

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

AUDIT REPORT
OF
PRETTY LAKE CONSERVANCY DISTRICT
MARSHALL COUNTY, INDIANA
January 1, 2006 to December 31, 2006



FILED
05/29/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Fiscal Officer	Erwin D. Marohn	09-04-02 to 03-31-07
Treasurer	Jane Harris	04-01-07 to 12-31-07
President of the Board	Erwin D. Marohn	09-04-02 to 12-31-07



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

TO: THE OFFICIALS OF THE PRETTY LAKE CONSERVANCY DISTRICT, MARSHALL COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities, and the major fund of the Pretty Lake Conservancy District (Conservancy District), as of and for the year ended December 31, 2006, which collectively comprise the Conservancy District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Conservancy District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the Conservancy District prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the business-type activities and the major fund of the Conservancy District as of December 31, 2006, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated April 25, 2007, on our consideration of the Conservancy District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Conservancy District taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Conservancy District's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

April 25, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE PRETTY LAKE CONSERVANCY DISTRICT, MARSHALL COUNTY, INDIANA

We have audited the financial statements of the Pretty Lake Conservancy District (Conservancy District), as of and for the year ended December 31, 2006, and have issued our report thereon dated April 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Conservancy District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Conservancy District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

STATE BOARD OF ACCOUNTS

April 25, 2007

PRETTY LAKE CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2006

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u> Charges for Services	<u>Total Business-Type Activities</u>
Primary government:			
Business-type activities:			
Conservancy District	\$ 1,329,210	\$ 66,389	\$ (1,262,821)
		General receipts:	
		Grant proceeds	1,328,437
		Change in net assets	65,616
		Net assets - beginning	-
		Net assets - ending	\$ 65,616
<u>Assets</u>			
Cash and investments			\$ 65,616
<u>Net Assets</u>			
Unrestricted			\$ 65,616

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

PRETTY LAKE CONSERVANCY DISTRICT
 STATEMENT OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 PROPRIETARY FUNDS

As of and for the Year Ended December 31, 2006

	<u>Waste Disposal Utility</u>
Operating receipts:	
Flat rate receipts	<u>\$ 66,389</u>
Operating disbursements:	
Equipment and capital improvements	1,291,932
Contractual services	21,150
Insurance disbursements	990
Utilities	11,137
Miscellaneous disbursements	<u>746</u>
Total operating disbursements	<u>1,325,955</u>
Deficiency of operating receipts under operating disbursements	<u>(1,259,566)</u>
Nonoperating receipts (disbursements):	
Loan proceeds	1,328,437
Interest and investment disbursement	<u>(3,255)</u>
Total nonoperating receipts (disbursements)	<u>1,325,182</u>
Excess of nonoperating receipts (disbursements) over operating receipts (disbursements)	65,616
Cash and investment fund balance - beginning	<u>-</u>
Cash and investment fund balance - ending	<u>\$ 65,616</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	<u>\$ 65,616</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	<u>\$ 65,616</u>

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

PRETTY LAKE CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Conservancy District was established under the laws of the State of Indiana on September 4, 2002, for the purpose of collection, treatment and disposal of sewage and other liquid wastes as set forth in Indiana Code 14-33-1-1(a)(5). Prior to March 8, 2006, the Conservancy District did not have any financial transactions. The financial statements reflect the actual financial activity since March 8, 2006. The Conservancy District operates under an appointed governing board.

The Conservancy District's financial reporting entity is composed of the following:

Primary Government: Pretty Lake Conservancy District

In determining the financial reporting entity, the Conservancy District complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis, displays information about the reporting government as a whole. It includes all funds of the reporting entity. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Financial statements are provided for proprietary funds.

The Conservancy District reports the following major proprietary fund:

Conservancy District

C. Measurement Focus and Basis of Accounting

The government-wide, and proprietary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

PRETTY LAKE CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

If the Conservancy District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Conservancy District has elected not to follow subsequent private-sector guidance.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the Conservancy District's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. There are no restricted net assets.

PRETTY LAKE CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include charges to customers or applicants for goods, services, or privileges provided.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

II. 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. 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.

III. Other Information

Risk Management

The Conservancy District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; and natural disasters are covered by commercial insurance from independent third parties.

PRETTY LAKE CONSERVANCY DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

As of December 31, 2006

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Conservancy District:	
Capital assets, not being depreciated:	
Infrastructure	\$ 1,335,630
Machinery and equipment	<u>3,816</u>
Total Conservancy District capital assets	<u>\$ 1,339,446</u>

PRETTY LAKE CONSERVANCY DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

As of December 31, 2006

The Conservancy District has entered into the following debt:

Description of Asset	Ending Balance	Due Within One Year
Business-type Activities:		
Conservancy District		
Loan	\$ 1,328,437	\$ 16,000

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE PRETTY LAKE CONSERVANCY DISTRICT, MARSHALL COUNTY, INDIANA

Compliance

We have audited the compliance of the Pretty Lake Conservancy District (Conservancy District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2006. The Conservancy District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Conservancy District's management. Our responsibility is to express an opinion on the Conservancy District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Conservancy District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Conservancy District's compliance with those requirements.

In our opinion, the Conservancy District complied in all material respects with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the Conservancy District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Conservancy District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

April 25, 2007

STATE BOARD OF ACCOUNTS

PRETTY LAKE CONSERVANCY DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2006

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Direct grant			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ <u>1,328,437</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

PRETTY LAKE CONSERVANCY DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Pretty Lake Conservancy District (Conservancy District) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of Conservancy District shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Loans Outstanding

The Conservancy District had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2006. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2006
Water and Waste Disposal System for Rural Communities	10.760	<u>\$ 1,328,437</u>

PRETTY LAKE CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal System For Rural Communities

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

PRETTY LAKE CONSERVANCY DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

PRETTY LAKE CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on April 25, 2007, with Jane Harris, Treasurer; and John Chamberlin, Secretary. Our audit disclosed no material items that warrant comment at this time.