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March 8, 2019

Board of Trustees
Patoka Lake Regional Water and Wastewater District
2647 N State Road 545
Dubois, IN 47527

As authorized under Indiana Code 5-11-1, we engaged private examiners under our review to perform the audit of Patoka Lake Regional Water and Wastewater District. We have reviewed the audit report opined upon by Crowe LLP, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. Per the *Independent Auditor's Report*, the financial statements included in the report present fairly the financial condition of Patoka Lake Regional Water and Wastewater District as of December 31, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Crowe LLP prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Report for Patoka Lake Regional Water and Wastewater District was prepared in accordance with the guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
Dubois County, Indiana

FINANCIAL STATEMENTS
December 31, 2017

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
FINANCIAL STATEMENTS
December 31, 2017

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PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
SCHEDULE OF OFFICIALS
December 31, 2017

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Doug Merkel	06-01-15 to 12-31-18
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	Craig Adams	10-26-15 to 12-31-18
Treasurer	Patrick Seger	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

INDEPENDENT AUDITOR'S REPORT

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, 2017, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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.

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, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Proportionate Share of the Net Position 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 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 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. Our opinions on the basic financial statements are not affected by this missing information.


Crowe LLP

Indianapolis, Indiana
December 20, 2018

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
December 31, 2017

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business Type Activities</u>
Assets			
Current assets:			
Unrestricted:			
Operating cash and cash equivalents	\$ 2,021,512	\$ 565,684	\$ 2,587,196
Accounts receivable - customers	616,262	105,307	721,569
Inventories	1,036,261	97,003	1,133,264
Prepaid items	51,326	10,711	62,037
Land held for resale	<u>28,850</u>	<u>86,575</u>	<u>115,425</u>
Total unrestricted current assets	<u>3,754,211</u>	<u>865,280</u>	<u>4,619,491</u>
Noncurrent assets:			
Restricted:			
Restricted cash, cash equivalents and investments:			
Bond and interest investments	195,317	-	195,317
Debt service reserve investments	2,839,393	-	2,839,393
Improvement cash and cash equivalents	30,427	-	30,427
Improvement investments	8,311,375	3,389,371	11,700,746
Interest receivable	<u>18,448</u>	<u>4,147</u>	<u>22,593</u>
Total restricted noncurrent assets	<u>11,394,960</u>	<u>3,393,518</u>	<u>14,788,478</u>
Capital assets:			
Land, improvements to land, and construction in progress	1,256,586	507,268	1,763,854
Other capital assets (net of accumulated depreciation)	<u>85,785,106</u>	<u>8,291,619</u>	<u>94,076,725</u>
Total capital assets	<u>87,041,692</u>	<u>8,798,887</u>	<u>95,840,579</u>
Total noncurrent assets	<u>98,436,652</u>	<u>12,192,405</u>	<u>110,629,057</u>
Total assets	<u>102,190,863</u>	<u>13,057,685</u>	<u>115,248,548</u>
Deferred outflows of resources:			
Deferred losses on refunding	198,909	-	198,909
Deferred regulatory assets	1,236,079	-	1,236,079
Unamortized tank painting costs	412,161	315,030	727,191
Deferred pension	<u>462,331</u>	<u>59,134</u>	<u>521,465</u>
Total deferred outflows of resources	<u>2,309,480</u>	<u>374,164</u>	<u>2,683,644</u>
Total assets and deferred outflows of resources	<u>\$ 104,500,343</u>	<u>\$ 13,431,849</u>	<u>\$ 117,932,192</u>

See accompanying notes to financial statements.
(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
December 31, 2017

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business Type Activities</u>
Liabilities			
Current liabilities:			
Unrestricted:			
Accounts payable	\$ 249,610	\$ 161,198	\$ 410,808
Accrued payroll and withholdings payable	57,360	4,838	62,198
Taxes payable	12,400	-	12,400
Customer deposits	-	2,500	2,500
Advances for construction	<u>28,005</u>	<u>4,100</u>	<u>32,105</u>
Total unrestricted current liabilities	<u>347,375</u>	<u>172,636</u>	<u>520,011</u>
Payable from restricted assets:			
Accrued interest payable	131,315	-	131,315
Loans payable	<u>64,000</u>	<u>-</u>	<u>64,000</u>
Total restricted current liabilities	<u>195,315</u>	<u>-</u>	<u>195,315</u>
Total current liabilities	<u>542,690</u>	<u>172,636</u>	<u>715,326</u>
Noncurrent liabilities:			
Net pension liability	1,806,920	231,113	2,038,033
Revenue bonds payable (net of unamortized discounts/premiums)	28,952,341	-	28,952,341
Loans payable	<u>8,017,048</u>	<u>800,000</u>	<u>8,817,048</u>
Total noncurrent liabilities	<u>38,776,309</u>	<u>1,031,113</u>	<u>39,807,422</u>
Total liabilities	<u>39,318,999</u>	<u>1,203,749</u>	<u>40,522,748</u>
Deferred inflows of resources:			
Deferred pension	<u>15,254</u>	<u>1,951</u>	<u>17,205</u>
Total liabilities and deferred inflows of resources	<u>\$ 39,334,253</u>	<u>\$ 1,205,700</u>	<u>\$ 40,539,953</u>
Net position			
Net investment in capital assets	\$ 50,072,303	\$ 7,998,887	\$ 58,071,190
Restricted for:			
Debt services	2,839,395	-	2,839,395
Capital outlay	8,360,250	3,393,518	11,753,768
Unrestricted	<u>3,894,142</u>	<u>833,744</u>	<u>4,727,886</u>
Total net position	<u>\$ 65,166,090</u>	<u>\$ 12,226,149</u>	<u>\$ 77,392,239</u>

See accompanying notes to financial statements.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For The Year Ended December 31, 2017

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business Type Activities</u>
Operating revenues:			
Metered water revenue			
Residential	\$ 2,728,000	\$ -	\$ 2,728,000
Wholesale	4,853,497	-	4,853,497
Measured revenue			
Residential/commercial	-	864,854	864,854
Industrial	-	359,602	359,602
Other	<u>45,683</u>	<u>7,160</u>	<u>52,843</u>
Total operating revenues	<u>7,627,180</u>	<u>1,231,616</u>	<u>8,858,796</u>
Operating expenses:			
Source of supply and expense/collection			
System expense:			
Operations and maintenance	372,483	84,035	456,518
Transmission and distribution	1,667,546	-	1,667,546
Treatment and disposal – operations and maintenance	1,394,737	361,955	1,756,692
Customer accounts	43,162	4,820	47,982
Administration and general	1,355,316	173,732	1,529,048
Depreciation and amortization	<u>2,695,026</u>	<u>486,119</u>	<u>3,181,145</u>
Total operating expenses	<u>7,528,270</u>	<u>1,110,661</u>	<u>8,638,931</u>
Operating income	<u>98,910</u>	<u>120,955</u>	<u>219,865</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	202,712	52,004	254,716
Gain/loss on disposal/sale of assets	21,533	(9,259)	12,274
Miscellaneous revenue	37,422	-	37,422
Amortization of bond issue costs	(78,446)	-	(78,446)
Interest expense	<u>(1,423,541)</u>	<u>(20,000)</u>	<u>(1,443,541)</u>
Total nonoperating revenues (expenses)	<u>(1,240,320)</u>	<u>22,745</u>	<u>(1,217,575)</u>
Income (loss) before contributions	(1,141,410)	143,700	(997,710)
Capital contributions	<u>119,274</u>	<u>10,997</u>	<u>130,271</u>
Change in net position	(1,022,136)	154,697	(867,439)
Total net position - beginning	<u>66,188,226</u>	<u>12,071,452</u>	<u>78,259,678</u>
Total net position - ending	<u>\$ 65,166,090</u>	<u>\$ 12,226,149</u>	<u>\$ 77,392,239</u>

See accompanying notes to financial statements.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2017

	Water	Wastewater	Total Business Type Activities
Cash flows from operating activities:			
Receipts from customers and users	\$ 7,623,267	\$ 1,213,413	\$ 8,836,680
Payments to suppliers	(2,196,599)	(134,207)	(2,330,806)
Payments to employees	(2,830,991)	(353,913)	(3,184,904)
Other receipts (payments)	<u>37,915</u>	<u>14,320</u>	<u>52,235</u>
Net cash provided by operating activities	2,633,592	739,613	3,373,205
Cash flows from capital and related financial activities:			
Capital contributions	119,274	10,997	130,271
Acquisition and construction of capital assets	(2,031,650)	(419,597)	(2,451,247)
Principal paid on capital debt	(947,000)	(200,000)	(1,147,000)
Interest paid on capital debt	<u>(1,398,556)</u>	<u>(20,000)</u>	<u>(1,418,556)</u>
Net cash used by capital and related financing activities	(4,257,932)	(628,600)	(4,886,532)
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	5,581,279	659,785	6,241,064
Purchase of investments	(3,753,950)	(330,585)	(4,084,535)
Interest received	<u>200,876</u>	<u>50,586</u>	<u>251,462</u>
Net cash provided by investing activities	<u>2,028,205</u>	<u>379,786</u>	<u>2,407,991</u>
Net increase in cash and cash equivalents	403,865	490,799	894,664
Cash and cash equivalents, January 1	<u>1,648,074</u>	<u>74,885</u>	<u>1,722,959</u>
Cash and cash equivalents, December 31	<u>\$ 2,051,939</u>	<u>\$ 565,684</u>	<u>\$ 2,617,623</u>
Reconciliation of operating Income to net cash provided by operating activities:			
Operating income	\$ 98,910	\$ 120,956	\$ 219,866
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense and amortization expense	2,695,026	486,119	3,181,145
Deferred pension - inflows and outflows	175,054	8,794	183,848
Bad debt expense	1,772	-	1,772
Land held for resale	493	3,012	3,505
Sale of asset	-	7,208	7,208
Nonoperating revenue (expense)	37,422	-	37,422
(Increase) decrease in assets:			
Accounts receivable	(3,913)	(9,938)	(13,851)
Inventories	(506)	(1,628)	(2,134)
Prepaid items	(26,068)	(8,265)	(34,333)
Increase (decrease) in liabilities:			
Accounts payable	(367,959)	127,215	(240,744)
Advances for construction	20,822	4,100	24,922
Accrued payroll and withholdings payable	2,536	(460)	2,076
Customer deposits	-	2,500	2,500
Taxes payable	<u>3</u>	<u>-</u>	<u>3</u>
Total adjustments	<u>2,534,682</u>	<u>618,657</u>	<u>3,153,339</u>
Net cash provided by operating activities	<u>\$ 2,633,592</u>	<u>\$ 739,613</u>	<u>\$ 3,373,205</u>
Noncash investing, capital and financing activities:			
Transfer of construction-in-progress to capital assets	\$ (2,443,734)	\$ (171,020)	\$ (2,614,754)
Amortization of unamortized bond issue costs	78,446	-	78,446
Disposal of capital assets fully depreciated	209,018	-	209,018

See accompanying notes to financial statements.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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.

The District presents two major funds, the water fund and wastewater fund. Activities of the Water fund could be described as metered and residential services of local homes and organizations. While activities of the wastewater fund could be described as various resident and commercial activities that assist in the disposal and monitoring of wastewater.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." As of December 31, 2017, the GASB has issued the following statements which were implemented by the District:

- *GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.
- *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.
- *GASB Statement No. 80, Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *GASB Statement No. 81, Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- *GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

These new statements had no effect on the District's net position or changes therein.

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflow of resources at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents: Cash equivalents consist of short-term, liquid investments which are readily convertible into cash or which have an original maturity of 30 days or less.

Investments: The District accounts for its investments at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of net interest income in the statement of revenues, expenses, and changes in net position.

Trade Accounts Receivable: Operating revenues include rental income derived from leasing port property. Amounts due from certain lease agreements are billed and recognized over the appropriate lease term service period. Trade receivables are reported at an amount that is net of advance billings.

Allowance for Uncollectible Accounts: The allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances and general economic conditions. Periodically, management reviews accounts receivable and records an allowance based on current circumstances, and charges off the receivable against the allowance when all attempts to collect the receivable are deemed to have failed in accordance with the collection policy. Management estimated that no allowance was necessary at December 31, 2017.

Net Pension Liability: The District has recorded a net pension liability reflecting their proportionate share of the difference between the total pension liabilities and the fiduciary net positions of the Indiana Public Retirement System (INPRS) PERF Plan. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of INPRS PERF Plan and additions to/deductions from the INPRS PERF Plan fiduciary net position have been determined on the same basis as they are reported by the INPRS system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position:

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

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

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

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

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.

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 \$11,394,960 and \$3,393,518 of restricted assets as of December 31, 2017 for water and wastewater, respectively. All of the restricted assets were restricted by enabling legislation.

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 acquisition value at the time received.

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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, 2017 was \$1,423,541 and \$20,000 for water and wastewater, none of which was capitalized.

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, 2017.

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.

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences:

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.

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.

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.

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.

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

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.

Unrestricted Net Position - All other net position amounts that do not meet the definition of "restricted".

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.

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.

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - DETAILED NOTES ON ALL FUNDS

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, 2017, the District had deposit balances in the amount of \$17,353,080.

Certificates of Deposit: Certificates of deposit amounted to \$14,735,457 at December 31, 2017, respectively. In accordance with the District's policy, certificates of deposit were fully collateralized with securities of the U.S. Government. All investment collateral is held in safekeeping in the District's name by financial institutions acting as the District's agent. Collateral is priced to market semi-monthly and monitored regularly with additional collateral requested as necessary.

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.

Capital Assets:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 726,340	\$ 13,778	\$ -	\$ 740,118
Construction in progress	<u>2,140,263</u>	<u>819,939</u>	<u>2,443,734</u>	<u>516,468</u>
Total capital assets, not being depreciated	2,866,603	833,717	2,443,734	1,256,586
Capital assets, being depreciated:				
Infrastructure	88,401,973	3,138,137	48,697	91,491,413
Buildings	25,124,785	86,371	-	25,211,156
Improvements other than buildings	8,000	-	-	8,000
Machinery and equipment	6,737,890	93,930	110,375	6,721,445
Transportation equipment	1,173,499	109,711	98,643	1,184,567
Organizational costs	<u>96,608</u>	<u>-</u>	<u>-</u>	<u>96,608</u>
Totals	<u>121,542,755</u>	<u>3,428,149</u>	<u>257,715</u>	<u>124,713,189</u>
Less accumulated depreciation for:				
Infrastructure	25,585,671	1,502,251	-	27,087,922
Buildings	7,958,691	631,815	-	8,590,506
Improvements other than buildings	8,000	-	-	8,000
Machinery and equipment	2,268,872	366,303	35,988	2,599,187
Transportation equipment	559,821	87,337	101,298	545,860
Organizational costs	<u>96,608</u>	<u>-</u>	<u>-</u>	<u>96,608</u>
Totals	<u>36,477,663</u>	<u>2,587,706</u>	<u>137,286</u>	<u>38,928,083</u>
Total capital assets, being depreciated, net	<u>85,065,092</u>	<u>840,443</u>	<u>120,429</u>	<u>85,785,106</u>
Total capital assets, net	<u>\$ 87,931,695</u>	<u>\$ 1,674,160</u>	<u>\$ 2,564,163</u>	<u>\$ 87,041,692</u>

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 2 - DETAILED NOTES ON ALL FUNDS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 314,634	\$ -	\$ -	\$ 314,634
Construction in progress	<u>60,912</u>	<u>302,743</u>	<u>171,021</u>	<u>192,634</u>
Total capital assets, not being depreciated	375,546	302,743	171,021	507,268
Capital assets, being depreciated:				
Infrastructure	13,676,221	189,149	18,296	13,847,074
Buildings	2,429,625	15,226	-	2,444,851
Machinery and equipment	118,525	-	-	118,525
Transportation equipment	189,215	22,433	-	211,648
Organizational costs	<u>16,319</u>	<u>-</u>	<u>-</u>	<u>16,319</u>
Totals	<u>16,429,905</u>	<u>226,808</u>	<u>18,296</u>	<u>16,638,417</u>
Less accumulated depreciation for:				
Infrastructure	5,579,732	372,202	3,460	5,948,474
Buildings	2,023,240	70,854	-	2,094,094
Machinery and equipment	103,262	3,523	-	106,785
Transportation equipment	167,313	13,405	-	180,718
Organizational costs	<u>16,319</u>	<u>408</u>	<u>-</u>	<u>16,727</u>
Totals	<u>7,889,866</u>	<u>460,392</u>	<u>3,460</u>	<u>8,346,798</u>
Total capital assets, being depreciated, net	<u>8,540,039</u>	<u>(233,584)</u>	<u>14,836</u>	<u>8,291,619</u>
Total capital assets, net	<u>\$ 8,915,585</u>	<u>\$ 69,159</u>	<u>\$ 185,857</u>	<u>\$ 8,798,887</u>

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

Water	\$ 2,587,707
Wastewater	<u>460,393</u>
Total depreciation expense	<u>\$ 3,048,100</u>

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - DETAILED NOTES ON ALL FUNDS (Continued)

Construction Commitments: CWIP and remaining project commitments:

<u>Project</u>	<u>Expended to December 31,</u>	<u>Committed</u>
<u>Water Utility:</u>		
Santine Road Relocation	\$ 24,902	\$ -
Replace Traveling Screen	48,658	68,900
WTH GIS Mapping	9,375	-
Mentor Road Loop	7,889	-
Booster Station 4	201,145	126,848
New Shop Facility	224,390	4,689,502
Leipsic East Line Ext.	<u>110</u>	<u>111,325</u>
Total Water Utility	<u>\$ 516,469</u>	<u>\$ 4,996,575</u>
<u>Wastewater Utility:</u>		
R. Berg Line Ext.	\$ 3,269	\$ -
Plant/Flow/UV Project	<u>189,366</u>	<u>770,588</u>
Total Wastewater Utility	<u>\$ 192,635</u>	<u>\$ 770,588</u>

Long-Term Liabilities:

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>Water Utility Plus: Unamortized Premium/ (Discount)</u>	<u>Amount</u>
2012A Waterworks Refunding Revenue Bonds	1.45%	\$ 695,000	\$ -	\$ 695,000
2012B Waterworks Refunding Revenue Bonds	2.55%	1,975,000	-	1,975,000
2013 Waterworks Revenue Bonds	3.00 to 4.75%	13,565,000	47,087	13,612,087
2014A Waterworks Refunding Revenue Bonds	2.15%	2,810,000	-	2,810,000
2014B Waterworks Refunding Revenue Bonds	4.00 to 4.50%	<u>9,830,000</u>	<u>30,254</u>	<u>9,860,254</u>
Total		<u>\$ 28,875,000</u>	<u>\$ 77,341</u>	<u>\$ 28,952,341</u>

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 2 - DETAILED NOTES ON ALL FUNDS (Continued)

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility	
	Principal	Interest
2018	\$ -	\$ 556,444
2019	945,000	1,101,333
2020	970,000	1,077,888
2021	995,000	1,053,816
2022	1,020,000	1,026,719
2023-2027	5,550,000	4,632,036
2028-2032	6,620,000	3,488,047
2033-2037	7,595,000	2,002,265
2038-2042	5,180,000	359,941
Totals	<u>\$ 28,875,000</u>	<u>\$ 15,298,489</u>

The January 1, 2018 principal payment was remitted during December 2017.

Loans Payable: The District has entered into loans. Annual debt service requirements to maturity for the loans, including interest of \$5,996,055 and 256,000 are as follows:

	Water Rural Development Loan	
	Principal	Interest
2018	\$ 64,000	\$ 261,594
2019	66,000	259,482
2020	68,000	257,304
2021	69,000	255,078
2022	71,000	252,803
2023-2027	396,000	1,226,915
2028-2032	465,000	1,157,089
2033-2037	1,049,000	1,051,009
2038-2042	1,900,000	811,695
2043-2047	2,723,000	423,564
Thereafter	1,210,048	39,522
Totals	<u>\$ 8,081,048</u>	<u>\$ 5,996,055</u>

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 2 - DETAILED NOTES ON ALL FUNDS (Continued)

	<u>Wastewater Loan from Dubois County</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ -	\$ 16,000
2019	-	16,000
2020	-	16,000
2021	-	16,000
2022	-	16,000
2023-2027	-	80,000
2028-2032	-	80,000
Thereafter	<u>800,000</u>	<u>16,000</u>
Totals	<u>\$ 800,000</u>	<u>\$ 256,000</u>

Changes in Long-Term Liabilities: Long-term liability activity for the year ended December 31, 2017 were as follows:

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 29,800,000	\$ -	\$ 925,000	\$ 28,875,000	\$ -
Plus: unamortized premium	<u>80,968</u>	<u>-</u>	<u>3,627</u>	<u>77,341</u>	<u>-</u>
Total revenue bonds payable	29,880,968	-	928,627	28,952,341	-
Loans payable	<u>8,103,048</u>	<u>-</u>	<u>22,000</u>	<u>8,081,048</u>	<u>64,000</u>
Total long-term liabilities	<u>\$ 37,984,016</u>	<u>\$ -</u>	<u>\$ 950,627</u>	<u>\$ 37,033,389</u>	<u>\$ 64,000</u>
<u>Wastewater Utility</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans payable	\$ 1,000,000	\$ -	\$ 200,000	\$ 800,000	\$ -
Total long-term liabilities	<u>\$ 1,227,325</u>	<u>\$ 3,788</u>	<u>\$ 200,000</u>	<u>\$ 1,031,113</u>	<u>\$ -</u>

Restricted Assets: The balances of restricted asset accounts in the enterprise funds, excluding accrued interest, are as follows:

Water Utility:	
Bond and interest	\$ 195,317
Debt service reserve	2,839,393
Improvement	<u>8,341,802</u>
Total restricted assets	<u>\$ 11,376,512</u>
Wastewater Utility:	
Improvement	<u>\$ 3,389,371</u>
Total restricted assets	<u>\$ 3,389,371</u>

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - DETAILED NOTES ON ALL FUNDS (Continued)

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 22% to 39% 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 31% to 70% of net revenues.

NOTE 3 - OTHER INFORMATION

Risk Management: The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past 3 years. There were no significant reductions in insurance by major category of risk.

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

Subsequent Events:

Phase VIII Water Project: The District is in the beginning stages of a new 41,474 sq. ft. operations facility. Bids were awarded on July 13, 2018 to Seufert Construction, Inc. in the amount of \$2,567,303 for general construction and Knies Construction, Inc. in the amount of \$330,000 for Site Development and Weyer Electric, Inc. in the amount of \$699,995 for electrical and Mehringer's Plumbing, Heating, & A/C in the amount of \$839,000 for sprinklers, plumbing, and HVAC. The facility will be financed using cash reserves.

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - OTHER INFORMATION (Continued)

Rate Structure:

Water Utility: The current rate structure was approved by the District on May 12, 2008. The Utility has 5,283 customers.

Wastewater Utility: The current rate structure was approved by the District on May 31, 2006. The Utility has 1,090 customers.

Pension Plan:

Cost Sharing Multiple-Employer Defined Benefit Pension Plan

Plan Description: The District contributes to the Public Employees' Retirement Fund (PERF), which is administered by the Indiana Public Retirement System (INPRS). PERF is a cost-sharing, multiple-employer defined benefit plan based on based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two tiers to PERF. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid) and the second is the My Choice: Retirement Savings Plan for Public Employees' (My Choice), formerly known as the Public Employees' Annuity Savings Account Only Plan. Details of the PERF Hybrid and My Choice are described below.

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3 and IC 5-10.5. There are two aspects to the PERF Hybrid 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 benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

Retirement Savings Plan for Public Employees (My Choice) was formerly known as the PERF ASA Only Plan. My Choice was established by the Indiana Legislature in 2011 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12 and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. My Choice members are full-time employees of the State (as defined in IC 5-10.3-7-1(d)), or a political subdivision who elected to participate in My Choice, and who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of My Choice. Any government agency that pays employees through the Auditor of the State is a mandatory participant in My Choice and must offer eligible employees My Choice option. Quasi-government agencies and State educational institutions may choose to offer My Choice as an option to their employees.

Financial report: INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

(Continued)

NOTE 3 - OTHER INFORMATION (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 savings account (ASA). Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight years for certain elected officials. Members are immediately vested in their ASA. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's ASA, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their ASA and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA. A non-vested member who terminates employment prior to retirement may withdraw his/her ASA after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 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 this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 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 part of the member's annual compensation.

A member who has reached age 60 and has at least 15 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 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 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 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

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 years ended June 30, 2017; however, eligible members received a one-time check (a.k.a. 13th check) in September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

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 FMLA 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.

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - OTHER INFORMATION (Continued)

Upon the death in service of a member with 15 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 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 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 was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

Members are required to participate in the ASA. The ASA consists of the member's contributions, set by statute at three (3) percent of compensation 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 their compensation into their ASA. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' ASA are self-directed, as participants direct the investment of their account balances among eight (8) investment options, with varying degrees of risk and return potential. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. Members may direct changes to their investment fund allocations daily and investments are reported at fair value.

Contributions: The State of Indiana is obligated by statute to make contributions to the PERF Hybrid Plan or My Choice. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions 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. During 2017 and 2016, participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State and Political Subdivisions.

For My Choice, the State was also required to contribute 11.2 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 3.3 percent for the State for the year ended June 30, 2017 and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan. The political subdivisions were required to contribute a supplemental cost of 5.4 percent of covered payroll as of July 1, 2016, which increased to 7.2 percent as of January 1, 2017. In addition, for political subdivisions, the amount credited to the members account for the normal cost ranged up to 5.8 percent as of July 1, 2016, and up to 4 percent as of January 1, 2017. The District contributed 11.2 percent for the 2017, respectively.

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 3 - OTHER INFORMATION (Continued)

PERF Hybrid Plan and My Choice members contribute three percent of covered payroll to their ASA, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member for My Choice. Political subdivisions may choose to pay part or all of the member's contributions on behalf of the member for My Choice. In addition, members of the PERF Hybrid Plan may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their ASA. Political subdivisions that participate in My Choice may elect to match voluntary contributions at a rate of 50 percent.

The contribution requirement, which was made by the District, was \$258,540 for 2017, respectively. These total contributions represent 11.2% of covered payroll for 2017. The following represents the District's annual required contributions for the last three years:

<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2017	\$ 258,540	100%
2016	232,394	100%
2015	209,127	100%

Significant Actuarial Assumptions: The total pension liability is determined by INPRS actuaries in accordance with GASB No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

- Asset valuation date – June 30, 2017
- Liability valuation date – June 30, 2016 – Member census data as of June 30, 2016 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2016 and June 30, 2017. Valuation results from June 30, 2016 were rolled-forward to June 30, 2017 to reflect benefit accruals during the year less benefits paid.
- Experience study date – Period of 4 years ended June 30, 2014
- Actuarial cost method – Entry age normal (level percent of payroll)
- Investment rate of return – 6.75%
- Cost of living increases – 1.0%
- Future salary increases, including inflation – 2.5% - 4.25%
- Inflation – 2.25%
- Mortality - RP-2014 Total Data Set Mortality Tables, with Social Security generational improvements from 2006 based on the Social Security Administration's 2014 Trustee Report

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 3 - OTHER INFORMATION (Continued)

There were no changes in actuarial assumptions or plan provisions for the June 30, 2016 fiscal year. The INPRS Board approved the following changes in actuarial methods effective for June 30, 2016:

- For funding purposes and when the plan is below 100% funded, gains and losses occurring from census experience different than assumed, assumption changes, and benefit changes will be amortized over a 20-year period with level payments each year, rather than a 30-year period.
- For the funding purposes, the smoothing period of investment gains and losses in the development of the Actuarial Value of Assets was increased from four years to five years at June 30, 2016.

There were no changes in actuarial methods or plan provisions for the June 30, 2017 fiscal year. The following changes in actuarial assumptions were made for the June 30, 2017 fiscal year:

- For vested members, a salary load of \$400 was added to approximate the impact on average monthly earnings of unused sick leave accumulated at termination of employment
- For disabled members, the mortality assumptions were updated from the RP-2014 Total Data Set Mortality tables to the RP-2014 Disability Mortality tables.

The long-term return expectation for the defined benefit retirement plan 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. The target allocation and best estimates of geometric real rates of return for each major asset class is summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation %</u>	<u>Geometric Basis Long-Term Expected Real Rate of Return</u>
Public equity	22.0%	4.9%
Private equity	14.0	5.7
Fixed income – ex inflation - linked	20.0	2.3
Fixed income – inflation - linked	7.0	0.6
Commodities	8.0	2.2
Real estate	7.0	3.7
Absolute return	10.0	3.9
Risk parity	<u>12.0</u>	5.1
Total	<u>100.0%</u>	

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 3 - OTHER INFORMATION (Continued)

Discount rate: Total pension liability for each defined benefit pension plan was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent for 2017 and 2016). Based on those assumptions, each defined benefit pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members; therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

Sensitivity: The following presents the District's share of the net pension liability calculated using the discount rate of 6.75 percent for 2017 and 2016, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

	1% Decrease <u>(5.75%)</u>	Current Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
<u>2017</u>			
Proportionate share of the Collective Net Pension Liability	\$ 2,972,389	\$ 2,038,033	\$ 1,261,323

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in a stand-alone financial report of INPRS that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Investment Valuation and Benefit Payment Policies: The pooled and non-pooled investments are reported at fair value by INPRS. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are reported at cost, which approximates fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described below.

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment debt instruments. Equity securities consist primarily of domestic and international stocks in addition to commingled equity instruments. Fixed income and equity securities are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs required to develop a fair value. Commingled funds are valued using the net asset value (NAV) of the entity.

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - OTHER INFORMATION (Continued)

Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business.

Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ from the fair value.

Derivative instruments are marked to market daily with changes in fair value recognized as part of investments and investment income.

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' ASAs. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2017, the District reported a liability of \$2,038,033, respectively, for its proportionate share of the net pension liability. The District's proportionate share of the net pension liability was based on the District's wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2017 and 2016 measurement dates was 0.004568 and 0.0004417, respectively.

For the years ended December 31, 2017, the District recognized pension expense of \$460,903, respectively, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$58,055, respectively.

(Continued)

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 3 - OTHER INFORMATION (Continued)

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	PERF Water		PERF Wastewater	
Average remaining service life for 2017:	3.1 years		3.1 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	\$ 34,315	\$ 1,403	\$ 4,389	\$ 179
Net difference between projected and actual investment earnings on pension plan investment	195,230	-	24,971	-
Changes of assumptions	29,011	-	3,711	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	89,755	13,851	11,480	1,772
Contributions subsequent to the measurement date	<u>114,020</u>	<u>-</u>	<u>14,583</u>	<u>-</u>
Total	<u>\$ 462,331</u>	<u>\$ 15,254</u>	<u>\$ 59,134</u>	<u>\$ 1,951</u>

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2017 measurement date is recognized as a reduction of net pension liability in the year ending December 31, 2017. Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 5-year period. A change in an employer's proportionate share represents the change as of the current year measurement date versus the prior year measurement date, and is amortized over the average expected remaining service lives of the plan. The difference between an employer's contributions and the employer's proportionate share of the collective contributions is amortized over the average expected remaining service lives of the plan. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Amortization of Net Deferred Outflows/ (Inflows) of Resources – Debit/ (Credit)</u>	<u>PERF</u>
2018	\$ 176,370
2019	162,649
2020	47,603
2021	<u>(10,965)</u>
Totals	<u>\$ 375,657</u>

SUPPLEMENTAL SCHEDULES

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 December 31, 2017

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	PERF - Water			
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Proportion of the net pension liability	0.0003937	0.0003898	0.0004417	0.0004568
Proportionate share of the net pension liability	\$ 917,292	\$ 1,407,581	\$ 1,777,306	\$ 1,806,920
Covered payroll	1,704,309	1,655,468	1,877,009	2,009,266
Proportionate share of the net pension liability as a percentage of covered payroll	53.8%	85.0%	94.7%	89.9%
Plan fiduciary net position as a percentage of the total pension liability	84.3%	77.3%	75.3%	76.6%

	PERF - Wastewater			
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Proportion of the net pension liability	0.0003937	0.0003898	0.0004417	0.0004568
Proportionate share of the net pension liability	\$ 117,326	\$ 180,036	\$ 227,325	\$ 231,113
Covered payroll	217,988	211,742	240,078	256,994
Proportionate share of the net pension liability as a percentage of covered payroll	53.8%	85.0%	94.7%	89.9%
Plan fiduciary net position as a percentage of the total pension liability	84.3%	77.3%	75.3%	76.6%

* The amounts presented for each calendar year were determined as of the June 30 fiscal year-end that occurred within the calendar year.

Changes of assumptions: An assumption study was performed in April 2015 resulting in an update to the following assumptions:

- Inflation decreased from 3.00% to 2.25%
- The future salary increase rate decreased from a table ranging from 3.25% to 4.50% to a table ranging from 2.50% to 4.25%
- Mortality changed from the 2013 IRS Static Mortality projected five (5) years with Scale AA to the RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table 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
- Retirement, Termination and Disability rates were adjusted to reflect recent experience
- The ASA Annuitization was updated from 50% of members assumed to annuitize the ASA balance to 60% of members prior to January 1, 2018

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District is presenting information for those years for which information is available.

Measurement date: Actuarial valuation reports from the prior fiscal year.

Benefit changes: There were no changes to the plan that impacted pension benefits during the fiscal year.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT CONTRIBUTIONS

PERF - Water

Year Ending	Contributions in Relation to the				
	Statutorily Determined Contributions (a)	Statutorily Determined Contributions (b)	Contribution Excess / (Deficiency (b) - (a)	Covered Employer Payroll (c)	Contributions as a Percentage of Covered Payroll (b) / (c)
2014	\$ 184,776	\$ 184,776	\$ -	\$ 1,704,309	10.8%
2015	205,818	205,818	-	1,655,468	12.4%
2016	212,566	212,566	-	1,877,009	11.3%
2017	229,221	229,221	-	2,009,266	11.4%

PERF - Wastewater

Year Ending	Contributions in Relation to the				
	Statutorily Determined Contributions (a)	Statutorily Determined Contributions (b)	Contribution Excess / (Deficiency (b) - (a)	Covered Employer Payroll (c)	Contributions as a Percentage of Covered Payroll (b) / (c)
2014	\$ 23,634	\$ 23,634	\$ -	\$ 217,988	10.8%
2015	26,326	26,326	-	211,742	12.4%
2016	27,188	27,188	-	240,078	11.3%
2017	29,319	29,319	-	256,994	11.4%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District is presenting information for those years for which information is available.

Plan amendments. In 2016, there were no changes to the plan that impacted pension benefits during the year. In 2014, HB 1075 impacted the PERF by reducing the Annuity Savings Account (ASA) interest crediting rate on annuities from 7.5% to 5.75% effective October 1, 2014. Effective October 1, 2015, the rate becomes the greater of 4.5% or market rate. On January 1, 2017, the ASA annuities are allowed to be outsourced to a third party provider.

PATOKA LAKE REGIONAL WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS

Valuation date: Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

- *Actuarial cost method:* Entry age normal (Level Percent of Payroll)
- *Amortization method:* Level dollar
- *Remaining amortization period:* 20 years, closed
- *Asset valuation method:* 4 year smoothing of gains and losses on the market value of assets subject to a 20% corridor.
- *Inflation:* 2.25%
- *Salary increases:* 2.50% - 4.25%
- *Investment rate of return:* 6.75%
- *Mortality:* RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2016

Other information:

The INPRS Board sets, at its discretion, the State's employer contribution rate upon considering the results of the actuarial valuation and other analysis as appropriate. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/15 was 10.55%; however, the INPRS Board approved a State employer contribution rate of 11.20%. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/16 was 9.80%; however, the INPRS Board approved a State employer contribution rate of 11.2%. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/17 was 10.11%; however, the INPRS Board approved a State employer contribution rate of 11.2%. The actual dollar amount of the State's contributions depends on the actual payroll for the fiscal year.

Member census data as of June 30, 2016 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2016 and June 30, 2017. Standard actuarial roll forward techniques were then used to project the liabilities computed as of June 30, 2016 to June 30, 2017.