,444	139,503
Organizational costs	16,319	-	-	16,319
	<u>15,960,776</u>	<u>126,538</u>	<u>104,944</u>	<u>15,982,370</u>
Totals	15,960,776	126,538	104,944	15,982,370
Less accumulated depreciation for:				
Buildings	1,623,408	63,317	-	1,686,725
Improvements other than buildings	3,531,506	342,926	38,250	3,836,182
Machinery and equipment	98,019	19,404	-	117,423
Transportation equipment	97,344	4,100	22,443	79,001
Organizational costs	12,240	408	-	12,648
	<u>5,362,517</u>	<u>430,155</u>	<u>60,693</u>	<u>5,731,979</u>
Totals	5,362,517	430,155	60,693	5,731,979
Total capital assets, being depreciated, net	<u>10,598,259</u>	<u>(303,617)</u>	<u>44,251</u>	<u>10,250,391</u>
Total capital assets, net	<u>\$ 10,912,893</u>	<u>\$ (303,617)</u>	<u>\$ 44,251</u>	<u>\$ 10,565,025</u>

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

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

2010:	
Water	\$ 1,508,834
Wastewater	<u>427,156</u>
Total depreciation expense	<u>\$ 1,935,990</u>
2011:	
Water	\$ 1,528,447
Wastewater	<u>430,155</u>
Total depreciation expense	<u>\$ 1,958,602</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	2010		2011	
	Expended to December 31,	Committed	Expended to December 31,	Committed
Water Utility:				
Phase VII	\$ 4,035,018	\$ 1,460,695	\$ -	\$ -
Pike County Tank	7,294	-	46,165	-
Ireland Tank	1,343	-	1,343	-
Taste & Odor Equipment	331,884	6,616,451	1,133,482	5,814,854
SR 37 Relocation	68,847	1,531,494	115,184	1,485,157
Springs Valley Line	262,765	3,831,410	-	-
Intake Traveling Screen	52	-	-	-
SCADA Orleans	634	-	-	-
SR 145 Lueken Extension	-	-	30	-
Baseline Road Tank	-	-	3,350	-
SR 150 Abydell Relocation	-	-	19,385	132,078
SCADA	-	-	9,800	-
Booster Stn 1 Pump Upgrade	-	-	1,560	-
Totals	<u>\$ 4,707,837</u>	<u>\$ 13,440,050</u>	<u>\$ 1,330,299</u>	<u>\$ 7,432,089</u>

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

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%	\$ 857,000	\$ -	\$ -	\$ 857,000
1994 Series B Junior Waterworks Revenue Bonds, Phase IV Construction	4.50%	1,061,000	-	-	1,061,000
2004 Waterworks Refunding Revenue Bonds	3.750 to 4.125%	4,685,000	48,215	235,618	4,401,167
2008 Waterworks Refunding Revenue Bonds	3.75 to 4.00%	3,115,000	(16,310)	418,377	2,712,933
Totals		<u>\$ 9,718,000</u>	<u>\$ 31,905</u>	<u>\$ 653,995</u>	<u>\$ 9,032,100</u>

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility	
	Principal	Interest
2012	\$ -	\$ 198,253
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
Totals	<u>\$ 9,718,000</u>	<u>\$ 2,329,322</u>

2. Loans Payable

The District has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$1,814,850, \$177,800, and \$480,000 are as follows:

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

	Water Rural Development Loan - Ph VI	Wastewater State Revolving Fund Loan	Wastewater Loan from Dubois County
2012	\$ 51,547	\$ 16,975	\$ 24,000
2013	154,903	127,287	24,000
2014	152,518	123,963	24,000
2015-2019	654,197	625,912	120,000
2020-2024	744,193	253,663	120,000
2025-2029	736,112	-	120,000
2030-2034	732,863	-	1,248,000
2035-2039	733,300	-	-
2040-2044	146,217	-	-
Totals	<u>\$ 4,105,850</u>	<u>\$ 1,147,800</u>	<u>\$ 1,680,000</u>

Under the terms of the Rural Development Loan, revenue bonds have been authorized to finance the construction of the Phase VII Water Project. The Junior Taxable Waterworks Revenue Bonds of 2010 were authorized for \$8,207,000. Funds are loaned to the Water District as costs are accrued to the Water District as costs are accrued to the maximum amount of the authorized bonds. As of December 31, 2011, \$2,242,648 had been drawn down. The Water District made an initial principal payment of \$18,000 in December 2011. The outstanding balance for this loan is \$2,224,648 as of December 31, 2011.

3. Advance Refunding

In prior years, the District defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The following outstanding bonds, at December 31, 2011, were considered defeased:

	<u>Amount</u>
1992 Waterworks Revenue Bonds, Series A	\$ 1,065,000
1993 Waterworks Revenue Bonds, Series B	330,000
1994 Waterworks Revenue Bonds, Series A	3,205,000
1996 Waterworks Revenue Bonds, Series A	3,880,000
1997 Waterworks Revenue Bonds, Series B	975,000

4. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2010 and 2011 was as follows:

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

<u>Water Utility:</u> <u>2010</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable	\$ 12,302,000	\$ -	\$ 1,272,000	\$ 11,030,000	\$ -
Less: unamortized discount	67,501	-	9,643	57,858	-
Plus: unamortized premium	27,183	-	5,436	21,747	-
Less: deferred amount on refunding	<u>1,027,160</u>	<u>-</u>	<u>186,582</u>	<u>840,578</u>	<u>-</u>
Total revenue bonds payable	11,234,522	-	1,081,211	10,153,311	-
Loans payable	<u>2,387,000</u>	<u>935,500</u>	<u>45,000</u>	<u>3,277,500</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 13,621,522</u>	<u>\$ 935,500</u>	<u>\$ 1,126,211</u>	<u>\$ 13,430,811</u>	<u>\$ -</u>
<u>2011</u>					
Revenue Bonds Payable	\$ 11,030,000	\$ -	\$ 1,312,000	\$ 9,718,000	\$ -
Less: unamortized discount	57,858	-	9,643	48,215	-
Plus: unamortized premium	21,747	-	5,436	16,311	-
Less: deferred amount on refunding	<u>840,578</u>	<u>-</u>	<u>186,582</u>	<u>653,996</u>	<u>-</u>
Total revenue bonds payable	10,153,311	-	1,121,211	9,032,100	-
Loans payable	<u>3,277,500</u>	<u>1,307,148</u>	<u>69,000</u>	<u>4,515,648</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 13,430,811</u>	<u>\$ 1,307,148</u>	<u>\$ 1,190,211</u>	<u>\$ 13,547,748</u>	<u>\$ -</u>
<u>Wastewater Utility:</u>					
<u>2010</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	<u>\$ 4,467,000</u>	<u>\$ -</u>	<u>\$ 86,000</u>	<u>\$ 4,381,000</u>	<u>\$ -</u>
<u>2011</u>					
Loans payable	<u>\$ 4,381,000</u>	<u>\$ -</u>	<u>\$ 2,211,000</u>	<u>\$ 2,170,000</u>	<u>\$ -</u>

E. Restricted Assets

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

	<u>2010</u>	<u>2011</u>
<u>Water Utility:</u>		
Bond and interest	\$ 164,736	\$ 712
Debt service reserve	<u>1,802,529</u>	<u>1,833,093</u>
Total restricted assets	<u>\$ 1,967,265</u>	<u>\$ 1,833,805</u>
<u>Wastewater Utility:</u>		
Bond and interest	\$ 2,214	\$ 4,790
Debt service reserve	<u>217,373</u>	<u>140,000</u>
Total restricted assets	<u>\$ 219,587</u>	<u>\$ 144,790</u>

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

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 5 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 17 to 60 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 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 35 to 36 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; 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 two 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 \$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. 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.

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

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 sub-recipient. The grant amount is \$3,492,061.

A bid was awarded on June 30, 2011 to Reynolds, Inc. in the amount of \$6,583,300 for Division III water treatment plant improvements. 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. Divisions I and II were completed in October 2011. Division III is scheduled for completion in September 2012.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the District on May 12, 2008. The Utility has 4,819 customers.

2. Wastewater Utility

The current rate structure was approved by the District on May 31, 2006. The Utility has 1,089 customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) 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.

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:

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

Indiana Public Retirement System
 1 North Capital Street, Suite 001
 Indianapolis, IN 46204
 Ph. (888) 526-1687

Funding Policy

PERF 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 9.75 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. The Net Pension Obligation (NPO) is considered an asset (negative NPO) and/or liability (positive NPO) of the District and is reflected as such in the Statement of Net Assets.

Annual Pension Cost

For 2011, the District's annual pension cost of \$142,657 for PERF was equal to the District's required and actual contributions.

Actuarial Information for the Above Plan

	<u>PERF</u>
Annual required contribution	\$ 188,323
Interest on net pension obligation	(4,130)
Adjustment to annual required contribution	<u>4,755</u>
Annual pension cost	\$ 188,948
Contributions made	<u>105,688</u>
Increase in net pension obligation	\$ 83,260
Net pension obligation, beginning of year	<u>(59,007)</u>
Net pension obligation, end of year	<u>\$ 24,253</u>
Contribution rates:	
Government	9.75%
Plan members	3%
Actuarial valuation date	07-01-11
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar, closed amortization period
Amortization period	30 years
Amortization period (from date)	07-01-09
Asset valuation method	4 year smoothing of gains/losses on market value with a 20% corridor

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

<u>Actuarial Assumptions</u>	<u>PERF</u>
Investment rate of return	7%
Projected future salary increases:	
Total	3.25%-4.5%
Cost-of-living adjustments	1%

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	-----	-----	-----	-----
	06-30-09	\$ 134,719	98%	\$ (36,554)
	06-30-10	148,457	115%	(59,007)
	06-30-11	188,948	56%	24,253

Funded Status and Funding Progress for the Above Plan

The funded status of each plan as of July 1, 2011, the most recent actuarial valuation date is as follows:

<u>Retirement Plan</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded (AAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)</u>
06-30-11	\$ 1,165,905	\$ 2,435,085	\$ 1,269,180	48%	\$ 1,893,412	67%

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, 2010, and 2011 is as follows:

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

	<u>2010</u>	<u>2011</u>
Beginning fund balance January 1	\$ 171,179	\$ 174,467
Transfer of employer contributions	9,162	517
Disbursements	6,505	
Reinvested net earnings	<u>631</u>	<u>759</u>
Ending fund balance December 31	<u>\$ 174,467</u>	<u>\$ 175,743</u>

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)
07-01-06	\$ 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%)
07-01-10	1,410,646	2,402,656	(992,009)	59%	1,883,750	(53%)
07-01-11	1,165,905	2,435,085	(1,269,180)	48%	1,893,412	(67%)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
AUDIT RESULT AND COMMENT

PENALTIES, INTEREST, AND OTHER CHARGES

During 2011, \$1,110 in penalties and interest was paid to the Indiana Department of Revenue for late payment of sales tax for the period of February, 2011.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Patoka Lake Regional Water and Sewer District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2010 and 2011. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied in all material respects with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2010 and 2011.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A deficiency in a District's 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the District's management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 20, 2012

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2010 and 2011

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-10	Total Federal Awards Expended 12-31-11
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	IN-703-91-26	\$ 934,864	\$ 1,307,522
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Orange County				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	DR2-09-069	2,776,565	691,243
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through Indiana Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	#0710982	46,264	61,601
		NH-075-8	5,659	-
		#0710978	-	16,164
Total for Cluster			51,923	77,765
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Department of Environmental Management				
Nonpoint Source Implementation Grants	66.460	EDS#A305-7-7157	147,877	-
Total federal awards expended			\$ 3,911,229	\$ 2,076,530

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:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.781	Water and Waste Disposal Systems for Rural Communities State-Administered CDBG Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on June 20, 2012, with John Noblitt, President of the Board; Thomas Lamb, Treasurer; Bruce Heeke, General Manager; and Doug Merkel, Controller. The officials concurred with our audit findings.