

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

FINANCIAL STATEMENTS AUDIT REPORT
PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
DUBOIS COUNTY, INDIANA
January 1, 2014 to December 31, 2014



FILED
12/11/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Bruce Heeke Doug Merkel	01-01-14 to 05-31-15 06-01-15 to 12-31-17
Water Transmission and Distribution Superintendent	Shawn Kluesner	01-01-14 to 08-10-15
Operations Manager	Shawn Kluesner	06-01-15 to 12-31-17
Water Plant Superintendent	Jerry Allstott	01-01-14 to 12-31-17
Wastewater Superintendent	Troy Wheeler	01-01-14 to 12-31-17
Controller	Doug Merkel Craig Adams	01-01-14 to 10-25-15 10-26-15 to 12-31-17
Treasurer	Thomas Lamb Pat Seger	01-01-14 to 12-31-16 01-01-17 to 12-31-17
President of the Board	John F. Noblitt	01-01-14 to 12-31-17



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Patoka Lake Regional Water and Sewer District (District), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District, as of December 31, 2014, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

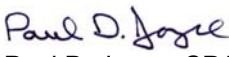
As discussed in Note I.E. to the financial statements, the District implemented new accounting guidance, GASB Statement 68 *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Paul D. Joyce, CPA
State Examiner

December 7, 2017

BASIC FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
As of December 31, 2014

	2014	
	Water	Wastewater
Assets		
Current Assets:		
Unrestricted:		
Operating Cash and Cash Equivalents	\$ 701,801	\$ 95,096
Accounts Receivable - Customers	669,731	99,960
Accounts Receivable - Other	900	-
Inventories	901,892	102,734
Land Held For Resale	32,070	97,910
Total Unrestricted Current Assets	<u>2,306,394</u>	<u>395,700</u>
Restricted:		
Restricted Cash, Cash Equivalents and Investments:		
Bond and Interest Cash and Cash Equivalents	1,000	1,000
Bond and Interest Investments	2,373,685	-
Debt Service Reserve Investments	2,747,701	140,000
Improvement Cash and Cash Equivalents	40,252	12,000
Construction Cash and Cash Equivalents	1,889,778	-
Improvement Investments	10,528,968	3,708,552
Construction Investments	12,500,000	-
Interest Receivable	15,057	2,582
Total Restricted Current Assets	<u>30,096,441</u>	<u>3,864,134</u>
Noncurrent Assets:		
Capital Assets:		
Land, Improvements to Land, and Construction in Progress	12,562,948	314,634
Other Capital Assets (Net of Accumulated Depreciation)	63,377,781	9,271,887
Total Capital Assets	<u>75,940,729</u>	<u>9,586,521</u>
Total Assets	<u>108,343,564</u>	<u>13,846,355</u>
Deferred Outflows of Resources:		
Deferred Losses on Refunding	285,817	-
Deferred Regulatory Assets	1,471,416	-
Deferred Pension	98,293	12,572
Total Deferred Outflows of Resources	<u>1,855,526</u>	<u>12,572</u>
Total Assets and Deferred Outflows	<u>\$ 110,199,090</u>	<u>\$ 13,858,927</u>

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
As of December 31, 2014

	2014	
	Water	Wastewater
Liabilities		
Current Liabilities:		
Unrestricted:		
Accounts Payable	\$ 186,181	\$ 15,833
Accrued Payroll and Withholdings Payable	81,083	7,262
Taxes Payable	11,315	-
Advances for Construction	32,598	-
Total Unrestricted Current Liabilities	<u>311,177</u>	<u>23,095</u>
Restricted:		
Accrued Interest Payable	132,454	-
Loans Payable	20,000	-
Contracts Payable	817,273	-
Total Restricted Current Liabilities	<u>969,727</u>	<u>-</u>
Total Current Liabilities	<u>1,280,904</u>	<u>23,095</u>
Noncurrent Liabilities:		
Restricted:		
Revenue Bonds Payable (net of unamortized discounts/premiums)	33,403,221	-
Loans Payable	8,131,000	1,880,000
Net Pension Liability	917,292	117,326
Total Restricted Noncurrent Liabilities	<u>42,451,513</u>	<u>1,997,326</u>
Total Noncurrent Liabilities	<u>42,451,513</u>	<u>1,997,326</u>
Total Liabilities	<u>43,732,417</u>	<u>2,020,421</u>
Deferred Inflows of Resources		
Deferred pension	182,481	23,340
Total liabilities and deferred inflows of resources	<u>\$ 43,914,898</u>	<u>\$ 2,043,761</u>
Net Position		
Net Investment in Capital Assets		
Restricted	\$ 49,616,227	\$ 7,589,195
Unrestricted	14,756,936	3,864,134
	1,911,029	361,837
Total Net Position	<u>\$ 66,284,192</u>	<u>\$ 11,815,166</u>

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For The Twelve Months Ended December 31, 2014

	2014	
	Water	Wastewater
Operating Revenues:		
Unmetered Water Revenue	\$ 67	\$ -
Metered Water Revenue		
Residential	2,548,657	-
Wholesale	4,701,147	-
Measured Revenue		
Residential/Commercial	-	815,924
Industrial	-	286,835
Other	46,022	17,069
Total Operating Revenues	7,295,893	1,119,828
Operating Expenses:		
Source of Supply and Expense/Collection System Expense:		
Operations and Maintenance	346,900	94,502
Transmission and Distribution	1,436,061	-
Treatment and Disposal - Operations and Maintenance	1,161,469	332,204
Customer Accounts	51,169	9,835
Administration and General	747,925	84,438
Depreciation and Amortization	2,014,090	438,485
Total Operating Expenses	5,757,614	959,464
Operating Income	1,538,279	160,364
Nonoperating Revenues (Expenses):		
Interest and Investment Revenue	133,225	28,160
Gain on Disposal of Assets	25,575	-
Amortization of Bond Issue Costs	(73,120)	-
Interest Expense	(597,768)	(51,300)
Total Nonoperating Revenues (Expenses)	(512,088)	(23,140)
Income Before Contributions	1,026,191	137,224
Capital Contributions	91,520	2,545
Change in Net Position	1,117,711	139,769
Total Net Position - Beginning	66,167,961	11,803,491
Restatement - See Note I.E.	(1,001,480)	(128,094)
Net position - beginning after restatement	65,166,481	11,675,397
Total Net Position - Ending	\$ 66,284,192	\$ 11,815,166

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
For the Twelve Months Ended December 31, 2014

	2014	
	Water	Wastewater
Cash Flows From Operating Activities:		
Receipts from customers and users	\$ 7,287,982	\$ 1,116,391
Payments to Suppliers	(912,962)	(296,088)
Payments to Employees	(2,318,606)	(259,151)
	4,056,414	561,152
Net Cash Provided (Used) By Operating Activities		
Cash Flows From Capital and Related Financial Activities:		
Capital contributions	91,520	2,545
Acquisition and construction of capital assets	(11,591,042)	(106,622)
Principal Paid on Capital Debt	(1,715,000)	(100,000)
Interest Paid on Capital Debt	(429,664)	(51,300)
Bond Proceeds	13,034,379	-
Issuance Costs	(599,735)	-
	(1,209,542)	(255,377)
Net Cash Used By Capital and Related Financing Activities		
Cash Flows From Investing Activities:		
Proceeds from Sales and Maturities of Investments	15,896,910	457,211
Purchase of Investments	(18,659,653)	(808,200)
Interest Received	123,635	27,010
	(2,639,108)	(323,979)
Net Cash Provided (Used) By Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	207,764	(18,204)
Cash and Cash Equivalents, January 1	2,425,067	126,300
Cash and Cash Equivalents, December 31	\$ 2,632,831	\$ 108,096
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating Income	\$ 1,538,279	\$ 160,364
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense and Amortization Expense	2,014,090	438,485
Bad Debt Expense	516	1,779
(Increase) Decrease in Assets:		
Accounts Receivable	(7,911)	(3,437)
Inventories	(80,884)	(2,800)
Prepaid Items	46,641	-
Increase (Decrease) in Liabilities:		
Accounts Payable	896,716	(6,671)
Advances for Construction	(10,207)	-
Accrued Payroll and Withholdings Payable	21,052	2,095
Compensated Absences Write-off	(360,170)	(28,663)
Taxes Payable	(1,708)	-
	2,518,135	400,788
Total Adjustments		
Net Cash Provided by Operating Activities	\$ 4,056,414	\$ 561,152
Noncash Investing, Capital and Financing Activities:		
Transfer of Construction-in-Progress to Capital Asset	\$ 43,084	\$ 45,408
Amortization of Unamortized Bond Issue Costs	73,120	-
Disposal of Capital Assets Fully Depreciated	63,261	-

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

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Financial Statements

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

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

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

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

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

D. Assets, Liabilities and Net Position

1. Deposits and Investments

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

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

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

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

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

2. Inventories

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

3. Restricted Assets

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

The financial statements report \$30,096,441 and \$3,864,134 of restricted assets as of December 31, 2014 for water and wastewater, respectively. All of the restricted assets were restricted by enabling legislation.

4. Capital Assets

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

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

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

	<u>Capitalization</u> <u>Threshold</u>	<u>Depreciation</u> <u>Method</u>	<u>Estimated</u> <u>Useful Life</u>
<u>Water Utility:</u>			
Infrastructure	\$ 5,000	Straight-line	10 to 60 years
Buildings	5,000	Straight-line	10 to 40 years
Improvements other than buildings	5,000	Straight-line	10 to 60 years
Machinery and equipment	5,000	Straight-line	5 to 60 years
Transportation equipment	5,000	Straight-line	5 to 7 years
Organization Costs	5,000	Straight-line	15 years
<u>Wastewater Utility:</u>			
Buildings	5,000	Straight-line	5 to 40 years
Infrastructure	5,000	Straight-line	5 to 60 years
Machinery and equipment	5,000	Straight-line	5 to 10 years
Transportation equipment	5,000	Straight-line	5 years
Organization Costs	5,000	Straight-line	40 years

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 offset by interest earned on construction funds and included as part of the capitalized value of the assets constructed. Interest expense incurred by the District during the year ended December 31, 2014 was \$597,768 and \$51,300 for water and wastewater, respectively. Interest incurred and capitalized as part of the cost of capital assets under construction for water during the year ended December 31, 2014 was \$633,311.

5. Deferred Outflow / Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditures) until then. Items that qualify for reporting in this category include a deferred charge on refunding resulting from the difference in the carrying value of the refunded debt and its reacquisition price, debt issuance costs as a regulatory asset per GASB No. 62, with amortization over the life of the related debt and pension contributions subsequent to the measurement date of June 30, 2014.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item that qualifies for reporting in this category. The item relates the implementation of GASB No. 68 to recognize the liability associated with the District's pension plans.

6. Compensated Absences

- a. Sick Leave – District employees earn sick leave at the rate of 4 hours per month. Unused sick leave may be accumulated indefinitely. However, if the employee retires at age 65 with at least 10 years of service, the employee will be paid for their accumulated sick leave at the employee's regular rate of pay up to a maximum of \$20,000.
- b. Vacation Leave – District employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate. However, the employee is permitted to carry over the amount of vacation leave they can earn in one year to the next year.
- c. Personal Leave – District employees earn personal leave at the rate of 3 days per year. Unused personal leave may be accumulated to sick leave at the end of the year.

7. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts, as well as issuance costs (per GASB No. 62), 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.

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

8. Equity Classification

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

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

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

9. Revenues and Expenditures

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

E. Restatements

For the year ended December 31, 2014, certain changes have been made to the financial statements to more appropriately reflect financial activity of the District.

The restatement is due to a change in accounting principles; with the implementation of GASB 68, the net pension asset/liability is now included on the financial statements for the District PERF plans.

	Water	Wastewater
Net Position - as reported December 31, 2013	\$ 66,167,961	\$ 11,803,491
Implementation of GASB 68		
Deferred outflow	98,293	12,572
Net pension liability	(917,292)	(117,326)
Deferred inflow	(182,481)	(23,340)
	(1,001,480)	(128,094)
Total implementation of GASB 68		
Net Position - beginning of period, as adjusted	\$ 65,166,481	\$ 11,675,397

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

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. At December 31, 2014, the District had deposit balances in the amount of \$34,739,833.

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, 2014 was as follows:

Water Utility: <u>2014</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 726,340	\$ -	\$ -	\$ 726,340
Construction in progress	724,193	11,157,158	44,743	11,836,608
Total capital assets, not being depreciated	<u>1,450,533</u>	<u>11,157,158</u>	<u>44,743</u>	<u>12,562,948</u>
Capital assets, being depreciated:				
Infrastructure	73,246,021	231,840	-	73,477,861
Buildings	14,915,359	19,130	-	14,934,489
Improvements other than buildings	8,000	-	-	8,000
Machinery and equipment	6,428,447	167,753	51,311	6,544,889
Transportation equipment	864,801	53,602	11,950	906,453
Organizational costs	96,608	-	-	96,608
Totals	<u>95,559,236</u>	<u>472,325</u>	<u>63,261</u>	<u>95,968,300</u>
Less accumulated depreciation for:				
Infrastructure	21,962,938	1,239,802	-	23,202,740
Buildings	6,592,488	373,327	-	6,965,815
Improvements other than buildings	8,000	-	-	8,000
Machinery and equipment	1,327,890	343,894	75,386	1,596,398
Transportation equipment	682,763	50,145	11,950	720,958
Organizational costs	96,608	-	-	96,608
Totals	<u>30,670,687</u>	<u>2,007,168</u>	<u>87,336</u>	<u>32,590,519</u>
Total capital assets, being depreciated, net	<u>64,888,549</u>	<u>(1,534,843)</u>	<u>(24,075)</u>	<u>63,377,781</u>
Total capital assets, net	<u>\$ 66,339,082</u>	<u>\$ 9,622,315</u>	<u>\$ 20,668</u>	<u>\$ 75,940,729</u>

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

<u>Wastewater Utility:</u> <u>2014</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 314,634	\$ -	\$ -	\$ 314,634
Construction in progress	-	45,408	45,408	-
 Total capital assets, not being depreciated	 314,634	 45,408	 45,408	 314,634
Capital assets, being depreciated:				
Infrastructure	13,458,928	106,623	22,500	13,543,051
Buildings	2,420,621	-	-	2,420,621
Machinery and equipment	103,291	-	-	103,291
Transportation equipment	161,276	-	-	161,276
Organizational costs	16,319	-	-	16,319
 Totals	 16,160,435	 106,623	 22,500	 16,244,558
Less accumulated depreciation for:				
Infrastructure	4,530,724	350,567	22,500	4,858,791
Buildings	1,812,478	69,954	-	1,882,432
Machinery and equipment	94,988	4,274	-	99,262
Transportation equipment	105,032	13,282	-	118,314
Organizational costs	13,464	408	-	13,872
 Totals	 6,556,686	 438,485	 22,500	 6,972,671
 Total capital assets, being depreciated, net	 9,603,749	 (331,862)	 -	 9,271,887
 Total capital assets, net	 \$ 9,918,383	 \$ (286,454)	 \$ 45,408	 \$ 9,586,521

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

	<u>2014</u>
Water	\$ 2,007,168
Wastewater	<u>438,485</u>
 Total depreciation expense	 <u>\$ 2,445,653</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:

<u>Project</u>	<u>2014</u>	
	<u>Expended to December 31,</u>	<u>Committed</u>
<u>Water Utility:</u>		
Pike County Tank	\$ 48,865	\$ 37,500
Ireland Tank	1,342	-
Baseline Road Tank	1,928,497	551,213
Optical Road Line Extension	4,800	-
Santine Road Relocation	31,623	-
Phase VIII Water Plt Expans	8,284,148	1,462,697
Phase VIII Ph I Main Reinf	825,440	9,347,200
Phase VIII North Main Reinf	701,832	68,801
Phase VIII WP 1 Elec Upgrade	10,060	335,195
	<u> </u>	<u> </u>
Totals	<u>\$ 11,836,607</u>	<u>\$ 11,802,606</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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Balance at December 31</u>	<u>Less: Unamortized (Premium) Discount</u>	<u>Amount</u>
2012A Waterworks Refunding Revenue Bonds	1.45%	\$ 4,340,000	\$ -	\$ 4,340,000
2012B Waterworks Refunding Revenue Bonds	2.55%	1,975,000	-	1,975,000
2013 Waterworks Revenue Bonds	3.00 to 4.75%	14,000,000	(53,841)	14,053,841
2014A Waterworks Refunding Revenue Bonds	2.15%	3,170,000	-	3,170,000
2014B Waterworks Refunding Revenue Bonds	4.00 to 4.50%	9,830,000	(34,379)	9,864,379
		<u> </u>	<u> </u>	<u> </u>
Total		<u>\$ 33,315,000</u>	<u>\$ (88,220)</u>	<u>\$ 33,403,220</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
2015	\$ -	\$ 648,769
2016	1,745,000	1,173,880
2017	1,770,000	1,148,396
2018	925,000	1,124,226
2019	945,000	1,101,333
2020-2024	5,110,000	5,119,525
2025-2029	5,920,000	4,224,439
2030-2034	7,170,000	2,928,050
2035-2039	7,925,000	1,328,083
2040-2044	1,805,000	40,612
Totals	<u>\$ 33,315,000</u>	<u>\$ 18,837,313</u>

2. Loans Payable

The District has entered into loans. Annual debt service requirements to maturity for the loans, including interest of \$6,794,878 and \$507,577, are as follows:

	Water Rural Development Loan	Wastewater State Revolving Fund Loan	Wastewater Loan from Dubois County
	2015	\$ 284,583	\$ 25,550
2016	284,916	126,963	24,000
2017	285,217	123,288	24,000
2018	325,820	124,525	24,000
2019	325,707	125,588	24,000
2020-2024	1,623,751	253,663	120,000
2025-2029	1,623,460	-	120,000
2030-2034	1,622,018	-	1,248,000
2035-2039	2,421,032	-	-
2040-2044	3,004,494	-	-
2046-2049	3,144,880	-	-
Totals	<u>\$ 14,945,878</u>	<u>\$ 779,577</u>	<u>\$ 1,608,000</u>

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

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, 2014, were considered defeased:

	<u>Amount</u>
1994 Waterworks Revenue Bonds, Series A	\$ 1,260,000
1996 Waterworks Revenue Bonds, Series A	3,370,000
1997 Waterworks Revenue Bonds, Series B	525,000
2004 Waterworks Revenue Bonds, Series A	3,950,000

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014 was as follows:

<u>Water Utility:</u> <u>2014</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 22,010,000	\$ 13,000,000	\$ 1,695,000	\$ 33,315,000	\$ -
Less: unamortized discount	-	-	-	-	-
Plus: unamortized premium	<u>61,529</u>	<u>34,379</u>	<u>7,687</u>	<u>88,221</u>	<u>-</u>
Total revenue bonds payable	22,071,529	13,034,379	1,702,687	33,403,221	-
Loans payable	8,171,000	-	20,000	8,151,000	20,000
Accrued unused sick pay payable	360,170	-	360,170	-	-
Net pension liability - (see Note I.E.)	<u>-</u>	<u>917,292</u>	<u>-</u>	<u>917,292</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 30,602,699</u>	<u>\$ 13,951,671</u>	<u>\$ 2,082,857</u>	<u>\$ 42,471,513</u>	<u>\$ 20,000</u>
<u>Wastewater Utility:</u> <u>2014</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans payable	\$ 1,980,000	\$ -	\$ 100,000	\$ 1,880,000	\$ -
Accrued unused sick pay payable	28,663	-	28,663	-	-
Net pension liability - (see Note I.E.)	<u>-</u>	<u>117,326</u>	<u>-</u>	<u>117,326</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 2,008,663</u>	<u>\$ 117,326</u>	<u>\$ 128,663</u>	<u>\$ 1,997,326</u>	<u>\$ -</u>

Accrued unused sick pay payable is no longer considered a long-term liability because employees are not guaranteed to receive this benefit. It is only received if an employee retires on the date of their 65th birthday.

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

E. Restricted Assets

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

	2014
<u>Water Utility:</u>	
Bond and interest	\$ 2,374,685
Debt service reserve	2,747,701
Improvement	10,569,220
Construction	14,389,778
 Total restricted assets	 \$ 30,081,384
 <u>Wastewater Utility:</u>	
Bond and interest	\$ 1,000
Debt service reserve	140,000
Improvement	3,720,552
 Total restricted assets	 \$ 3,861,552

F. Revenues Pledged

Water Utility Revenues Pledged

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

The District has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2013. Proceeds from the bonds provided financing for Phase VIII improvements. The bonds are payable solely from water net revenues and are payable through 2038. Annual principal and interest payments are expected to require 17% to 29% of net revenues.

The District has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2014. Proceeds from the bonds provided financing for Phase VIII improvements. The bonds are payable solely from water net revenues and are payable through 2039. Annual principal and interest payments are expected to require 13% to 66% 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.

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

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 year 2014. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents

The District has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the Water Operating fund. An excess policy through commercial insurance covers individual claims in excess of \$7,000 for single plans and \$14,000 for family plans per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past two years.

B. Subsequent Events

Phase VIII Water Project

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

Bids were awarded on December 9, 2013 to Mitchell and Stark Construction Co. Inc. in the amount of \$7,796,000 for Division I water treatment expansion and to Mid-Atlantic Storage Solutions, Inc. in the amount of \$2,143,000 for Division II elevated water storage tank. Division I was completed in April 2015 and Division II was completed in August 2015. Bids were awarded on June 9, 2014 to Reed and Sons Construction Co. Inc. in the amount of \$683,841 for Division IV main reinforcement to the north and on December 8, 2014 to Infrastructure Systems Inc. in the amount of \$10,262,000 for Division III main reinforcement of Phase I. Division IV was completed in December 2014 and Division III was completed in July 2016.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the District on May 12, 2008. The Utility has 5,046 customers.

2. Wastewater Utility

The current rate structure was approved by the District on May 31, 2006. The Utility has 1,081 customers.

D. Pension Plan

Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

The District contributes to the Public Employees' Retirement Fund (PERF) a cost-sharing, multiple-employer defined benefit plan based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10-2.2-11(b). State statutes (IC 5-10.2, 5-10.3 and IC 5-10.5) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system and give the District authority to contribute to the plan. There are two components to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan). Prior to July 1, 2016, the PERF Hybrid Plan is the only plan available to the District. There are two components of the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

INPRS administers the plan and issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report is available online at www.in.gov/inprs/annualreports.htm or may be obtained by contacting:

Indiana Public Retirement System
 One North Capitol, Suite 001
 Indianapolis, IN 46204
 Ph. (888) 526-1687

Membership

The District's PERF members become participants by ordinance or resolution of the governing body, which specifies the classifications of employees who will become members of the PERF Hybrid Plan. The ordinance or resolution is then filed with and approved by INPRS. In order to be a member, employees hired after June 30, 1982, must occupy positions normally requiring performance of service of more than 1,000 hours during a year.

As of December 31, 2014, the PERF membership consisted of:

Retired members, beneficiaries, and disabled members receiving benefits	6
Inactive vested members entitled to but not yet receiving benefits	-
Inactive non-vested members entitled to a distribution of ASA balance	-
Active members, vested and non-vested	38
	44
Total	44

Contributions

The PERF Hybrid Plan members are obligated, by state statute, to make contributions to the plan. The required contributions of the plan members and District are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. The current contribution rate is 11.19 percent of annual covered payroll.

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

For 2014, the District's annual pension cost of \$203,997 for INPRS was equal to the District's required and actual contributions.

Retirement Benefits – Defined Benefit Pension

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity saving account (ASA). Pension benefits (non ASA) vest after ten years of creditable service. The vesting period is eight years for certain elected officials. Members are immediately vested in their annuity savings account. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait thirty days after termination, may withdraw their annuity savings account and will not forfeit creditable service or full retirement benefit. However, if a member is eligible for a full retirement at the time of withdrawal request, the member will have to begin drawing the member's pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw from the annuity savings account after 30 days, but by doing so, forfeits the member's creditable service. A member who returns to covered service and works no less than six months in a covered position may reclaim the member's forfeited creditable service.

A member who has reached age sixty-five and has at least ten years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in calculation uses the highest twenty calendar quarters of salary in a covered position. All twenty calendar quarters do not need to be continuous, but they must be in groups of four consecutive calendar quarters. The same calendar quarter may not be included in two different groups. For PERF members who serve as an elected official, the highest one year (total of four consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as a part of the member's annual compensation.

A member who has reached age sixty and has at least fifteen years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least fifty-five years old and whose age plus number of years of creditable service is at least eighty-five is entitled to 100 percent of the benefits, as described above.

A member who has reached at least the age of fifty and has a least fifteen years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age fifty-nine, the early retirement percentage of the normal annual pension benefit is 89 percent. The amount is reduced five percentage points per year.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the period ending June 30, 2014.

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

Disability and Survivor Benefits

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service, on FLMA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with fifteen or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two or more years, or surviving dependent children under the age of eighteen. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age fifty or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who has at least sixty-five years of age and had at least ten but not more than fourteen years of creditable service.

Retirement Benefits – Annuity Savings Account

Members are required to participate in an ASA. The ASA consists of the member's contributions, set by statute at 3 percent of compensations, as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of the compensation into their ASA. A member's contribution and interest credits belong to the member and do not belong to the primary government.

Investments in the members' ASA are individually directed and controlled by the plan participants who direct the investment of their account balances among the following eight investment options, with varying degrees of risk and return potential:

1. Guaranteed Fund – This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.
2. Large Cap Equity Index Fund – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.
3. Small/Mid Cap Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in the stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.
4. International Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in the stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.
5. Fixed Income Fund – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.
6. Inflation-Linked Fixed Income Fund – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.

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

7. Target Date Funds – The Funds are designated to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the Fund most appropriate for the member, based upon the year in which the member plans to withdraw money (usually the member's retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.
8. Money Market Fund – This fund's objective is to provide a market rate of return consistent with the preservation of capital through a shorter maturity, high quality portfolio. Market risk is assumed by the member.

Actuarial Information for the Above Plan

At December 31, 2014, the District reported a net pension liability of \$1,034,618 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date for the above plan.

The District's proportionate percentage, deferred outflows of resources, deferred inflows of resources, net pension liability and pension expense for the above plan is shown in the following table:

2014	PERF Water	PERF Wastewater	Totals
Proportionate share	0.0003937	0.0003937	
Net pension asset	\$ -	\$ -	\$ -
Net pension liability	917,292	117,326	1,034,618
Deferred outflow of resources	98,293	12,572	110,865
Deferred inflow of resources	182,481	23,340	205,821
Pension expense/(income)	86,785	11,100	97,885

The District's proportion of the Net Pension Liability was based on wages reported by employers relative to the collective wages of the plan.

The components of the Net Pension Liability as of June 30, 2014 (measurement date) are as follows:

2014	PERF Water	PERF Wastewater
Total Pension Liability	\$ 5,840,456	\$ 747,020
Plan Fiduciary Net Position	4,923,164	629,694
Net Pension Asset	-	-
Net Pension Liability	917,292	117,326
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	84.3%	84.3%

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

At December 31, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Average Remaining Service Life for 2014:	PERF Water 4.50 years		PERF Wastewater 4.50 years	
	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ 4,116	\$ -	\$ 527
Net difference between projected and actual investment earnings on pension plan investments	-	178,270	-	22,801
Changes of assumptions	-	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,905	95	755	12
Contributions subsequent to the measurement date	<u>92,388</u>	<u>-</u>	<u>11,817</u>	<u>-</u>
Total	<u>\$ 98,293</u>	<u>\$ 182,481</u>	<u>\$ 12,572</u>	<u>\$ 23,340</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Amortization of Net Deferred Outflows/(Inflows) of Resources - Debit/(Credit)	PERF
2015	\$ (49,722)
2016	(49,722)
2017	(49,722)
2018	(49,995)
2019	-
Thereafter	<u>-</u>
Total	<u>\$ (199,161)</u>

The components of the pension expense as of June 30, 2014 are as follows:

	PERF Water	PERF Wastewater
Proportionate share of plan pension expense	\$ 85,125	\$ 10,888
Net amortization of deferred amounts from changes in proportion and difference between employer contributions and proportionate share of contributions	<u>1,660</u>	<u>212</u>
Total pension expense	<u>\$ 86,785</u>	<u>\$11,100</u>

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

PERF - 2014

Measurement date	June 30, 2014
Valuation date	
Assets	June 30, 2014
Liabilities	June 30, 2013 - Member census data as of June 30, 2013 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2013 and June 30, 2014. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2013 to June 30, 2014 measurement date.
Inflation	3.00%
Future salary increases	3.25% - 4.50%
Cost-of-living increases	1.00% compounded annually on employer funded pension, beginning January 1, 2016. Retired members were provided a 13th check by October 1, 2013, and were provided a 13th check by October 1, 2014, which is reflected in the valuation.
Mortality assumption	2013 IRS Static Mortality Tables projected five (5) years with Scale AA.
Experience study	The most recent comprehensive experience study was completed in 2011 and was based on member experience between June 30, 2005 and June 30, 2010. The demographic assumptions were updated as needed for the June 30, 2011 actuarial valuation based on the results of the study. The mortality assumption was further undated for the June 30, 2012 valuation. Assumptions concerning ASA annuitization have also been modified for both the June 30, 2013 and June 30, 2014 valuations.
Discount rate	The discount rate used to measure the total pension liability was 6.75% as of June 30, 2014, and is equal to the long-term expected return on plan investments. The projection of cash flows used to determine the discount rate assumed that employer contributions would be made at the actuarially calculated rate computed in accordance with the current funding policy adopted by the Board, which requires payment of normal cost and amortization of unfunded actuarially accrued liability in level dollar installments over 30 years utilizing a closed period approach. Since the current funding policy was adopted, the employer contribution rate has been set by the Board at a level equal to or exceeding the actuarially calculated rate. Based on this assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the net pension liability to changes in the discount rate

PERF - 2014

	1% Decrease	Current Rate	1% Increase
Discount rate sensitivity	5.75%	6.75%	7.75%
Net pension liability/(asset)	\$ 1,660,916	\$ 1,034,618	\$ 503,982

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

Asset allocation of the pension plan's portfolio

For the PERF Plan, the long-term return expectation has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

	<u>Target Asset Allocation</u>	<u>Geometric Basis Long-Term Expected Real Rate of Return</u>
Public Equity	22.5%	6.0%
Private Equity	10.0%	7.7%
Fixed Income – Ex inflation-linked	22.0%	2.1%
Fixed Income – Inflation-linked	10.0%	0.5%
Commodities	8.0%	2.5%
Real Estate	7.5%	3.9%
Absolute Return	10.0%	1.8%
Risk Parity	10.0%	4.3%

Money-weighted rate of return

The money-weighted rate of return equals investment performance, net of pension plan investment expense, adjusted for the changing amount actually invested. For the measurement date of June 30, 2014, the money-weighted return on the plan assets is 12.7% for the PERF Plan.

Basis of Accounting

The financial statements of INPRS have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Under the accrual basis, revenues are recognized when liabilities are incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations. Investments are reported at fair value.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pensions expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the INPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

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 full time employees as members of such association or their dependents or designated beneficiaries of the trust. Funds that are placed in the trust cannot revert to the District under any circumstances; therefore, the financial statements do not include the value of these assets.

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

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 year ending December 31, 2014 is as follows:

	<u>2014</u>
Beginning fund balance January 1	\$ 176,747
Transfer of employer contributions	-
Disbursements	-
Reinvested net earnings	<u>424</u>
Ending fund balance December 31	<u>\$ 177,171</u>

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REQUIRED SUPPLEMENTARY INFORMATION

The subsequent schedules were provided by management of the District. The schedules are presented as intended by the District.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PERF – Water	
2014	
Proportion of the net pension liability	0.0003937
Proportionate share of the net pension liability	\$ 917,292
Covered payroll	1,704,309
Proportionate share of the net pension liability as a percentage of covered payroll	53.8%
Plan fiduciary net position as a percentage of the total pension liability	84.3%

PERF – Wastewater	
2014	
Proportion of the net pension liability	0.0003937
Proportionate share of the net pension liability	\$ 117,326
Covered payroll	217,988
Proportionate share of the net pension liability as a percentage of covered payroll	53.8%
Plan fiduciary net position as a percentage of the total pension liability	84.3%

The amounts presented for each fiscal year were determined as of the June 30 measurement date.

SCHEDULES OF DISTRICT CONTRIBUTIONS

PERF – Water					
Year Ending	Contractually Determined Contributions (a)	Contributions in Relation to the Contractually Determined Contributions (b)	Contribution Excess / (Deficiency) (b) – (a)	Covered Employer Payroll (c)	Contributions as a Percentage of Covered Payroll (b) / (c)
12-31-14	\$ 92,388	\$ 92,388	\$ -	\$ 1,704,309	5.4%

PERF – Wastewater					
Year Ending	Contractually Determined Contributions (a)	Contributions in Relation to the Contractually Determined Contributions (b)	Contribution Excess / (Deficiency) (b) – (a)	Covered Employer Payroll (c)	Contributions as a Percentage of Covered Payroll (b) / (c)
12-31-14	\$ 11,817	\$ 11,817	\$ -	\$ 217,988	5.4%

Note: GASB 68 requires information to be shown for ten years. Until a full ten years trend is compiled, information will be shown for those years for which the information is available.

The notes to the required supplementary information are an integral part of the required supplementary information.

OTHER REPORTS

In addition to this report, other reports may have been issued for the District. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.