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October 3, 2013

Board of Directors
Shafer and Freeman Lakes Environmental
Conservation Corporation
204-C North Main
Monticello, IN 47960

We have reviewed the audit report prepared by Reed & Company, P.C., Independent Public Accountants, for the period January 1, 2011 to December 31, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Shafer and Freeman Lakes Environmental Conservation Corporation, as of December 31, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report except for the value of the land donated in 1997 to the Conservation Corporation which resulted in a disclaimer of opinion on the Statement of Assets, Liabilities and Net Assets-Cash Basis.

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

STATE BOARD OF ACCOUNTS

**Shafer & Freeman Lakes Environmental
Conservation Corporation**

**Audited Financial Statements
December 31, 2012 and 2011**

Shafer & Freeman Lakes Environmental Conservation Corporation

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Shafer & Freeman Lakes Environmental Conservation Corporation
Monticello, Indiana

We have audited the accompanying statements of support, revenue and expenses-cash basis, and changes in net assets-cash basis of Shafer & Freeman Lakes Environmental Conservation Corporation (an Indiana nonprofit organization) for the years ended December 31, 2012 and 2011, and we were engaged to audit the statements of assets, liabilities and net assets-cash basis as of December 31, 2012 and 2011, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in the footnotes; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts.

We conducted our audit of the statements of support, revenue and expenses-cash basis and changes in net assets-cash basis in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements of support, revenue and expenses-cash basis and changes in net assets-cash basis are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinion on the statements of support, revenue and expenses-cash basis and changes in net assets-cash basis. Because of the matter discussed in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of assets, liabilities and net assets-cash basis.

Basis for Disclaimer of Opinion on the Statements of Assets, Liabilities and Net Assets-Cash Basis

As explained in the footnotes, we were unable to confirm the fair market value of the appraised land, which was donated to Shafer & Freeman Lakes Environmental Conservation Corporation in 1997, and we were not able to apply other auditing procedures to satisfy ourselves as to the value of the land.

Disclaimer of Opinion on the Statements of Assets, Liabilities and Net Assets-Cash Basis

Because of the significance of the matter discussed in the Basis for Disclaimer paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the assets, liabilities and net assets. Accordingly we do not express an opinion on the assets, liabilities and net assets for the years ended December 31, 2012 and 2011.

Opinion on the Statements of Support, Revenue and Expenses-Cash Basis and Changes in Net Assets-Cash Basis

In our opinion, the statements of support, revenue and expenses-cash basis and changes in net assets-cash basis referred to in the first paragraph present fairly, in all material respects, the support, revenue, expenses, and changes in net assets of Shafer & Freeman Lakes Environmental Conservation Corporation for the years ended December 31, 2012 and 2011, on the basis of accounting described in the footnotes.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses-cash basis and federal, state and local grant awards are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit for the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Basis of Accounting

We draw attention to the footnotes of the financial statements, which describe the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Beed & Company, P.C.
Lafayette, Indiana
May 15, 2013

Shafer & Freeman Lakes Environmental Conservation Corporation

Statements of Assets, Liabilities and Net Assets-Cash Basis
December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 139,058	\$ 98,197
Certificates of deposit	300,495	267,786
Bonds	112,459	0
Total Current Assets	552,012	365,983
FIXED ASSETS		
Equipment	1,019,247	989,010
Land	27,255,011	27,255,011
Leasehold improvements	4,083	4,083
	28,278,341	28,248,104
Less: accumulated depreciation	(940,727)	(916,312)
Total Fixed Assets	27,337,614	27,331,792
OTHER ASSETS		
Certificates of deposit	0	87,526
Bonds	76,494	198,315
Beneficial interest in funds held by others	5,382	4,787
Total Other Assets	81,876	290,628
TOTAL ASSETS	\$ 27,971,502	\$ 27,988,403
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payroll taxes withheld	\$ 1,302	\$ 786
NET ASSETS		
Unrestricted	27,964,818	27,982,617
Temporarily restricted	382	0
Permanently restricted	5,000	5,000
Total Net Assets	27,970,200	27,987,617
TOTAL LIABILITIES AND NET ASSETS	\$ 27,971,502	\$ 27,988,403

See Accompanying Notes to Financial Statements

**Shafer & Freeman Lakes Environmental
Conservation Corporation**

Statements of Support, Revenue and Expenses-Cash Basis
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
UNRESTRICTED NET ASSETS		
REVENUE AND PUBLIC SUPPORT		
Contributions	\$ 10,595	\$ 9,538
License	196,926	190,455
Grant	250,741	285,883
Rental income	3,975	3,525
Interest income	15,946	17,924
Loss on investments	(4,908)	(773)
Gain (loss) on investments held by others	213	(197)
Other revenue	4,790	1,279
Total Revenue and Public Support	<u>478,278</u>	<u>507,634</u>
EXPENSES		
Program	330,742	389,329
Management and general	165,335	170,773
Fundraising	0	0
Total Expenses	<u>496,077</u>	<u>560,102</u>
DECREASE IN UNRESTRICTED NET ASSETS	(17,799)	(52,468)
TEMPORARILY RESTRICTED NET ASSETS		
Gain on investments held by others	<u>382</u>	<u>0</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>382</u>	<u>0</u>
DECREASE IN NET ASSETS	<u>\$ (17,417)</u>	<u>\$ (52,468)</u>

See Accompanying Notes to Financial Statements

Shafer & Freeman Lakes Environmental Conservation Corporation

Statements of Changes in Net Assets-Cash Basis
For the Years Ended December 31, 2012 and 2011

	2012	2011
UNRESTRICTED NET ASSETS		
Balance at the Beginning of the Year	\$ 27,982,617	\$ 28,035,085
Decrease in Net Assets	(17,799)	(52,468)
Balance at the End of the Year	\$ 27,964,818	\$ 27,982,617
TEMPORARILY RESTRICTED NET ASSETS		
Balance at the Beginning of the Year	\$ 0	\$ 0
Increase in Net Assets	382	0
Balance at the End of the Year	\$ 382	\$ 0
PERMANENTLY RESTRICTED NET ASSETS		
Balance at the Beginning of the Year	\$ 5,000	\$ 5,000
No Activity	0	0
Balance at the End of the Year	\$ 5,000	\$ 5,000

See Accompanying Notes to Financial Statements

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Shafer & Freeman Lakes Environmental Conservation Corporation was incorporated under the laws of the State of Indiana on July 6, 1992. The Organization's purpose is to conduct itself in a way to protect and enhance the lakes located in north central Indiana in order to facilitate public recreational use. The Organization will accomplish this purpose through various activities, including but not limited to, the issuance and administration of permits for the use of shoreline property, monitoring shoreline quality and ensuring continued public use.

Basis of Accounting

The financial statements of Shafer & Freeman Lakes Environmental Conservation Corporation have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Modifications to the cash basis of accounting include recording depreciation on property and equipment and recording investments at fair value. Accordingly, revenue is recorded when received rather than when earned and expenses and purchases are recorded when cash is disbursed rather than when the obligation is incurred.

Concentration of Credit Risk for Cash Held at Bank

Shafer & Freeman Lakes Environmental Conservation Corporation maintains cash balances at three banks. Accounts at each institution are insured by the FDIC up to \$250,000. The FDIC will revert back to \$100,000 on December 31, 2013. The cash and money funds held at the brokerage accounts are insured by SIPC. The SIPC covers up to \$100,000 of cash or \$500,000 of the investment balance, which includes mutual funds. There were no amounts of cash in excess of the insured limits at December 31, 2012 and 2011.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts and disclosures of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are carried at cost. Major additions and improvements are added to the equipment accounts while maintenance, repairs, and replacements, which do not improve or extend the lives of assets, are expensed currently. Depreciation is provided using straight-line and double declining balance methods. The useful lives of the property and equipment for purposes of computing depreciation are:

Equipment	3 - 10 years
Leasehold Improvements	15 - 39 years

Depreciation expense for 2012 and 2011 was \$24,415 and \$44,446.

When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is reflected in earnings or in the cost of the replacement assets.

Donated Assets

Non-cash donations are recorded as contributions at their estimated fair values at the date of donation only if the donation is a capital asset and is added to the depreciation schedule. Donations of non-capital assets are not recorded.

Expense Allocation

Expenses are charged to programs and supporting services on the basis of periodic expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Significant Group Concentrations of Credit Risk

During the years ended December 31, 2012 and 2011, Shafer & Freeman Lakes Environmental Conservation Corporation received approximately 52.3% and 56.3% of its revenues from the County Innkeepers' Tax.

Date of Management Review

Management has evaluated subsequent events through May 15, 2013, the date on which the draft of the financial statements was available.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of assets, liabilities and net assets—cash basis. Unrestricted gains and losses are included in the statement of support, revenue and expenses—cash basis.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the first-in, first-out method.

Following is a summary of cash and investments as of December 31:

	2012	2011
Cash and money funds at brokerage account	\$ 4,675	\$ 9,589
Certificates of deposit	300,495	355,312
Corporate bonds	147,943	150,685
Municipal bonds	41,010	47,630
Cash and Investments	\$ 494,123	\$ 563,216

Following is the activity during the year ended December 31:

	2012	2011
Balance, January 1	\$ 563,216	\$ 281,746
Interest and dividends	15,815	17,471
Net purchase (withdraw)	(80,000)	264,772
Change in market	(4,908)	(773)
Balance, December 31	\$ 494,123	\$ 563,216

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

INVESTMENTS, continued

Certificates of Deposit

Shafer & Freeman Lakes Environmental Conservation Corporation has the following certificates of deposit as of December 31:

	<u>2012</u>	<u>2011</u>
Beal Bank Nevada CD with an interest rate of 2.05%, which matures on March 3, 2013.	\$ 25,100	\$ 25,344
Cit Bank CD with an interest rate of 2.1%, which matures on April 8, 2013.	25,109	25,362
Peoples Saving & Loan CD with an interest rate of 1%, which matures on January 4, 2012.	0	80,726
Peoples Saving & Loan CD with an interest rate of .5%, which matures on January 4, 2013.	50,985	0
Alliance Bank CD with an interest rate of 1.29%, which matures on January 20, 2013.	37,214	36,820
Alliance Bank CD with an interest rate of 1.35%, which matures on October 4, 2012.	0	187,060
Alliance Bank CD with an interest rate of .45%, which matures on October 12, 2013.	<u>162,087</u>	<u>0</u>
Total Certificates of Deposit	<u>\$ 300,495</u>	<u>\$ 355,312</u>

Corporate Bonds

Shafer & Freeman Lakes Environmental Conservation Corporation has the following corporate bonds as of December 31:

	<u>2012</u>	<u>2011</u>
Fifth Third Bank NW Note with an interest rate of 6.25%, which matures on May 1, 2013.	\$ 101,883	\$ 105,996
General Elec Corp Note with an interest rate of 5.4%, which matures on February 15, 2017.	<u>46,060</u>	<u>44,689</u>
Total Corporate Bonds	<u>\$ 147,943</u>	<u>\$ 150,685</u>

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

INVESTMENTS, continued

Municipal Bonds

Shafer & Freeman Lakes Environmental Conservation Corporation has the following municipal bonds as of December 31:

	<u>2012</u>	<u>2011</u>
Massachusetts St. Port Note with an interest rate of 13.0%, which matures on July 1, 2013.	\$ 10,577	\$ 16,803
Chicago IL Pub Bldg Note with an interest rate of 6.5%, which matures on January 1, 2017.	<u>30,433</u>	<u>30,827</u>
Total Municipal Bonds	<u>\$ 41,010</u>	<u>\$ 47,630</u>

BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

During the year ended December 31, 2007, the Organization transferred \$5,000 to the White County Community Foundation to create a designated endowment fund. The Organization established the endowment to secure resources that will help to fund the future goals and needs of the Organization. The Organization is the beneficiary of the annual earnings of the fund, net of investment fees. The Foundation does not have variance power. The fair market value of the fund was \$5,382 and \$4,787 at December 31, 2012 and 2011, respectively. The fair value of the assets in the Community Foundation of Greater Lafayette are obtained from various quotation services and are provided to the Organization by the Foundation management.

The Board of Directors of Shafer & Freeman Lakes Environmental Conservation Corporation has interpreted UPMIFA as requiring the administration of endowment funds pursuant to its gift instruments and Community Foundation policy. The Board of Directors administers its endowment and appropriates a portion of endowment funds for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS, continued

For the year ended December 31, 2012, the Organization had the following endowment related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment
Beginning of Year	\$ (213)	\$ 0	\$ 5,000	\$ 4,787
Earnings	0	197	0	197
Unrealized gain	213	234	0	447
Realized gain	0	32	0	32
Fees	0	(81)	0	(81)
End of Year	<u>\$ 0</u>	<u>382</u>	<u>\$ 5,000</u>	<u>\$ 5,382</u>

For the year ended December 31, 2011, the Organization had the following endowment related activities:

	Unrestricted	Permanently Restricted	Total Endowment
Beginning of Year	\$ (16)	\$ 5,000	\$ 4,984
Earnings	185	0	185
Unrealized loss	(311)	0	(311)
Realized gain	8	0	8
Fees	(79)	0	(79)
End of Year	<u>\$ (213)</u>	<u>\$ 5,000</u>	<u>\$ 4,787</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that UPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are \$0 and \$213 as of December 31, 2012 and 2011. These deficiencies resulted from unfavorable market fluctuations that occurred.

Investment Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The Organization's portfolio offers pooled investments that are diversified among asset classes and investment styles as offered by the Community Foundation, thus minimizing the risk of large losses over a defined investment horizon.

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS, continued

Return Objectives and Risk Parameters

Shafer & Freeman Lakes Environmental Conservation Corporation has adopted spending and investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board designated assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results that ensure the future growth of the assets is sufficient to exceed the rate of inflation and provide for distribution of earnings, net of fees. All investment decisions have been delegated to the Finance Committee of Shafer & Freeman Lakes Environmental Conservation Corporation.

Spending Policy

The spending rate for distributable earnings will be set by the Board of Directors each year. The Board of Directors will act prudently and responsibly when deciding on a distribution that will allow for growth in the endowment fund over the course of time. The Board of Directors oversees the management of all assets taking into account the purposes, terms and distribution requirements expressed by the governing instruments. The Board of Directors will exercise reasonable care, skill and caution in order to ensure preservation of all funds. The spending rate will be no more than 5% of a 3-year trailing average (calculated as of September 30 of the previous year) of the market value of each fund. Distributions that would invade the historic value of a particular fund are limited to interest and dividends.

Classification of Net Assets

True endowment funds are funds that are permanently restricted. The historic dollar value or contributions made to the fund is considered permanently restricted. All gains, losses and investment earnings are considered temporary restrictions. In the event that there is a loss on the fund in excess of the earnings on the fund, the deficit is recorded as unrestricted.

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS, continued

Classification of Net Assets, continued

Contributions that are made for a restricted purpose, but are not endowed, are classified as temporarily restricted. All earnings and appropriations are also considered temporarily restricted until spent.

All other contributions to the Organization that are absent donor restriction or to be used for operations are considered unrestricted gifts to Shafer & Freeman Lakes Environmental Conservation Corporation.

FAIR VALUE MEASUREMENTS

Guidance on Fair Value Measurements and Disclosures establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The Organization has adopted Guidance on Fair Value Measurements and Disclosures as it applies to financial assets and liabilities.

The three levels of the fair value hierarchy are described as follows:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. |
| Level 2 | Inputs to the valuation methodology include <ul style="list-style-type: none">• quoted prices for similar assets or liabilities in active markets;• quoted prices for identical or similar assets or liabilities in inactive markets;• inputs other than quoted prices that are observable for the asset or liability;• inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

FAIR VALUE MEASUREMENTS, continued

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the valuation techniques during the current year.

Certificates of deposit: Valued at the net asset value (NAV) of shares held by the Organization at year-end.

Bonds: Valued at the net asset value (NAV) of shares held by the Organization at year-end.

Beneficial interest in funds held by others: Valued at the net asset value (NAV) of shares held by the Organization at year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ 300,495	\$ 0	\$ 0	\$ 300,495
Bonds	188,953	0	0	188,953
Beneficial Interest	<u>5,382</u>	<u>0</u>	<u>0</u>	<u>5,382</u>
Total Assets at Fair Value	<u>\$ 494,830</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 494,830</u>

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

FAIR VALUE MEASUREMENTS, continued

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ 355,312	\$ 0	\$ 0	\$ 355,312
Bonds	198,315	0	0	198,315
Beneficial Interest	<u>4,787</u>	<u>0</u>	<u>0</u>	<u>4,787</u>
Total Assets at Fair Value	<u>\$ 558,414</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 558,414</u>

TAX STATUS

The Organization has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization. Accordingly, no accounting for federal or state income taxes is required in the accompanying financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170 (b)(1)(A)(vi).

As of December 31, 2012, Shafer & Freeman Lakes Environmental Conservation Corporation's exempt returns for the years ended December 31, 2009, December 31, 2010, and December 31, 2011 remain subject to examination by the Federal and Indiana tax authorities.

LEASE COMMITMENTS

Shafer & Freeman Lakes Environmental Conservation Corporation is leasing office space under an operating lease arrangement for \$550 per month which expired December 30, 2012. After the expiration of this lease it became a month to month agreement.

The total rent expense for 2012 and 2011 was \$7,025 and \$7,025.

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2012 and 2011

RENTAL INCOME

Shafer & Freeman Lakes Environmental Conservation Corporation leases land to local farmers. Rental agreements are annual agreements. The total rental income for 2012 and 2011 was \$3,975 and \$3,525.

INNKEEPERS REVENUE

The White County Commissioner has awarded Shafer & Freeman Lakes Environmental Conservation Corporation funds from the Innkeepers Revenue to pay for enhancement to the lakes. The funds for 2012 and 2011 were \$250,741 and \$285,883, respectively.

LAND VALUATION

Our auditors were unable to obtain a confirmation concerning the fair market value of the appraised land, which was donated to Shafer & Freeman Lakes Environmental Conservation Corporation in 1997 from NIPSCO, and were unable to apply other auditing procedures to satisfy themselves as to the value of the land. The value of the land as determined by NIPSCO was \$26,320,036 at the date of donation. Since the value of this donated land is material to the financial statements, they were unable to issue an unqualified opinion on the statements of assets, liabilities and net assets-cash basis.

Shafer & Freeman Lakes Environmental Conservation Corporation

Schedule of Functional Expenses-Cash Basis

For the Year Ended December 31, 2012

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 0	\$ 2,318	\$ 0	\$ 2,318
Bank charges	0	268	0	268
Contract services	22,188	0	0	22,188
Depreciation	23,489	926	0	24,415
Fish stocking	3,000	0	0	3,000
Fuel	43,873	0	0	43,873
Insurance	60,942	0	0	60,942
Legal and professional fees	0	3,376	0	3,376
Office expense	0	3,010	0	3,010
Postage	0	3,750	0	3,750
Printing	0	1,653	0	1,653
Rent	425	6,600	0	7,025
Repairs and maintenance	16,146	0	0	16,146
Salaries	140,420	129,715	0	270,135
Payroll taxes	13,103	12,105	0	25,208
Supplies	3,336	0	0	3,336
Telephone	403	1,614	0	2,017
Utilities	3,417	0	0	3,417
	<u>3,417</u>	<u>0</u>	<u>0</u>	<u>3,417</u>
Total Expenses	\$ <u>330,742</u>	\$ <u>165,335</u>	\$ <u>0</u>	\$ <u>496,077</u>

See Accompanying Notes to Financial Statements

Shafer & Freeman Lakes Environmental Conservation Corporation

Schedule of Functional Expenses-Cash Basis
For the Year Ended December 31, 2011

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 0	\$ 1,963	\$ 0	\$ 1,963
Bank charges	0	143	0	143
Contract services	23,078	0	0	23,078
Depreciation	43,352	1,094	0	44,446
Fuel	61,577	0	0	61,577
Insurance	64,408	0	0	64,408
Legal and professional fees	0	12,219	0	12,219
Meals and entertainment	0	29	0	29
Office expense	0	3,111	0	3,111
Postage	0	3,496	0	3,496
Printing	0	1,833	0	1,833
Rent	425	6,600	0	7,025
Repairs and maintenance	30,989	0	0	30,989
Salaries	142,290	126,144	0	268,434
Payroll taxes	13,237	11,735	0	24,972
Supplies	5,957	0	0	5,957
Telephone	601	2,406	0	3,007
Utilities	3,415	0	0	3,415
	<u>3,415</u>	<u>0</u>	<u>0</u>	<u>3,415</u>
Total Expenses	\$ <u>389,329</u>	\$ <u>170,773</u>	\$ <u>0</u>	\$ <u>560,102</u>

See Accompanying Notes to Financial Statements

**Shafer & Freeman Lakes Environmental
Conservation Corporation**

Schedules of Federal, State and Local Grant Awards
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
LOCAL FUNDS		
INNKEEPERS REVENUE		
Funds expended	\$ <u>250,741</u>	\$ <u>285,883</u>

See Accompanying Notes to Financial Statements