

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, 2015 to December 31, 2016



FILED
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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Bruce Heeke Doug Merkel	01-01-15 to 05-31-15 06-01-15 to 12-31-18
Water Transmission and Distribution Superintendent	Shawn Kluesner	01-01-15 to 08-10-15
Operations Manager	Shawn Kluesner	06-01-15 to 12-31-18
Water Plant Superintendent	Jerry Allstott	01-01-15 to 12-31-18
Wastewater Superintendent	Troy Wheeler	01-01-15 to 12-31-18
Controller	Doug Merkel Craig Adams	01-01-15 to 10-25-15 10-26-15 to 12-31-18
Treasurer	Thomas Lamb Patrick Seger	01-01-15 to 12-31-16 01-01-17 to 12-31-18
President of the Board	John F. Noblitt John Wade	01-01-15 to 12-31-17 01-01-18 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Patoka Lake Regional Water and Sewer District (District), as of and for the years ended December 31, 2015 and 2016, 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, 2015 and 2016, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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

January 25, 2018

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, 2015 and 2016

	2015		2016	
	Water	Wastewater	Water	Wastewater
Assets				
Current Assets:				
Unrestricted:				
Operating Cash and Cash Equivalents	\$ 726,926	\$ 85,616	\$ 1,043,131	\$ 74,884
Accounts Receivable - Customers	613,077	102,421	614,121	95,369
Inventories	930,918	113,666	1,035,755	95,375
Prepaid Items	-	-	25,258	2,446
Land Held For Resale	30,330	92,600	29,343	89,587
Total Unrestricted Current Assets	2,301,251	394,303	2,747,608	357,661
Restricted:				
Restricted Cash, Cash Equivalents and Investments:				
Bond and Interest Investments	2,375,360	-	153,721	-
Debt Service Reserve Investments	2,778,265	-	2,808,829	-
Improvement Cash and Cash Equivalents	361,388	-	189,526	-
Construction Cash and Cash Equivalents	721,851	-	415,417	-
Improvement Investments	9,538,679	3,690,134	10,317,148	3,718,571
Construction Investments	2,563,790	-	-	-
Interest Receivable	11,067	2,330	16,611	2,728
Total Restricted Current Assets	18,350,400	3,692,464	13,901,252	3,721,299
Noncurrent Assets:				
Capital Assets:				
Land, Improvements to Land, and Construction in Progress	11,417,129	323,305	2,866,603	375,546
Other Capital Assets (Net of Accumulated Depreciation)	74,945,075	8,900,488	85,065,092	8,564,105
Total Capital Assets	86,362,204	9,223,793	87,931,695	8,939,651
Total Assets	107,013,855	13,310,560	104,580,555	13,018,611
Deferred Outflows of Resources:				
Deferred Losses on Refunding	256,848	-	227,879	-
Deferred Regulatory Assets	1,392,970	-	1,314,525	-
Unamortized Tank Painting Costs	-	-	164,002	-
Unamortized Treatment Plant Painting Costs	-	-	-	257,256
Deferred Pension	431,759	55,224	617,549	78,987
Total Deferred Outflows of Resources	2,081,577	55,224	2,323,955	336,243
Total Assets and Deferred Outflows	\$ 109,095,432	\$ 13,365,784	\$ 106,904,510	\$ 13,354,854
Current Liabilities:				
Unrestricted:				
Accounts Payable	\$ 275,053	\$ 16,693	\$ 380,279	\$ 33,983
Accrued Payroll and Withholdings Payable	34,834	4,526	54,824	5,297
Taxes Payable	11,476	-	12,397	-
Advances for Construction	3,943	-	7,182	-
Total Unrestricted Current Liabilities	325,306	21,219	454,682	39,280
Restricted:				
Accrued Interest Payable	132,129	-	131,674	-
Loans Payable	21,000	-	22,000	-
Contracts Payable	419,555	-	237,290	-
Total Restricted Current Liabilities	572,684	-	390,964	-
Total Current Liabilities	897,990	21,219	845,646	39,280
Noncurrent Liabilities:				
Restricted:				
Revenue Bonds Payable (net of unamortized discounts/premiums)	31,654,594	-	29,880,968	-
Loans Payable	8,110,000	1,200,000	8,081,048	1,000,000
Net Pension Liability	1,407,581	180,036	1,777,306	227,325
Total Restricted Noncurrent Liabilities	41,172,175	1,380,036	39,739,322	1,227,325
Total Noncurrent Liabilities	41,172,175	1,380,036	39,739,322	1,227,325
Total Liabilities	42,070,165	1,401,255	40,584,968	1,266,605
Deferred inflows of resources				
Deferred pension	143,036	18,295	131,316	16,797
Total liabilities and deferred inflows of resources	\$ 42,213,201	\$ 1,419,550	\$ 40,716,284	\$ 1,283,402
Net Position				
Net Investment in Capital Assets	\$ 50,104,488	\$ 7,843,757	\$ 50,292,196	\$ 7,969,582
Restricted	14,513,075	3,692,464	13,116,871	3,721,299
Unrestricted	2,264,668	410,013	2,779,159	380,571
Total Net Position	\$ 66,882,231	\$ 11,946,234	\$ 66,188,226	\$ 12,071,452

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, 2015 and 2016

	2015		2016	
	Water	Wastewater	Water	Wastewater
Operating Revenues:				
Metered Water Revenue				
Residential	\$ 2,577,848	\$ -	\$ 2,648,164	\$ -
Wholesale	4,724,002	-	4,890,053	-
Measured Revenue				
Residential/Commercial	-	838,169	-	868,918
Industrial	-	328,866	-	292,415
Other	43,622	15,487	43,657	7,211
Total Operating Revenues	7,345,472	1,182,522	7,581,874	1,168,544
Operating Expenses:				
Source of Supply and Expense/Collection System Expense:				
Operations and Maintenance	402,357	78,197	377,144	92,101
Transmission and Distribution	1,288,801	-	1,569,891	-
Treatment and Disposal - Operations and Maintenance	1,196,441	352,449	1,429,078	349,635
Customer Accounts	50,526	5,507	41,141	4,810
Administration and General	1,312,645	167,517	1,490,006	158,069
Depreciation and Amortization	2,020,974	445,642	2,332,310	451,540
Total Operating Expenses	6,271,744	1,049,312	7,239,570	1,056,155
Operating Income	1,073,728	133,210	342,304	112,389
Nonoperating Revenues (Expenses):				
Interest and Investment Revenue	109,556	28,746	147,626	33,396
Gain on Disposal of Assets	11,851	-	25,500	-
Loss on Disposal of Assets	-	-	-	(13,962)
Sale of Asset	-	-	-	10,527
Miscellaneous Revenue	-	-	26,257	-
Amortization of Bond Issue Costs	(78,445)	-	(78,446)	-
Interest Expense	(646,146)	(37,817)	(1,382,877)	(24,000)
Total Nonoperating Revenues (Expenses)	(603,184)	(9,071)	(1,261,940)	5,961
Income (Loss) Before Contributions	470,544	124,139	(919,636)	118,350
Capital Contributions	127,495	6,929	225,631	6,868
Change in Net Position	598,039	131,068	(694,005)	125,218
Total Net Position - Beginning	66,284,192	11,815,166	66,882,231	11,946,234
Total Net Position - Ending	\$ 66,882,231	\$ 11,946,234	\$ 66,188,226	\$ 12,071,452

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, 2015 and 2016

	2015		2016	
	Water	Wastewater	Water	Wastewater
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 7,401,905	\$ 1,180,061	\$ 7,578,455	\$ 1,173,150
Payments to Suppliers	(1,859,229)	(298,804)	(2,106,714)	(254,184)
Payments to Employees	(2,287,939)	(302,661)	(2,626,675)	(292,051)
Other Receipts (Payments)	1,740	5,310	27,244	13,540
Net Cash Provided By Operating Activities	3,256,477	583,906	2,872,310	640,455
Cash Flows From Capital and Related Financial Activities:				
Capital contributions	127,495	6,929	225,631	6,868
Acquisition and construction of capital assets	(12,828,316)	(82,915)	(4,222,568)	(438,616)
Principal Paid on Capital Debt	(1,765,000)	(680,000)	(1,797,952)	(200,000)
Interest Paid on Capital Debt	(621,128)	(37,817)	(1,357,990)	(24,000)
Net Cash Used By Capital and Related Financing Activities	(15,086,949)	(793,803)	(7,152,879)	(655,748)
Cash Flows From Investing Activities:				
Proceeds from Sales and Maturities of Investments	16,598,011	801,348	7,978,453	104,562
Purchase of Investments	(5,703,751)	(642,929)	(4,002,057)	(132,999)
Interest Received	113,546	28,998	142,082	32,998
Net Cash Provided By Investing Activities	11,007,806	187,417	4,118,478	4,561
Net Decrease in Cash and Cash Equivalents	(822,666)	(22,480)	(162,091)	(10,732)
Cash and Cash Equivalents, January 1	2,632,831	108,096	1,810,165	85,616
Cash and Cash Equivalents, December 31	\$ 1,810,165	\$ 85,616	\$ 1,648,074	\$ 74,884
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:				
Operating Income	\$ 1,073,728	\$ 133,210	\$ 342,304	\$ 112,389
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense and Amortization Expense	2,020,974	445,642	2,332,310	451,540
Deferred Pension - Inflows and Outflows	117,378	15,013	172,215	22,028
Bad Debt Expense	1,121	-	2,375	-
Land Held for Resale	1,740	5,310	987	3,013
Sale of Asset	-	-	-	10,527
Nonoperating Revenue (Expense)	-	-	26,257	-
(Increase) Decrease in Assets:				
Accounts Receivable	56,433	(2,461)	(3,419)	7,052
Inventories	(29,026)	(10,932)	(104,837)	18,291
Prepaid Items	-	-	(25,258)	(2,446)
Increase (Decrease) in Liabilities:				
Accounts Payable	88,872	860	105,226	17,290
Advances for Construction	(28,655)	-	3,239	-
Accrued Payroll and Withholdings Payable	(46,249)	(2,736)	19,990	771
Taxes Payable	161	-	921	-
Total Adjustments	2,182,749	450,696	2,530,006	528,066
Net Cash Provided by Operating Activities	\$ 3,256,477	\$ 583,906	\$ 2,872,310	\$ 640,455
Noncash Investing, Capital and Financing Activities:				
Transfer of Construction-in-Progress to Capital Asset	\$ 12,997,187	\$ 15,365	\$ 11,387,111	\$ 224,950
Amortization of Unamortized Bond Issue Costs	78,445	-	78,446	-
Disposal of Capital Assets Fully Depreciated	263,729	-	185,648	-

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 and Prepaid Items

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

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

3. Restricted Assets

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

The financial statements report \$18,350,400 and \$3,692,464 of restricted assets as of December 31, 2015 for water and wastewater, respectively, \$13,901,252 and \$3,721,299 of restricted assets as of December 31, 2016 for water and wastewater, respectively. All of the restricted assets were restricted by enabling legislation.

4. Capital Assets

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

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

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

	Capitalization <u>Threshold</u>	Depreciation <u>Method</u>	Estimated <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>			
Infrastructure	\$ 5,000	Straight-line	5 to 60 years
Buildings	5,000	Straight-line	5 to 40 years
Machinery and equipment	5,000	Straight-line	5 to 10 years
Transportation equipment	5,000	Straight-line	5 years
Organization Costs	5,000	Straight-line	40 years

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is 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, 2015 was \$646,146 and \$37,817 for water and wastewater, respectively, and during the year ended December 31, 2016 was \$1,382,877 and \$24,000 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, 2015 was \$885,490, and during the year ended December 31, 2016 was \$67,043.

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 dates of June 30, 2015 and June 30, 2016.

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 plan.

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.

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

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.

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.

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, 2015, the District had deposit balances in the amount of \$22,842,009, and at December 31, 2016, the District had deposit balances in the amount of \$18,721,227.

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

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

Water Utility: 2015	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 726,340	\$ -	\$ -	\$ 726,340
Construction in progress	11,836,608	11,939,887	13,085,706	10,690,789
Total capital assets, not being depreciated	<u>12,562,948</u>	<u>11,939,887</u>	<u>13,085,706</u>	<u>11,417,129</u>
Capital assets, being depreciated:				
Infrastructure	73,477,861	3,649,172	162,452	76,964,581
Buildings	14,934,489	9,746,845	-	24,681,334
Improvements other than buildings	8,000	-	-	8,000
Machinery and equipment	6,544,889	97,303	-	6,642,192
Transportation equipment	906,453	94,948	101,277	900,124
Organizational costs	96,608	-	-	96,608
Totals	<u>95,968,300</u>	<u>13,588,268</u>	<u>263,729</u>	<u>109,292,839</u>
Less accumulated depreciation for:				
Infrastructure	23,202,740	1,246,298	162,452	24,286,586
Buildings	6,965,815	374,602	-	7,340,417
Improvements other than buildings	8,000	-	-	8,000
Machinery and equipment	1,596,398	353,616	-	1,950,014
Transportation equipment	720,958	46,458	101,277	666,139
Organizational costs	96,608	-	-	96,608
Totals	<u>32,590,519</u>	<u>2,020,974</u>	<u>263,729</u>	<u>34,347,764</u>
Total capital assets, being depreciated, net	63,377,781	11,567,294	-	74,945,075
Total capital assets, net	<u>\$ 75,940,729</u>	<u>\$ 23,507,181</u>	<u>\$ 13,085,706</u>	<u>\$ 86,362,204</u>
Water Utility: 2016				
Capital assets, not being depreciated:				
Land	\$ 726,340	\$ -	\$ -	\$ 726,340
Construction in progress	10,690,789	2,843,121	11,393,647	2,140,263
Total capital assets, not being depreciated	<u>11,417,129</u>	<u>2,843,121</u>	<u>11,393,647</u>	<u>2,866,603</u>
Capital assets, being depreciated:				
Infrastructure	76,964,581	11,437,392	-	88,401,973
Buildings	24,681,334	443,451	-	25,124,785
Improvements other than buildings	8,000	-	-	8,000
Machinery and equipment	6,642,192	123,322	27,624	6,737,890
Transportation equipment	900,124	431,399	158,024	1,173,499
Organizational costs	96,608	-	-	96,608
Totals	<u>109,292,839</u>	<u>12,435,564</u>	<u>185,648</u>	<u>121,542,755</u>
Less accumulated depreciation for:				
Infrastructure	24,286,586	1,299,085	-	25,585,671
Buildings	7,340,417	618,274	-	7,958,691
Improvements other than buildings	8,000	-	-	8,000
Machinery and equipment	1,950,014	346,482	27,624	2,268,872
Transportation equipment	666,139	51,706	158,024	559,821
Organizational costs	96,608	-	-	96,608
Totals	<u>34,347,764</u>	<u>2,315,547</u>	<u>185,648</u>	<u>36,477,663</u>
Total capital assets, being depreciated, net	74,945,075	10,120,017	-	85,065,092
Total capital assets, net	<u>\$ 86,362,204</u>	<u>\$ 12,963,138</u>	<u>\$ 11,393,647</u>	<u>\$ 87,931,695</u>

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

Wastewater Utility: <u>2015</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 314,634	\$ -	\$ -	\$ 314,634
Construction in progress	-	24,036	15,365	8,671
Total capital assets, not being depreciated	<u>314,634</u>	<u>24,036</u>	<u>15,365</u>	<u>323,305</u>
Capital assets, being depreciated:				
Infrastructure	13,543,051	65,239	-	13,608,290
Buildings	2,420,621	9,004	-	2,429,625
Improvements other than buildings	-	-	-	-
Machinery and equipment	103,291	-	-	103,291
Transportation equipment	161,276	-	-	161,276
Organizational costs	16,319	-	-	16,319
Totals	<u>16,244,558</u>	<u>74,243</u>	<u>-</u>	<u>16,318,801</u>
Less accumulated depreciation for:				
Infrastructure	4,858,791	359,998	-	5,218,789
Buildings	1,882,432	69,954	-	1,952,386
Machinery and equipment	99,262	2,000	-	101,262
Transportation equipment	118,314	13,282	-	131,596
Organizational costs	13,872	408	-	14,280
Totals	<u>6,972,671</u>	<u>445,642</u>	<u>-</u>	<u>7,418,313</u>
Total capital assets, being depreciated, net	<u>9,271,887</u>	<u>(371,399)</u>	<u>-</u>	<u>8,900,488</u>
Total capital assets, net	<u>\$ 9,586,521</u>	<u>\$ (347,363)</u>	<u>\$ 15,365</u>	<u>\$ 9,223,793</u>
<u>2016</u>				
Capital assets, not being depreciated:				
Land	\$ 314,634	\$ -	\$ -	\$ 314,634
Construction in progress	8,671	277,191	224,950	60,912
Total capital assets, not being depreciated	<u>323,305</u>	<u>277,191</u>	<u>224,950</u>	<u>375,546</u>
Capital assets, being depreciated:				
Infrastructure	13,608,290	85,946	18,015	13,676,221
Buildings	2,429,625	-	-	2,429,625
Improvements other than buildings	-	-	-	-
Machinery and equipment	103,291	15,234	-	118,525
Transportation equipment	161,276	27,939	-	189,215
Organizational costs	16,319	-	-	16,319
Totals	<u>16,318,801</u>	<u>129,119</u>	<u>18,015</u>	<u>16,429,905</u>
Less accumulated depreciation for:				
Infrastructure	5,218,789	364,996	4,053	5,579,732
Buildings	1,952,386	70,854	-	2,023,240
Machinery and equipment	101,262	2,000	-	103,262
Transportation equipment	131,596	13,282	-	144,878
Organizational costs	14,280	408	-	14,688
Totals	<u>7,418,313</u>	<u>451,540</u>	<u>4,053</u>	<u>7,865,800</u>
Total capital assets, being depreciated, net	<u>8,900,488</u>	<u>(322,421)</u>	<u>13,962</u>	<u>8,564,105</u>
Total capital assets, net	<u>\$ 9,223,793</u>	<u>\$ (45,230)</u>	<u>\$ 238,912</u>	<u>\$ 8,939,651</u>

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

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

	<u>2015</u>	<u>2016</u>
Water	\$ 2,020,974	\$ 2,315,547
Wastewater	<u>445,642</u>	<u>451,540</u>
 Total depreciation expense	 <u>\$ 2,466,616</u>	 <u>\$ 2,767,087</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>2015</u>		<u>2016</u>	
	Expended to December 31,	Committed	Expended to December 31,	Committed
<u>Water Utility:</u>				
Pike County Tank	\$ 88,562	\$ 2,215,938	\$ 2,102,700	\$ 201,800
Overhead Bridge Road Relocation	20,130	110,269	-	-
Santine Road Relocation	24,902	-	24,902	-
Phase VIII Ph I Main Reinf	10,172,640	1,281,877	-	-
Phase VIII WP 1 Elec Upgrade	345,255	-	-	-
New Doors WP 1 & Intake	39,300	-	-	-
Booster Station 4 Modifications	-	-	12,661	269,339
Total Water Utility	<u>\$ 10,690,789</u>	<u>\$ 3,608,084</u>	<u>\$ 2,140,263</u>	<u>\$ 471,139</u>
 <u>Wastewater Utility:</u>				
Lake Crossing Valves	\$ 8,671	\$ 20,535	\$ 29,206	\$ -
Wabash Sewer Main Improvement	-	-	31,705	-
Sewer Plant Painting	-	-	-	46,345
Total Wastewater Utility	<u>\$ 8,671</u>	<u>\$ 20,535</u>	<u>\$ 60,911</u>	<u>\$ 46,345</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:

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

Purpose	Interest Rates	Balance at December 31	Less: Unamortized (Premium) Discount	Amount
2012A Waterworks Refunding Revenue Bonds	1.45%	\$ 825,000	\$ -	\$ 825,000
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	(49,339)	14,049,339
2014A Waterworks Refunding Revenue Bonds	2.15%	3,170,000	-	3,170,000
2014B Waterworks Refunding Revenue Bonds	4.00 to 4.50%	<u>9,830,000</u>	<u>(31,629)</u>	<u>9,861,629</u>
 Total		 <u>\$ 29,800,000</u>	 <u>\$ (80,968)</u>	 <u>\$ 29,880,968</u>

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility	
	Principal	Interest
2017	\$ -	\$ 567,781
2018	925,000	1,124,226
2019	945,000	1,101,333
2020	970,000	1,077,887
2021	995,000	1,053,816
2022-2026	5,390,000	4,810,891
2027-2031	6,370,000	3,747,447
2032-2036	7,445,000	2,321,025
2037-2041	<u>6,760,000</u>	<u>629,643</u>
 Totals	 <u>\$ 29,800,000</u>	 <u>\$ 16,434,049</u>

2. Loans Payable

The District has entered into loans. Annual debt service requirements to maturity for the loans, including interest of \$6,259,055 and \$360,000, are as follows:

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

	Water Rural Development Loan	Wastewater Loan from Dubois County
2017	\$ 284,992	\$ 24,000
2018	325,594	24,000
2019	325,482	24,000
2020	325,305	24,000
2021	324,078	24,000
2022-2026	1,621,559	120,000
2027-2031	1,622,975	1,120,000
2032-2036	1,940,000	-
2037-2041	2,566,130	-
2042-2046	3,147,666	-
2047-2049	1,878,322	-
 Totals	 \$ 14,362,103	 \$ 1,360,000

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, 2015 and 2016, were considered defeased:

	<u>2015</u>	<u>2016</u>
1996 Waterworks Revenue Bonds, Series A	\$ 3,175,000	\$ 1,630,000
1997 Waterworks Revenue Bonds, Series B	360,000	185,000
2004 Waterworks Revenue Bonds, Series A	3,560,000	1,815,000

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015 and 2016 were as follows:

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

<u>Water Utility:</u>	Beginning			Ending	Due Within
<u>2015</u>	Balance	Additions	Reductions	Balance	One Year
Revenue bonds payable	\$ 33,315,000	\$ -	\$ 1,745,000	\$ 31,570,000	\$ -
Plus: unamortized premium	<u>88,221</u>	<u>-</u>	<u>3,627</u>	<u>84,594</u>	<u>-</u>
Total revenue bonds payable	<u>33,403,221</u>	<u>-</u>	<u>1,748,627</u>	<u>31,654,594</u>	<u>-</u>
Loans payable	8,151,000	-	20,000	8,131,000	21,000
Net pension liability	<u>917,292</u>	<u>490,289</u>	<u>-</u>	<u>1,407,581</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 42,471,513</u>	<u>\$ 490,289</u>	<u>\$ 1,768,627</u>	<u>\$ 41,193,175</u>	<u>\$ 21,000</u>
 <u>2016</u>					
Revenue bonds payable	\$ 31,570,000	\$ -	\$ 1,770,000	\$ 29,800,000	\$ -
Plus: unamortized premium	<u>84,594</u>	<u>-</u>	<u>3,626</u>	<u>80,968</u>	<u>-</u>
Total revenue bonds payable	<u>31,654,594</u>	<u>-</u>	<u>1,773,626</u>	<u>29,880,968</u>	<u>-</u>
Loans payable	8,131,000	-	27,952	8,103,048	22,000
Net pension liability	<u>1,407,581</u>	<u>369,725</u>	<u>-</u>	<u>1,777,306</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 41,193,175</u>	<u>\$ 369,725</u>	<u>\$ 1,801,578</u>	<u>\$ 39,761,322</u>	<u>\$ 22,000</u>
 <u>Wastewater Utility:</u>					
<u>2015</u>	Beginning			Ending	Due Within
<u>2015</u>	Balance	Additions	Reductions	Balance	One Year
Loans payable	\$ 1,880,000	\$ -	\$ 680,000	\$ 1,200,000	\$ -
Net pension liability	<u>117,326</u>	<u>62,710</u>	<u>-</u>	<u>180,036</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 1,997,326</u>	<u>\$ 62,710</u>	<u>\$ 680,000</u>	<u>\$ 1,380,036</u>	<u>\$ -</u>
 <u>2016</u>					
Loans payable	\$ 1,200,000	\$ -	\$ 200,000	\$ 1,000,000	\$ -
Net pension liability	<u>180,036</u>	<u>47,289</u>	<u>-</u>	<u>227,325</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 1,380,036</u>	<u>\$ 47,289</u>	<u>\$ 200,000</u>	<u>\$ 1,227,325</u>	<u>\$ -</u>

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:

	<u>2015</u>	<u>2016</u>
<u>Water Utility:</u>		
Bond and interest	\$ 2,375,360	\$ 153,721
Debt service reserve	2,778,265	2,808,829
Improvement	9,900,067	10,506,674
Construction	<u>3,285,641</u>	<u>415,417</u>
 Total restricted assets	 <u>\$ 18,339,333</u>	 <u>\$ 13,884,641</u>
 <u>Wastewater Utility:</u>		
Improvement	<u>\$ 3,690,134</u>	<u>\$ 3,718,571</u>
 Total restricted assets	 <u>\$ 3,690,134</u>	 <u>\$ 3,718,571</u>

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 71% 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 21% to 37% 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 17% to 82% 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 past 3 years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents

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

B. Subsequent Events

Phase VIII Water Project

The District is in the final stages of the Phase VIII water project. Division V is a 750,000-gallon elevated water storage tank. Bids were awarded on March 30, 2016 to Phoenix Fabricators and Erectors, Inc. in the amount of \$1,329,405 for tank construction and Mitchell and Stark Construction Co., Inc. in the amount of \$639,177 for control valve pits. The project will be financed using approximately \$1,000,000 of remaining funds from a revenue bond issue of \$13,000,000 that was closed on November 19, 2014 and the balance from the District's improvement funds.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the District on May 12, 2008. The Utility has 5,203 customers.

2. Wastewater Utility

The current rate structure was approved by the District on May 31, 2006. The Utility has 1,075 customers.

D. Pension Plan

Cost Sharing Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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, 2016, 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.

For 2015 and 2016, the District's annual pension cost of \$209,127 and \$232,394, respectfully, for INPRS was equal to the District's required and actual contributions.

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

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, 2016.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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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, 2015 and December 31, 2016, the District reported a net pension liability of \$1,587,617 and \$2,004,631 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and June 30, 2016, respectively, 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 plans is shown in the following table:

<u>2015</u>	PERF Water	PERF Wastewater	Totals
Proportionate share	0.0003898	0.0003898	
Net pension asset	\$ -	\$ -	\$ -
Net pension liability	1,407,581	180,036	1,587,617
Deferred outflow of resources	431,759	55,224	486,983
Deferred inflow of resources	143,036	18,295	161,331
Pension expense/(income)	220,923	28,257	249,180

<u>2016</u>	PERF Water	PERF Wastewater	Totals
Proportionate share	0.0004417	0.0004417	
Net pension asset	\$ -	\$ -	\$ -
Net pension liability	1,777,306	227,325	2,004,631
Deferred outflow of resources	617,549	78,987	696,536
Deferred inflow of resources	131,316	16,797	148,113
Pension expense/(income)	371,108	47,467	418,575

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, 2015 and June 30, 2016 (measurement dates) are as follows:

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

<u>2015</u>	<u>PERF Water</u>	<u>PERF Wastewater</u>
Total Pension Liability	\$ 6,214,024	\$ 794,801
Plan Fiduciary Net Position	4,806,443	614,765
Net Pension Asset	-	-
Net Pension Liability	1,407,581	180,036
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	77.3%	77.3%

<u>2016</u>	<u>PERF Water</u>	<u>PERF Wastewater</u>
Total Pension Liability	\$ 7,209,150	\$ 922,082
Plan Fiduciary Net Position	5,431,844	694,757
Net Pension Asset	-	-
Net Pension Liability	1,777,306	227,325
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	75.3%	75.3%

At December 31, 2015 and December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>PERF Water</u>	<u>PERF Wastewater</u>		
Average Remaining Service Life for 2015:	3.39 years	3.39 years		
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 60,420	\$ 2,911	\$ 7,728	\$ 372
Net difference between projected and actual investment earnings on pension plan investments	237,336	132,377	30,356	16,932
Changes of assumptions	118,988	-	15,219	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,494	7,748	575	991
Reversal of prior year's contributions subsequent to the measurement date	(92,388)	-	(11,817)	-
Contributions subsequent to the measurement date	<u>102,909</u>	<u>-</u>	<u>13,163</u>	<u>-</u>
Total	<u>\$ 431,759</u>	<u>\$ 143,036</u>	<u>\$ 55,224</u>	<u>\$ 18,295</u>

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

	PERF Water		PERF Wastewater	
Average Remaining Service Life for 2016:	3.15 years		3.15 years	
	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 39,818	\$ 3,280	\$ 5,093	\$ 420
Net difference between projected and actual investment earnings on pension plan investments	390,911	100,002	49,999	12,791
Changes of assumptions	78,416	-	10,030	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	105,030	28,034	13,434	3,586
Reversal of prior year's contributions subsequent to the measurement date	(102,909)	-	(13,163)	-
Contributions subsequent to the measurement date	106,283	-	13,594	-
Total	\$ 617,549	\$ 131,316	\$ 78,987	\$ 6,797

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

2015	
Amortization of Net Deferred Outflows/(Inflows) of Resources - Debit/(Credit)	PERF
2016	\$ 98,885
2017	98,885
2018	49,091
2019	66,924
2020	-
Thereafter	-
Total	\$ 313,785

2016	
Amortization of Net Deferred Outflows/(Inflows) of Resources - Debit/(Credit)	PERF
2017	\$ 206,283
2018	149,699
2019	135,284
2020	53,352
2021	-
Thereafter	-
Total	\$ 544,618

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

The components of the pension expense as of June 30, 2015 and June 30, 2016 are as follows:

<u>2015</u>	<u>PERF Water</u>	<u>PERF Wastewater</u>
Proportionate share of plan pension expense	\$ 222,362	\$ 28,441
Net amortization of deferred amounts from changes in proportion and difference between employer contributions and proportionate share of contributions	<u>(1,439)</u>	<u>(184)</u>
Total pension expense	<u>\$ 220,923</u>	<u>\$ 28,257</u>
<u>2016</u>	<u>PERF Water</u>	<u>PERF Wastewater</u>
Proportionate share of plan pension expense	\$ 335,888	\$ 42,962
Net amortization of deferred amounts from changes in proportion and difference between employer contributions and proportionate share of contributions	<u>35,220</u>	<u>4,505</u>
Total pension expense	<u>\$ 371,108</u>	<u>\$ 47,467</u>

PERF – 2015

Measurement date June 30, 2015

Valuation date

 Assets June 30, 2015

 Liabilities June 30, 2014 - Member census data as of June 30, 2014 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2014 and June 30, 2015. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2014 to the June 30, 2015 measurement date.

Inflation 2.25%

Future salary increases 2.5% - 4.25%

Cost-of-living increases 1.00% compounded annually on employer funded pension, beginning January 1, 2017. Retired members were provided a 13th check by October 1, 2014, and were provided a 13th check by October 1, 2015, which is reflected in the valuation.

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

Mortality assumption	RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Tables projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee report.
Experience study	The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2015 actuarial valuation based on the results of the study.
Discount rate	The discount rate used to measure the total pension liability was 6.75% as of June 30, 2015, 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.
PERF – 2016	
Measurement date	June 30, 2016
Valuation date	
Assets	June 30, 2016
Liabilities	June 30, 2015 - Member census data as of June 30, 2015 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2015 and June 30, 2016. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2015 to the June 30, 2016 measurement date.
Inflation	2.25%
Future salary increases	2.5% - 4.25%

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

Cost-of-living increases	1.00% compounded annually on employer funded pension, beginning January 1, 2018. Retired members were provided a 13th check by October 1, 2015, and were provided a 13th check by October 1, 2016, which is reflected in the valuation.
Mortality assumption	RP-2014 Mortality Total Data Set Mortality Tables with mortality improvement since 2006 using scale MP-2014 removed and projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee report.
Experience study	The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2015 actuarial valuation based on the results of the study.
Discount rate	The discount rate used to measure the total pension liability as of June 30, 2016, is 6.75% and is equal to the long-term expected return on plan investments, net of administrative expenses. The INPRS Board of Trustees has established a funding policy of setting the employer contribution rate equal to the greater of: 1) the current contribution rate of 11.2%, or 2) the actuarially determined contribution rate computed by the actuary using the assumptions and methods selected by the Board for the annual actuarial valuations. The assumptions and methods selected by the Board for the June 30, 2016 actuarial valuation include a 6.75% expected return on assets assumption, a 20-year level dollar closed method for amortizing future layers of unfunded actuarial accrued liability (30-years for amortization layers established prior to June 30, 2016), and a 5-year smoothing method for recognizing investment gains and losses in the actuarial value of assets.

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

PERF - 2015

Discount rate sensitivity	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net pension liability/(asset)	\$ 2,341,871	\$ 1,587,617	\$ 961,448

PERF - 2016

Discount rate sensitivity	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net pension liability/(asset)	\$ 2,879,125	\$ 2,004,631	\$ 1,277,794

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>Geometric Basis</u>
	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	22.0%	5.7%
Private Equity	10.0%	6.2%
Fixed Income - Ex inflation-linked	24.0%	2.7%
Fixed Income - Inflation-linked	7.0%	0.7%
Commodities	8.0%	2.0%
Real Estate	7.0%	2.7%
Absolute Return	10.0%	4.0%
Risk Parity	12.0%	5.0%

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, 2016, the money-weighted return on the plan assets is 1.1% 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.

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

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. 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.

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, 2015 and 2016 is as follows:

	<u>2015</u>	<u>2016</u>
Beginning fund balance January 1	\$ 177,171	\$ 177,962
Transfer of employer contributions	-	75,913
Disbursements	-	(70,017)
Reinvested net earnings	<u>791</u>	<u>1,172</u>
Ending fund balance December 31	<u>\$ 177,962</u>	<u>\$ 185,030</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	2015	2016
Proportion of the net pension liability	0.0003937	0.0003898	0.0004417
Proportionate share of the net pension liability	\$ 917,292	\$1,407,581	\$1,777,306
Covered payroll	1,704,309	1,655,468	1,877,009
Proportionate share of the net pension liability as a percentage of covered payroll	53.8%	85.0%	94.7%
Plan fiduciary net position as a percentage of the total pension liability	84.3%	77.3%	75.3%

PERF – Wastewater			
	2014	2015	2016
Proportion of the net pension liability	0.0003937	0.0003898	0.0004417
Proportionate share of the net pension liability	\$ 117,326	\$ 180,036	\$ 227,325
Covered payroll	217,988	211,742	240,078
Proportionate share of the net pension liability as a percentage of covered payroll	53.8%	85.0%	94.7%
Plan fiduciary net position as a percentage of the total pension liability	84.3%	77.3%	75.3%

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%
12-31-15	102,909	102,909	-	1,655,468	6.2%
12-31-16	106,283	106,283	-	1,877,009	5.7%

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%
12-31-15	13,163	13,163	-	211,742	6.2%
12-31-16	13,594	13,594	-	240,078	5.7%

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/>.