

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

EXAMINATION REPORT

OF

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT

LAGRANGE COUNTY, INDIANA

January 1, 2008 to December 31, 2009



FILED
12/28/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
District Administrative Manager	Mary J. Weber Heidi Sisco	01-01-06 to 09-18-08 09-19-08 to 12-31-10
District Operations Manager	Donald Skinner	01-01-06 to 12-31-10
Treasurer	Bob Jarolim	01-01-08 to 12-31-10
President of the Board	Jack Dold Mike Sutter	01-01-08 to 06-09-10 06-10-10 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE LAGRANGE COUNTY
REGIONAL UTILITY DISTRICT, LAGRANGE COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the LaGrange County Regional Utility District (District), as of and for the years ended December 31, 2008, and 2009. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our examination.

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

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2008, and 2009, and the respective changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

November 8, 2010

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
STATEMENT OF NET ASSETS
December 31, 2008 And 2009

<u>Assets</u>	<u>2008</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 662,602	\$ 332,108
Interest receivable	2,580	1,139
Accounts receivable	316,790	340,326
Prepaid items	<u>10,152</u>	<u>6,956</u>
Total current assets	<u>992,124</u>	<u>680,529</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Bond and interest cash and investments	751,182	433,940
Debt service reserve cash and investments	<u>1,014,212</u>	<u>1,368,167</u>
Total restricted assets	<u>1,765,394</u>	<u>1,802,107</u>
Deferred charges	<u>247,441</u>	<u>237,166</u>
Capital assets:		
Land, improvements to land and construction in progress	912,415	1,040,317
Other capital assets (net of accumulated depreciation)	<u>26,266,517</u>	<u>25,753,260</u>
Total capital assets	<u>27,178,932</u>	<u>26,793,577</u>
Total noncurrent assets	<u>29,191,767</u>	<u>28,832,850</u>
Total assets	<u>30,183,891</u>	<u>29,513,379</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	45,325	28,317
Accrued wages payable	27,555	27,628
Compensated absences	22,309	22,375
Current liabilities payable from restricted assets:		
Revenue bonds payable	203,000	215,000
Accrued interest payable	<u>403,464</u>	<u>398,395</u>
Total current liabilities	<u>701,653</u>	<u>691,715</u>
Noncurrent liabilities:		
Revenue bonds payable	16,378,000	16,163,000
SRF loan payable	1,304,000	1,252,000
Loan payable	<u>40,645</u>	<u>40,645</u>
Total noncurrent liabilities	<u>17,722,645</u>	<u>17,455,645</u>
Total liabilities	<u>18,424,298</u>	<u>18,147,360</u>
<u>Deferred Credits</u>		
Advances for construction	34,437	34,437
Advances for debt retirement	<u>192,000</u>	<u>192,000</u>
Total deferred credits	<u>226,437</u>	<u>226,437</u>
Total liabilities and deferred credits	<u>18,650,735</u>	<u>18,373,797</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	9,293,932	9,163,577
Restricted for debt service	1,361,930	1,403,712
Unrestricted	<u>877,294</u>	<u>572,293</u>
Total net assets	<u>\$ 11,533,156</u>	<u>\$ 11,139,582</u>

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

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Years Ended December 31, 2008 And 2009

	<u>2008</u>	<u>2009</u>
Operating revenues:		
Flat rate revenues	\$ 2,640,419	\$ 2,265,787
Penalties	37,331	39,725
Connection charges	21,634	21,443
Other	<u>60,721</u>	<u>59,133</u>
 Total operating revenues	 <u>2,760,105</u>	 <u>2,386,088</u>
 Operating expenses:		
Salaries and wages	373,270	370,246
Employee pensions and benefits	119,032	129,094
Purchased power	143,695	127,592
Purchased wastewater treatment	88,973	94,778
Sludge removal	32,202	29,513
Chemicals	16,296	12,583
Materials and supplies	199,334	198,595
Contractual services	170,458	193,428
Rents	11,493	10,727
Transportation expenses	21,513	20,366
Insurance expense	44,139	32,046
Depreciation	664,890	663,038
Miscellaneous expenses	<u>136,992</u>	<u>60,438</u>
 Total operating expenses	 <u>2,022,287</u>	 <u>1,942,444</u>
 Operating income (loss)	 <u>737,818</u>	 <u>443,644</u>
 Nonoperating revenues (expenses):		
Interest and investment revenue	60,722	15,487
Interest expense	(854,319)	(842,430)
Amortization expense	<u>(10,275)</u>	<u>(10,275)</u>
 Total nonoperating revenues (expenses)	 <u>(803,872)</u>	 <u>(837,218)</u>
 Change in net assets	 (66,054)	 (393,574)
 Total net assets - beginning	 <u>11,599,210</u>	 <u>11,533,156</u>
 Total net assets - ending	 <u>\$ 11,533,156</u>	 <u>\$ 11,139,582</u>

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

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Years Ended December 31, 2008 And 2009

	<u>2008</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,628,127	\$ 2,362,552
Payments to suppliers and contractors	(949,707)	(927,530)
Payments to employees	<u>(366,042)</u>	<u>(370,107)</u>
Net cash provided by operating activities	<u>1,312,378</u>	<u>1,064,915</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(573,743)	(273,125)
Principal paid on capital debt	(246,000)	(255,000)
Interest paid on capital debt	(859,201)	(847,499)
Refund of advances for construction	<u>100</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(1,678,844)</u>	<u>(1,375,624)</u>
Cash flows from investing activities:		
Interest received	<u>76,493</u>	<u>16,928</u>
Net increase in cash and cash equivalents	(289,973)	(293,781)
Cash and cash equivalents, January 1	<u>2,717,969</u>	<u>2,427,996</u>
Cash and cash equivalents, December 31	<u>\$ 2,427,996</u>	<u>\$ 2,134,215</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 737,818</u>	<u>\$ 443,644</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	664,890	663,038
(Increase) decrease in assets:		
Accounts receivable	(131,978)	(23,536)
Prepaid items	4,868	3,196
Increase (decrease) in liabilities:		
Accounts payable	29,552	(21,566)
Accrued wages payable	5,586	73
Compensated absence payable	<u>1,642</u>	<u>66</u>
Total adjustments	<u>574,560</u>	<u>621,271</u>
Net cash provided by operating activities	<u>\$ 1,312,378</u>	<u>\$ 1,064,915</u>
Noncash investing, capital and financing activities:		
Capital assets acquired by accounts payable	\$ -	\$ 4,558

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

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The District was established under the laws of the State of Indiana. The District operates under an appointed board form of government and provides wastewater treatment services. On March 4, 2008, Indiana Department of Environmental Management approved the District to be a Utility. The District changed their name to LaGrange County Regional Utility District.

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

B. Fund Financial Statements

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

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

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

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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

2. Prepaid Items

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

3. Restricted Assets

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

4. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Structures and improvements	\$ 500	Straight-line	50 years
Machinery and equipments	500	Straight-line	5 to 50 years
Organization	500	Straight-line	50 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.

5. Compensated Absences

- a. Sick Leave – District employees earn sick leave at the rate of six days per year. Unused sick leave may be accumulated to a maximum of forty-five days. Accumulated sick leave is not paid to employees through upon termination.
- b. Vacation Leave – District employees earn vacation leave at rates from ten days to twenty-four days per year based upon the number of years of service. Vacation leave accumulates from year to year indefinitely. Unused vacation leave is paid to employees at termination.
- c. Personal Leave – District employees may use three sick days as personal leave each year. Personal leave does not accumulate from year to year.

Vacation and sick leave is accrued when incurred.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision at December 31, 2009, the bank balances of \$2,134,215 were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the years ended December 31, 2008 and 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
2008:				
Capital assets, not being depreciated:				
Land	\$ 337,975	\$ -	\$ -	\$ 337,975
Construction in progress	19,227	555,213	-	574,440
Total capital assets, not being depreciated	<u>357,202</u>	<u>555,213</u>	<u>-</u>	<u>912,415</u>
Capital assets, being depreciated:				
Structures and improvements	30,023,756	-	-	30,023,756
Machinery and equipment	1,360,563	18,530	-	1,379,093
Organization	169,259	-	-	169,259
Totals	<u>31,553,578</u>	<u>18,530</u>	<u>-</u>	<u>31,572,108</u>
Less accumulated depreciation for:				
Structures and improvements	(4,221,934)	(600,477)	-	(4,822,411)
Machinery and equipment	(382,891)	(61,027)	-	(443,918)
Organization	(35,876)	(3,386)	-	(39,262)
Totals	<u>(4,640,701)</u>	<u>(664,890)</u>	<u>-</u>	<u>(5,305,591)</u>
Total capital assets, being depreciated, net	<u>26,912,877</u>	<u>(646,360)</u>	<u>-</u>	<u>26,266,517</u>
Total capital assets, net	<u>\$ 27,270,079</u>	<u>\$ (91,147)</u>	<u>\$ -</u>	<u>\$ 27,178,932</u>

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2009:				
Capital assets, not being depreciated:				
Land	\$ 337,975	\$ -	\$ -	\$ 337,975
Construction in progress	<u>574,440</u>	<u>127,902</u>	<u>-</u>	<u>702,342</u>
Total capital assets, not being depreciated	<u>912,415</u>	<u>127,902</u>	<u>-</u>	<u>1,040,317</u>
Capital assets, being depreciated:				
Structures and improvements	30,023,756	149,781	-	30,173,537
Machinery and equipment	1,379,093	-	-	1,379,093
Organization	<u>169,259</u>	<u>-</u>	<u>-</u>	<u>169,259</u>
Totals	<u>31,572,108</u>	<u>149,781</u>	<u>-</u>	<u>31,721,889</u>
Less accumulated depreciation for:				
Structures and improvements	(4,822,411)	(600,477)	-	(5,422,888)
Machinery and equipment	(443,918)	(59,175)	-	(503,093)
Organization	<u>(39,262)</u>	<u>(3,386)</u>	<u>-</u>	<u>(42,648)</u>
Totals	<u>(5,305,591)</u>	<u>(663,038)</u>	<u>-</u>	<u>(5,968,629)</u>
Total capital assets, being depreciated, net	<u>26,266,517</u>	<u>(513,257)</u>	<u>-</u>	<u>25,753,260</u>
Total capital assets, net	<u>\$ 27,178,932</u>	<u>\$ (385,355)</u>	<u>\$ -</u>	<u>\$ 26,793,577</u>

Depreciation expense in 2008 and 2009 was charged to functions/programs of the District as follows:

	<u>2008</u>	<u>2009</u>
District	<u>\$ 664,890</u>	<u>\$ 663,038</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>2008</u>		<u>2009</u>	
	<u>Expended to December 31,</u>	<u>Committed</u>	<u>Expended to December 31,</u>	<u>Committed</u>
Shipshewana Project	<u>\$ 574,440</u>	<u>\$ 2,746,912</u>	<u>\$ 702,342</u>	<u>\$ 2,619,010</u>

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

D. Long-Term Liabilities

1. Revenue Bonds

The District issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
1997 Construction of sewer works Region B	5.00%	\$ 10,363,000
1995 Construction of sewer works Region F	5.25%	1,062,000
2004 Construction of sewer works Region A	4.50%	<u>4,953,000</u>
Total		<u><u>\$ 16,378,000</u></u>

Revenue bonds debt service requirements to maturity are as follows:

	Utility	
	Principal	Interest
2010	\$ 215,000	\$ 238,524
2011	227,000	239,760
2012	284,000	283,915
2013	299,000	283,967
2014	314,000	284,862
2015-2019	1,811,000	1,424,337
2020-2024	2,308,000	1,427,064
2025-2029	2,941,000	1,431,208
2030-2034	3,752,000	1,438,325
2031-2035	2,925,000	1,443,056
2035-2039	<u>1,302,000</u>	<u>1,453,905</u>
Totals	<u><u>\$ 16,378,000</u></u>	<u><u>\$ 9,948,923</u></u>

2. State Revolving Loan Payable

Under the terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of Wastewater Utility additions and improvements. Funds are loaned to the District as construction costs are accrued to the maximum allowed. The 1998 loan established a maximum draw of \$2,105,000. At the completion of construction, the outstanding principal balance of \$1,865,403 was amortized over a period of 20 years. Annual debt service requirements to maturity for the year ended December 31, 2009 are as follows:

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Principal	Interest
2010	\$ -	\$ 21,910
2011	53,000	42,892
2012	55,000	41,003
2013	57,000	39,043
2014	59,000	37,012
2015-2019	1,028,000	139,755
Totals	\$ 1,252,000	\$ 321,615

3. Loan Payable

The District has obtained a loan from LaGrange County for feasibility studies. A repayment schedule has not been determined. At December 31, 2009, the loan payable was \$40,645.

4. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>2008</u>					
Revenue bonds payable	\$ 16,777,000	\$ -	\$ 196,000	\$ 16,581,000	\$ 203,000
State revolving loan payable	1,354,000	-	50,000	1,304,000	-
Loan payable	40,645	-	-	40,645	-
Compensated absences	20,667	22,309	20,667	22,309	-
Total long-term liabilities	\$ 18,192,312	\$ 22,309	\$ 266,667	\$ 17,947,954	\$ -
<u>2009</u>					
Revenue bonds payable	\$ 16,581,000	\$ -	\$ 203,000	\$ 16,378,000	\$ 215,000
State revolving loan payable	1,304,000	-	52,000	1,252,000	-
Loan payable	40,645	-	-	40,645	-
Compensated absences	22,309	22,375	22,309	22,375	-
Total long-term liabilities	\$ 17,947,954	\$ 22,375	\$ 277,309	\$ 17,693,020	\$ -

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Restricted Assets

The balances of restricted asset accounts in the enterprise funds at December 31, 2009, are as follows:

Bond and interest	\$ 433,940
Debt service reserve	<u>1,368,167</u>
Total restricted assets	<u><u>\$ 1,802,107</u></u>

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; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

During 1990, the District joined together with other governmental entities to form the Indiana Public Employers Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. The purpose of the risk pool is to provide a medium for the funding and administration of worker's compensation. The District pays an annual premium to the risk pool for its worker's compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Rate Structure

The current rate structure for Fish/Royer, Region B, Fish/Stone, and Region A was approved by the District on August 18, 2010. The Utility has 2,989 customers.

C. Advances for Construction

Several lake associations advanced the District monies for feasibility studies. When the sewer systems are operational, money that each individual association member contributed will be refunded.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The District has entered into an interlocal agreement with LaGrange County to include district employees in LaGrange County's Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

E. Shipshewana Project

On March 12, 2008, the United States Department of Agriculture approved a loan of \$1,771,000 and a grant of \$1,449,000 to finance the Shipshewana Sewer Project.

F. Water Utility

The District is in the process of taking over the water utility at Fawn River Crossing when it is completed in 2010. LaGrange County is financing the Water Utility and will be turning it over to the District to operate.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on November 8, 2010, with Bob Jarolim, Treasurer, and Heidi Sisco, District Administrative Manager. Our audit disclosed no material items that warrant comment at this time.