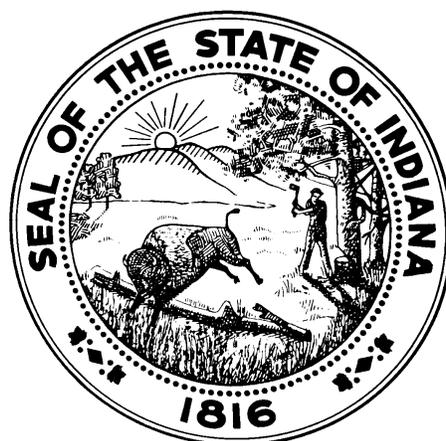


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

NYONA/SOUTH MUD LAKES
CONSERVANCY DISTRICT
FULTON COUNTY, INDIANA

January 1, 2006 to December 31, 2007



FILED
07/17/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Financial Clerk	Kenneth R. Hutchins	01-01-06 to 12-31-08
President of the Board	Ronald Roe	01-01-06 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE NYONA/SOUTH MUD LAKES
CONSERVANCY DISTRICT, FULTON COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the Nyona/South Mud Lakes Conservancy District (District), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the 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 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.

The District did not maintain capital assets records. The amounts by which the financial statements would change if capital assets were included cannot be determined.

In our opinion, except for the above paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities and the business-type activities of the District as of December 31, 2006 and 2007, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated June 11, 2008, on our consideration of the 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.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the 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.

The 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 District's basic financial statements. The Schedule of Long-Term Debt is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has 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

June 11, 2008



STATE OF INDIANA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE NYONA/SOUTH MUD LAKES
CONSERVANCY DISTRICT, FULTON COUNTY, INDIANA

We have audited the financial statements of the governmental activities and the business-type activities of the Nyona/South Mud Lakes Conservancy District (District), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 11, 2008. The opinions to the financial statements were qualified due to capital assets records. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in items 2007-1 and 2007-2 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs in item 2007-3.

The District's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the 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.

STATE BOARD OF ACCOUNTS

June 11, 2008

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipt and Changes in Net Assets		
		Charges for Services	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Totals
Primary government:						
Governmental activities:						
Sanitation	\$ 1,423,987	\$ -	\$ 1,405,237	\$ (18,750)	\$ -	\$ (18,750)
Interest on long-term debt	1,874	-	-	(1,874)	-	(1,874)
Total governmental activities	1,425,861	-	1,405,237	(20,624)	-	(20,624)
Business-type activities:						
Wastewater	885,872	68,191	864,615	-	46,934	46,934
Total primary government	\$ 2,311,733	\$ 68,191	\$ 2,269,852	(20,624)	46,934	26,310
General receipts:						
Property taxes				22,398	-	22,398
Unrestricted investment earnings				3,472	-	3,472
Total general receipts				25,870	-	25,870
Change in net assets				5,246	46,934	52,180
Net assets - beginning				101,454	-	101,454
Net assets - ending				\$ 106,700	\$ 46,934	\$ 153,634
<u>Assets</u>						
Cash and investments				\$ 106,700	\$ 36,810	\$ 143,510
Restricted assets:						
Cash and investments				-	10,124	10,124
Total assets				\$ 106,700	\$ 46,934	\$ 153,634
<u>Net Assets</u>						
Restricted for:						
Debt service				\$ -	\$ 9,851	\$ 9,851
Other purposes				-	273	273
Unrestricted				106,700	36,810	143,510
Total net assets				\$ 106,700	\$ 46,934	\$ 153,634

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

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
 STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
 CASH AND INVESTMENT BASIS
 GOVERNMENTAL FUND
 For The Year Ended December 31, 2006

	General
Receipts:	
Taxes	\$ 22,398
Intergovernmental	1,405,237
Other	3,472
Total receipts	1,431,107
Disbursements:	
Sanitation	1,423,987
Debt service:	
Interest	1,874
Total disbursements	1,425,861
Excess of revenue over disbursements	5,246
Cash and investment fund balance - beginning	101,454
Cash and investment fund balance - ending	\$ 106,700
<u>Cash and Investment Assets - December 31</u>	
Restricted assets:	
Cash and investments	\$ 106,700
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	\$ 106,700

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

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
 STATEMENT OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
 CASH AND INVESTMENT BASIS
 PROPRIETARY FUND
 As of and for the Year Ended December 31, 2006

	Wastewater Utility
Operating receipts:	
Penalties	\$ 640
Flat rate receipts	67,333
Other	218
Total operating receipts	68,191
Operating disbursements:	
Equipment and capital improvements	863,610
Administration and general	1,200
Purchased power	1,320
Material and supplies	522
Contractual services	16,899
Rents	1,700
Transportation disbursements	84
Insurance disbursements	350
Miscellaneous disbursements	187
Total operating disbursements	885,872
Deficiency of operating receipts over operating disbursements	(817,681)
Capital contributions	864,615
Excess of receipts, contributions over disbursements	46,934
Cash and investment fund balance - beginning	-
Cash and investment fund balance - ending	\$ 46,934
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 36,810
Restricted assets:	
Cash and investments	10,124
Total cash and investment assets - December 31	\$ 46,934
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 9,851
Other purposes	273
Unrestricted	36,810
Total cash and investment fund balance - December 31	\$ 46,934

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

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2007

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipt and Changes in Net Assets		
		Charges for Services	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Totals
Primary government:						
Governmental activities:						
Sanitation	\$ 128,234	\$ -	\$ 71,117	\$ (57,117)	\$ -	\$ (57,117)
Interest on long-term debt	64,925	-	-	(64,925)	-	(64,925)
Total governmental activities	193,159	-	71,117	(122,042)	-	(122,042)
Business-type activities:						
Wastewater	2,050,092	233,377	1,864,456	-	47,741	47,741
Total primary government	\$ 2,243,251	\$ 233,377	\$ 1,935,573	(122,042)	47,741	(74,301)
General receipts:						
Property taxes				14,734	-	14,734
Unrestricted investment earnings				608	6,560	7,168
Total general receipts				15,342	6,560	21,902
Change in net assets				(106,700)	54,301	(52,399)
Net assets - beginning				106,700	46,934	153,634
Net assets - ending				\$ -	\$ 101,235	\$ 101,235
<u>Assets</u>						
Cash and investments				\$ -	\$ 51,543	\$ 51,543
Restricted assets:						
Cash and investments				-	49,692	49,692
Total assets				\$ -	\$ 101,235	\$ 101,235
<u>Net Assets</u>						
Restricted for:						
Debt service				\$ -	\$ 49,692	\$ 49,692
Unrestricted				-	51,543	51,543
Total net assets				\$ -	\$ 101,235	\$ 101,235

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

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
 STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
 CASH AND INVESTMENT BASIS
 GOVERNMENTAL FUND
 For The Year Ended December 31, 2007

	General
Receipts:	
Taxes	\$ 14,734
Intergovernmental	71,117
Other	608
Total receipts	86,459
Disbursements:	
Sanitation	128,234
Debt service:	
Principal	14,000
Interest	50,925
Total disbursements	193,159
Deficiency of revenue over disbursements	(106,700)
Cash and investment fund balance - beginning	106,700
Cash and investment fund balance - ending	\$ -
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ -
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	\$ -

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

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
 STATEMENT OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
 CASH AND INVESTMENT BASIS
 PROPRIETARY FUND
 As of and for the Year Ended December 31, 2007

	Wastewater Utility
Operating receipts:	
Penalties	\$ 2,270
Flat rate receipts	166,286
Permits	64,821
Total operating receipts	233,377
Operating disbursements:	
Equipment and capital improvements	1,909,518
Other	712
Salaries and wages	1,450
Purchased power	6,358
Material and supplies	12,461
Contractual services	53,113
Transportation disbursements	320
Miscellaneous disbursements	1,235
Total operating disbursements	1,985,167
Deficiency of operating receipts over operating disbursements	(1,751,790)
Nonoperating receipts (disbursements):	
Interest and investment receipts	6,560
Miscellaneous disbursements	(64,925)
Total nonoperating disbursements	(58,365)
Deficiency of receipts over disbursements and nonoperating disbursements	(1,810,155)
Capital contributions	1,864,456
Excess of receipts, contributions over disbursements	54,301
Cash and investment fund balance - beginning	46,934
Cash and investment fund balance - ending	\$ 101,235
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 51,543
Restricted assets:	
Cash and investments	49,692
Total cash and investment assets - December 31	\$ 101,235
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 37,253
Other purposes	12,439
Unrestricted	51,543
Total cash and investment fund balance - December 31	\$ 101,235

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

NYONA/SOUTH MUD LAKES CONSERVANCY 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 governing board.

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

Primary Government: Nyona/South Mud Lakes Conservancy District

In determining the financial reporting entity, the 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. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, inter-governmental revenues, and other nonexchange revenues. 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. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The District reports the following major proprietary funds:

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations and collection systems.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund 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.

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

If the 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 cash and investment 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 District has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 (enterprise funds).

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. 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.

3. 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."

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

It is the 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.

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 (1) charges to customers or applicants for goods, services, or privileges provided, and (2) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

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.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component units are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the District submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the District receives approval of the Indiana Department of Local Government Finance.

The District's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

III. 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. Balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. 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, 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. There were no significant reductions in insurance by major category of risk.

B. Related Party Transactions

During the period in which financial statements are presented, the Nyona/South Mud Lakes District had material transactions with Kim Zartman, Board member who also served as the Utility Clerk for the period of June through November 2006 and was paid \$13,899 for that period.

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The District has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Wastewater Utility		
Revenue bonds:		
Construction of Wastewater Plant	\$ 1,383,000	\$ 74,353

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping are present during our period of audit:

1. Record balances were not reconciled to depository balances. As of December 31, 2007, the Wastewater Operating Fund did not agree with the bank balance.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

2. There were a considerable number of posting errors. These errors consisted of deposits to the bank not being receipted to the records and checks not being posted or checks not being posted for the proper amount.
3. Adjustments were made to the records to balance to bank balances with no supporting documentation to determine the flow of the transaction.

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

PRESCRIBED FORMS

The following prescribed or approved forms were not always in use:

Simplified Cash Journal Form 323
Special District Annual Report (SDAR-1)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OPTICAL IMAGES OF WARRANTS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

Indiana Code 5-15-6-3 concerning optical imaging of checks states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Further, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise: and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

CAPITAL ASSET RECORDS

The District does not maintain capital asset records.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CONFLICT OF INTEREST

Kim Zartman, Board member, was also serving as the Utility Billing Clerk in 2006. A Uniform Conflict of Interest Disclosure Statement does not appear to have been filed.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . . ."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) if the public servant; (A) is an elected public servant. . . and (B) makes a disclosure under subsection (d)(1) through (d)(6)."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase. . . ."

"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. . . ."

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The District did not comply with directives of Internal Revenue Service by withholdings taxes on employees. Additionally, no Federal Form 1099 MISC's (Miscellaneous Income) were issued to the Board members and Plant Operator.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
 - (B) a description of the premises, as shown by the records of the county auditor; and
 - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent.

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May . . ."

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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 NYONA/SOUTH MUD LAKES
CONSERVANCY DISTRICT, FULTON COUNTY, INDIANA

Compliance

We have audited the compliance of the Nyona/South Mud Lakes Conservancy District (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 each of its major federal programs for the years ended December 31, 2006 and 2007. The District's major federal programs are 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 each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 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 District's compliance with those requirements.

As described in item 2007-3 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding Equipment and Real Property Management that are applicable to its Water and Waste Disposal Systems for Rural Communities. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended December 31, 2006 and 2007.

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)

Internal Control Over Compliance

The management of the 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 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in item 2007-3 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2007-3, to be material weaknesses.

The District's response to the findings identified in our audit are described in the accompanying Corrective Action Plan section of the report. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the 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.

STATE BOARD OF ACCOUNTS

June 11, 2008

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2006 and 2007

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-06	Total Federal Awards Expended 12-31-07
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Waste and Waste Disposal Systems for Rural Communities	10.760		\$ <u>2,269,700</u>	\$ <u>1,935,725</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Nyona/South Mud Lakes Conservancy District (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 Districts shall be conducted biennially. Such audits shall include both years within the biennial period.

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

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

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 Systems 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

FINDING 2007-1, - CAPITAL ASSETS

The Nyona/South Mud Conservancy District did not maintain a record of Capital Assets.

Failure to properly establish and maintain an accurate record of capital assets could result in the loss or misappropriation of capital assets.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Account Group. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

We recommended that the District design and properly monitor procedures to ensure that capital asset records are maintained accurately and that capital assets are adequately safeguarded from loss, damage, or misappropriation.

FINDING 2007-2, - CONDITION OF RECORDS

The following deficiencies relating to the recordkeeping were present during our period of audit:

Records balances were not reconciled to depository balances.

There were a considerable number of posting errors. These errors consisted of deposits to the bank not being receipted to the records and checks not being posted for the proper amount.

Failure to properly maintain the financial records results in improper reporting of the financial position of the District and could lead to improper financial decisions related to the District activities.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

We recommended that the District design and properly monitor procedures to ensure that the fund balances at all times reflect the financial activity of the District: and that the financial records at all times portray an accurate and true picture of the financial transactions District.

Section III – Federal Award Findings and Questioned Costs

FINDING 2007-3, EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: US Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number: 10.760

The District did not maintain a record of Capital Assets for equipment and property acquired from federal program monies.

The District's funds ledger indicated that \$4,205,424 of federal awards were expended on plant construction and acquisition of property and equipment.

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Circular A-133 Subpart F section 3-1 states: "Local governments . . . shall follow the A-102 Common Rule for equipment acquired under Federal award received directly from a Federal awarding agency. . . . Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained."

Failure to properly establish and maintain an accurate record of capital assets could result in the loss or misappropriation of capital assets and could jeopardize the approval of future funding under federal assistance programs.

We recommended that the District design and properly monitor procedures to ensure that capital asset records are maintained accurately and capital assets are adequately safeguarded from loss, damage, or misappropriation.

NYONA SOUTH MUD LAKE CONSERVANCY DISTRICT

2979 SE LAKESHORE DR. MACY, IN 46951

PH (574) 382-2168 FAX (574) 382 -2140

DATE: 6-11-08

Kris Girton
State Board of Accounts

Corrective Action Plan

Kris:

Attached is the Corrective Action Plan requested by you, The State Board of Accounts.
It consist of information in regards to the following:

FINDING NO. 2007-1 CAPITAL ASSETS
FINDING NO. 2007-2 CONDITION OF RECORDS
FINDING NO. 2006-3 EQUIPMENT AND REAL PROPERTY MANAGEMENT

Tanks,

Ken Hutchins
Treasurer

Ken Hutchins, Treasurer
Nyona S. Mud Lakes Conservancy District Board

FINDING #2007-1 CAPITOL ASSETS

WE WILL MAINTAIN AN INVENTORY OR RECORD OF CAPITOL ASSETS, USING FORM 369.

FINDING #2007-2 CONDITION OF RECORDS

WE ARE SEARCHING FOR A BANK THAT WILL CLOSE THE MONTHS BUSINESS ON THE LAST DAY OF THE MONTH, SO THAT WE CAN RECONCILE BANK BALANCES ON A MONTHLY BASIS.

WE ARE NOW ISSUEING RECEIPTS FOR ALL MONIES RECEIVED, ON RECEIPT FORM 352 1145.

FINDING #2006-3 EQUIPMENT AND REAL PROPERTY MANAGEMENT

THE DISTRICT WILL MAINTAIN A CAPITOL ASSET RECORD FOR ALL LAND, BUILDINGS, IMPROVMENTS, AND EQUIPMENT THAT IS PURCHASED OR SOLD BY THE DISTRICT, WITH A VALUE OVER \$1000.00

NYONA/SOUTH MUD LAKES CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on June 11, 2008, with Kenneth R. Hutchins, Financial Clerk. The official concurred with our audit findings.