

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

FINANCIAL STATEMENTS EXAMINATION REPORT

OF

PINE LAKE CONSERVANCY DISTRICT

LAPORTE COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
04/11/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Independent Business Manager	Lisa Massey	01-01-10 to 12-31-13
Chairman of the Board	Larry N. Reaves	01-01-10 to 12-31-10
	Larry Mazur	01-01-11 to 12-31-11
	Greg Smith	01-01-12 to 12-31-12
	Paul Noveroske	01-01-13 to 12-31-13



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 ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE PINE LAKE CONSERVANCY DISTRICT, LAPORTE COUNTY, INDIANA

We have examined the accompanying financial statements of the Pine Lake Conservancy District (District), for the period of January 1, 2010 to December 31, 2011. The financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the 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 statements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the District prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis noted above is a different basis than that used in the prior period.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the District for the period of January 1, 2010 to December 31, 2011.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the District for the period of January 1, 2010 to December 31, 2011, on the basis of accounting described in Note 1.

Our examination was conducted for the purpose of forming an opinion on the District's financial statements. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statements. They have not been subjected to the examination procedures applied to the financial statements and, accordingly, we express no opinion on them.

INDEPENDENT ACCOUNTANT'S REPORT
(Continued)

The District's response to the Examination Results and Comments identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine the District's response and, accordingly, we express no opinion on it.



Bruce Hartman
State Examiner

February 19, 2013

FINANCIAL STATEMENTS

The financial statements and accompanying notes were approved by management of the District. The financial statements and notes are presented as intended by the District.

PINE LAKE CONSERVANCY DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2010

Fund	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
Operating	\$ 65,188	\$ 255,173	\$ 287,233	\$ 33,128
Debt Service Reserve	65,107	10	8,189	56,928
Replacement	43,105	9,660	2,745	50,020
Bond And Interest	<u>195,277</u>	<u>174,968</u>	<u>303,070</u>	<u>67,175</u>
Totals	<u>\$ 368,677</u>	<u>\$ 439,811</u>	<u>\$ 601,237</u>	<u>\$ 207,251</u>

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

PINE LAKE CONSERVANCY DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2011

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11
Bond and Interest	\$ 67,175	\$ 103,901	\$ 104,933	\$ 66,143
Debt Service Reserve	56,928	-	1,928	55,000
Operating	33,128	262,549	232,191	63,486
Replacement	50,020	9,660	9,396	50,284
Totals	<u>\$ 207,251</u>	<u>\$ 376,110</u>	<u>\$ 348,448</u>	<u>\$ 234,913</u>

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

PINE LAKE CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 1. 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 accompanying financial statements present the financial information for the District.

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

PINE LAKE CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the District. It includes all expenditures for the reduction of the principal and interest of the District's general obligation indebtedness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The District may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the District. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the District. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the District in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the District submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

PINE LAKE CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 3. *Deposits and Investments*

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize 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.

Note 4. *Risk Management*

The District may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the District to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the District's Annual Reports for years prior to 2011 can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the District's Annual Report information for years 2011 and later can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statements contained in this report and the financial information presented in the Annual Reports of the District which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was approved by management of the District. It is presented as intended by the District.

PINE LAKE CONSERVANCY DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	<u>Operating</u>	<u>Debt Service Reserve</u>	<u>Replacement</u>	<u>Bond And Interest</u>	<u>Totals</u>
Cash and investments - beginning	\$ 65,188	\$ 65,107	\$ 43,105	\$ 195,277	\$ 368,677
Receipts:					
Utility fees	255,173	-	-	-	255,173
Other receipts	<u>-</u>	<u>10</u>	<u>9,660</u>	<u>174,968</u>	<u>184,638</u>
Total receipts	<u>255,173</u>	<u>10</u>	<u>9,660</u>	<u>174,968</u>	<u>439,811</u>
Disbursements:					
Utility operating expenses	128,905	-	2,745	-	131,650
Other disbursements	<u>158,328</u>	<u>8,189</u>	<u>-</u>	<u>303,070</u>	<u>469,587</u>
Total disbursements	<u>287,233</u>	<u>8,189</u>	<u>2,745</u>	<u>303,070</u>	<u>601,237</u>
Excess (deficiency) of receipts over disbursements	<u>(32,060)</u>	<u>(8,179)</u>	<u>6,915</u>	<u>(128,102)</u>	<u>(161,426)</u>
Cash and investments - ending	<u>\$ 33,128</u>	<u>\$ 56,928</u>	<u>\$ 50,020</u>	<u>\$ 67,175</u>	<u>\$ 207,251</u>

PINE LAKE CONSERVANCY DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	Bond and Interest	Debt Service Reserve	Operating	Replacement	Totals
Cash and investments - beginning	\$ 67,175	\$ 56,928	\$ 33,128	\$ 50,020	\$ 207,251
Receipts:					
Charges for services	-	-	262,549	-	262,549
Other receipts	103,901	-	-	9,660	113,561
Total receipts	103,901	-	262,549	9,660	376,110
Disbursements:					
Personal services	-	-	8,693	-	8,693
Supplies	-	-	2,693	9,396	12,089
Other services and charges	-	-	159,870	-	159,870
Debt service - principal and interest	104,933	-	-	-	104,933
Other disbursements	-	1,928	60,935	-	62,863
Total disbursements	104,933	1,928	232,191	9,396	348,448
Excess (deficiency) of receipts over disbursements	(1,032)	(1,928)	30,358	264	27,662
Cash and investments - ending	\$ 66,143	\$ 55,000	\$ 63,486	\$ 50,284	\$ 234,913

PINE LAKE CONSERVANCY DISTRICT
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2011

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 25,560</u>	<u>\$ 10,580</u>

PINE LAKE CONSERVANCY DISTRICT
 SCHEDULE OF LEASES AND DEBT
 December 31, 2011

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
Notes and loans payable	State Revolving Fund	\$ 155,000	\$ 55,425
Notes and loans payable	Purchase a generator	<u>55,000</u>	<u>31,530</u>
Totals		<u>\$ 210,000</u>	<u>\$ 86,955</u>

PINE LAKE CONSERVANCY DISTRICT
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2011

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.

	<u>Ending Balance</u>
Governmental activities:	
Land	\$ 5,000
Infrastructure	2,000
Buildings	50,000
Machinery, equipment, and vehicles	66,935
Books and other	<u>5,000</u>
Total capital assets	<u><u>\$ 128,935</u></u>

PINE LAKE CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The District did not comply with filing requirements of the State Board of Accounts. The Annual Financial Reports submitted for 2010 and 2011 included material inaccuracies. Numerous adjustments to the funds' balances, receipts, and disbursements were made by the State Board of Accounts and approved by the District to accurately represent the financial position of the District in this report.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Page 10-10)

CONDITION OF RECORDS

The following are deficiencies relating to the recordkeeping cited during our period of examination:

1. There were a considerable number of posting errors. These errors included: missing sources and/or descriptions of transactions; check numbers and receipt numbers not recorded; no classification of the form of currency received; and dates of the transactions not posted.
2. Accounts Payable Voucher Registers were not signed by the Financial Clerk certifying that invoices supporting each of the listed vouchers are true and correct and were audited in accordance with IC 5-11-10-1.6.

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, Page 10-4)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Page 10-13)

OFFICIAL BOND

The District's Financial Clerk was bonded, but not at the appropriate amount. The Financial Clerk's bond is for \$25,000. Indiana Code 5-4-1-18(c) states the appropriate amount may not be less than \$30,000.

Indiana Code 5-4-1-18(c) states in part: "Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of . . . conservancy district financial clerks as follows:

- (1) The amount must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).

PINE LAKE CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee."

SALES TAX

Indiana sales tax was paid on some purchases. A detailed examination of all payments made to NIPSCO and Verizon Wireless in 2011 for services rendered resulted in sales tax paid in the amount \$518.36.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Page 10-14)

PRESCRIBED FORMS

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

Capital Assets Ledger (General Form 369 or City and Town Form 211)
Consumer's Ledger - Municipal Wastewater Utility (Utility Form 324)

The capital assets list is maintained in Microsoft Word, which is not a prescribed or approved form. Lists of cash receipts for deposits are made with Quick Books, which is not a prescribed or approved form. The District also used Quick Books to maintain and track customer payments, which did not result in the listing of payment date, check number, or any penalty applied or paid. A similar comment was in the prior Report B37897.

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, Page 10-4)

CAPITAL ASSET RECORDS

Information presented for examination was incomplete pertaining to capital assets. The District maintains an inventory list at estimated value of the Vacuum Station only and nothing else. A similar comment was included in the prior Report B37897.

Every governmental unit should have a complete inventory of all fixed assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable General Fixed Asset Account Group Form. 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, Page 10-7)

PINE LAKE CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on February 19, 2013, with Lisa Massey, Independent Business Manager, and Larry Mazur, Board member. The Official Response has been made a part of this report and may be found on pages 20 through 22.

Pine Lake Conservancy District

P.O. Box 1884

La Porte, Indiana 46350

Mr. John Rucano
Indiana State Board of Accounts
302 West Washington Street
RM E418
Indianapolis, Indiana 46204
February 25, 2013

Mr. Todd Austin
Indiana State Board of Accounts
302 West Washington Street
RM E418
Indianapolis, Indiana 46204

Dear Mr. Rucano and Mr. Austin;

A good audit helps any District's governmental board do better "due diligence" complying with State Board of Accounts guidelines. It is important all members of the Pine Lake Conservancy board and the District manager understand and subscribe to that due diligence in total and without exception. We learned that the State is even more diligent today on compliance requirements but also helpful with small Districts such as our own to find the most efficient single way of reporting to avoid redundancies, duplications and unnecessary time and money spent.

Our board recognizes that our District has had repetitious exceptions not yet successfully addressed over a decade along with current material inaccuracies and a considerable number of posting errors. While our board has focused past priorities on curing a bond default (bond soon to pay off), removing a 74% delinquency rate in favor of the current 1%, collecting 6 years (\$130,000) of delinquent fees, raising funds for a much needed generator and removing any and all conflicts of interest from our board's absolute focus on due diligence; our newest priority is focusing on timely, accurate reports and a zero exception audit while making our single reporting system and process more efficient and less expensive as to time, cost and effort. Thank you for your patience, Indianapolis has the current attention of the full Pine Lake Conservancy District board.

1. **"Considerable number of posting errors"**- We maintain an unapproved quick books system which has served us well as did our excel spread sheet post collection problems. We now immediately lien those who do not pay. Our Independent Business Manager also keeps manual records for the State Board which causes redundancy and more chance for error on

one side or the other of duplicate bookkeeping. With Mr. Rucano's help and suggestion we are committed to calling Todd Austin to ask which is the most efficient District in the Indiana group of about our size so we may visit and determine the singular best system for both reporting and our board review,

2. Receipts, duplicates, bank deposits. In post audit discussions it appears we have all the supporting information but possibly not in the order expected. Check deposits are made by Bank provided check scanner which provides receipts printed with account number, customer name, check number and amount paid. The duplication of effort is an area our IBM and board will review, visit similar Districts doing it most efficiently and adjust our system as needed for both compliance and ease of reporting to the board, the State and our own membership.
3. As discussed during the audit. Our Independent Business Manager now signs all accounts payable submissions going forward. Generally we intend to use all proscribed forms for this work or in the more efficient alternative forms or methods we seek advanced approval for.

Official Bond;

We will immediately seek out a \$30,000 bond (currently \$25,000) for Lisa Massey or a Blanket bond for entire board and manager whichever proves most cost conscious. The completed bond will be sent down to the State Board, referenced in our minutes and presented on our next audit. Lisa will have this done for our next meeting minutes.

Sales Tax

Our governmental body is exempt from sales and use tax. The IBM is checking to retrieve sales tax charges and especially check for taxes on the generator purchase. This is an example of the cost savings that also come from audits. The IBM will report this to the board and in the minutes over our next two meetings. We are still required to file the state form with zeros which the IBM does.

Prescribed Forms

We are not using the **Capital Asset Ledger** form 369 or Consumer Waste Water Ledger form 324 (cannot locate on website).

The **Capital Asset Ledger** needs to list in detail all land, real estate, pipelines and original costs on this form which should be most familiar to McMahan who does these District. The board has asked for this but got the simple inventory which the State says is inadequate. If the original cost of this was one million there should be assets listed, other than labor, that represent a comprehensive **Capital Asset Ledger** which Mc Mahon can pull together quicker and more accurately than anyone from their original records and feel free to call the State Board of Accounts for any questions.

The board will initiate this immediately via McMahon. Let's all call it what it is, the "**Capital Asset Ledger**" and not just an inventory list.

Annual Financial Report

Many board members may not have known the annual report is due 60 days after year end and should be a matter of board review and the minutes. The board must see to the agenda including a January and February annual report discussion and approval. Our IBM states this form can be completed by the January meeting. The board must be sure the IBM is doing all that is required under state law.

Lawrence J Mazur will be contacting Mr. Todd Austin to discuss which District to visit in order to improve our efficiencies while minimizing redundancy, duplication and unnecessary effort by our manager.

Thank you for helping us maintain our board due diligence;

The Pine Lake Conservancy Board & Manager



Paul Noveroske, Chairman



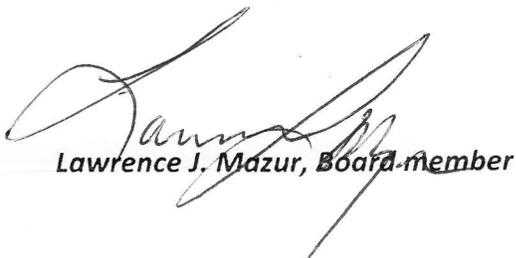
Larry Reaves, Board Member



Tara Christensen, Vice Chairman



Lisa Massey, Independent Business Manager



Lawrence J. Mazur, Board member