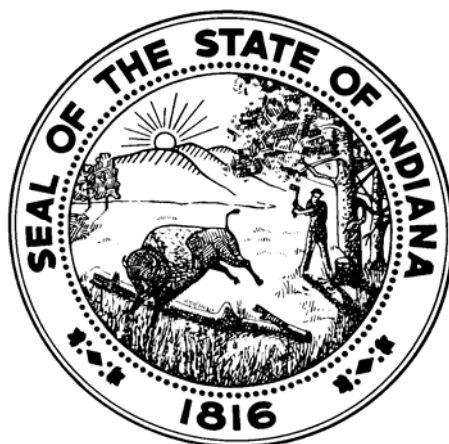


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

EXAMINATION REPORT
OF
LAKE LEMON CONSERVANCY DISTRICT
MONROE COUNTY, INDIANA
January 1, 2001 to December 31, 2005



FILED
12/27/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Lake Manager	Robert Madden	01-01-01 to 12-31-06
Treasurer	Bud Howard Dennis Friesel	01-01-01 to 02-06-01 02-07-01 to 12-31-06
President of the Board	Bill Cobb Marty Mann	01-01-01 to 12-31-01 01-01-02 to 12-31-06



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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE LAKE LEMON CONSERVANCY DISTRICT, MONROE COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the Lake Lemon Conservancy District (District), for the period of January 1, 2001 to December 31, 2005. The District's management is responsible for the schedules. Our responsibility is to express an opinion 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 schedule of receipts, disbursements, and cash and investment balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedules referred to above present fairly, in all material respects, the cash transactions of the District for the years ended December 31, 2001, 2002, 2003, 2004, and 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

September 28, 2006

LAKE LEMON CONSERVANCY DISTRICT
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL FUND TYPES
As Of And For The Years Ended December 31, 2001, 2002, 2003, 2004, And 2005

	Cash and Investments 01-01-01	Receipts	Disbursements	Cash and Investments 12-31-01
Governmental Funds:				
General	\$ 128,197	\$ 203,444	\$ 194,459	\$ 137,182
City of Bloomington-Grant	-	13,125	13,125	-
IDEM Grant	-	28,560	28,560	-
DNR Grant	-	11,127	11,127	-
Cumulative Maintenance	<u>21,258</u>	<u>7,150</u>	<u>-</u>	<u>28,408</u>
Totals	<u>\$ 149,455</u>	<u>\$ 263,406</u>	<u>\$ 247,271</u>	<u>\$ 165,590</u>

	Cash and Investments 01-01-02	Receipts	Disbursements	Cash and Investments 12-31-02
Governmental Funds:				
General	\$ 137,182	\$ 202,078	\$ 196,513	\$ 142,747
IRA/IPALCO Grant	-	2,900	2,900	-
IDEM Grant	-	18,489	18,489	-
DNR Grant	-	54,902	54,902	-
Cumulative Maintenance	<u>28,408</u>	<u>8,680</u>	<u>-</u>	<u>37,088</u>
Totals	<u>\$ 165,590</u>	<u>\$ 287,049</u>	<u>\$ 272,804</u>	<u>\$ 179,835</u>

	Cash and Investments 01-01-03	Receipts	Disbursements	Cash and Investments 12-31-03
Governmental Funds:				
General	\$ 142,747	\$ 165,013	\$ 214,270	\$ 93,490
FWS Grant	-	300	300	-
DNR Grant	-	63,814	63,814	-
City of Bloomington-Grant	-	9,915	9,915	-
IRA/IPALCO Grant	-	8,974	8,974	-
Cumulative Maintenance	<u>37,088</u>	<u>7,023</u>	<u>-</u>	<u>44,111</u>
Totals	<u>\$ 179,835</u>	<u>\$ 255,039</u>	<u>\$ 297,273</u>	<u>\$ 137,601</u>

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Governmental Funds:				
General	\$ 93,490	\$ 213,198	\$ 254,090	\$ 52,598
LARE 2004 Grant	-	2,455	-	2,455
Cumulative Maintenance	<u>44,111</u>	<u>-</u>	<u>-</u>	<u>44,111</u>
Totals	<u>\$ 137,601</u>	<u>\$ 215,653</u>	<u>\$ 254,090</u>	<u>\$ 99,164</u>

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 52,598	\$ 283,692	\$ 267,331	\$ 68,959
LARE 2004 Grant	2,455	-	2,455	-
LARE 2005 Grant	-	46,871	46,871	-
City of Bloomington-Grant	-	16,800	16,800	-
Cumulative Maintenance	<u>44,111</u>	<u>1,979</u>	<u>-</u>	<u>46,090</u>
Totals	<u>\$ 99,164</u>	<u>\$ 349,342</u>	<u>\$ 333,457</u>	<u>\$ 115,049</u>

The accompanying notes are an integral part of the schedules.

LAKE LEMON CONSERVANCY DISTRICT
NOTES TO SCHEDULES

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District provides the following services: public safety, health and social services, culture and recreation, and general administrative services.

Note 2. Fund Accounting

The District uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the District in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were 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 statute (IC 5-13-9) authorizes the District to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

LAKE LEMON CONSERVANCY DISTRICT
NOTES TO SCHEDULES
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Note 7. Short-Term Debt

The District entered into a short-term borrowing arrangement with Monroe Bank for amounts not to exceed \$125,000 on October 27, 2004. The District borrowings totaled \$75,000 total in 2004 and 2005 and had an outstanding principal balance of \$75,000 at December 31, 2005. The principal balance was paid off as of July 3, 2006.

LAKE LEMON CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS

TRANSACTION RECORDING

Grant receipts and disbursements and Cumulative Maintenance Fund cash and investments were not reported separately in the general ledger or the financial statements of the Conservancy District in any year of the examination period. Also, the Annual Financial Report for each year did not properly reflect the general ledger or the financial statements of the Conservancy District.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

FIXED ASSET RECORDS

Information presented for examination did not indicate an inventory was taken as of each year end. Also, the fixed asset detail records were not properly maintained during the period.

Every governmental unit should have a complete inventory of all fixed assets owned which reflect 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, Chapter 10)

INTEREST ON INVESTMENTS

Interest earned on Cumulative Maintenance Fund investments was automatically added to the principal and was not properly recorded in the records.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

PRESCRIBED FORMS

General Form 352 Receipt was not in use during the examination period.

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)

DEPOSITS

In numerous instances, receipts were deposited later than the next business day.

Indiana Code 5-13-6-1(c) states in part: "All local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance. . . ."

LAKE LEMON CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the audit period:

- (1) Claims were not certified by the Treasurer.
- (2) Claims did not have board approval.

Indiana Code 5-11-10-1.6 states, in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

OPTICAL IMAGES OF CHECKS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned an optical image of only the front side of the checks for bank statements printed after October 2001.

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

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

Furthermore, 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:

LAKE LEMON CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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)."

SALES TAX

Sales tax was paid for some purchases.

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, Chapter 10)

PENALTIES, INTEREST AND OTHER CHARGES

Information presented for audit indicates that, in some cases, amounts payable to vendors and other suppliers of goods and services are not being paid timely.

Late charges of \$24.64 and \$27.80, respectively, were paid in 2001 to MBNA America and Staples.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

COMPENSATION AND BENEFITS

A salary ordinance or resolution was not prepared and signed for any year during the examination period.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 17)

LAKE LEMON CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on September 28, 2006, with Robert Madden, Lake Manager; Dennis Friesel, Treasurer; and Shirley Watkins, Watkins Accounting. The official response has been made a part of this report and may be found on page 11 and 12.

OFFICIAL RESPONSE
LLCD Conservancy District Audit
State Board of Accounts
302 West Washington St, Rm 418
Indianapolis, IN 46204-2738

October 2, 2006

Gentlemen:

This letter is a written response to the State Board of Accounts audit of the Lake Lemon Conservancy District (LLCD) budget and financial records for the years 2001, 2002, 2003, 2004, and 2005. An exit interview with the State Auditor was conducted in the office of Watkins Accounting on September 28, 2006. Conservancy board member and treasurer D. Friesel, Lake Manager R. Madden and the LLCD Accountant Shirley Watkins were in attendance. A draft document with 10 points of discussion was presented to those in attendance at that meeting. The LLCD responses to these comments are listed below in the same order as listed in this document.

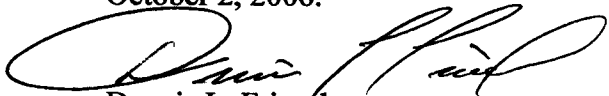
1. **Transaction Recording:** The items listed in this section were included in the budget summaries but not properly recorded in the general ledger, financial statements and Annual Report. LLCD accountant Shirley Watkins will now record these items separately in the general ledger and the LLCD treasurer will list them separately in the annual report as required.
2. **Fixed Asset Records:** LLCD fixed assets have not changed significantly in the last five years, and total only about 15 items. LLCD has consequently overlooked the need for this annual inventory. LLCD also will set a minimum dollar amount for what constitutes a fixed asset. This resolution will be discussed at the next board meeting and fixed assets will be inventoried each year as required.
3. **Interest on Investments:** To comply with this requirement, the LLCD treasurer has opened a new LLCD savings account (10/2/2006) into which cumulative maintenance CD quarterly interest payments will be deposited. Deposits will be identified with the CD from which the interest was collected. Periodically, the interest dollars collected into the savings account will be used to purchase a new CD or be added to an existing CD at the time it matures.
4. **Prescribed Forms:** General Form Number 352 will be ordered for use in our budget financial transactions as required.
5. **Deposits:** State law requires that all LLCD receipts be deposited in the bank within 24 hrs, or the next business day. This requires a 24 mile round trip per day to the bank in Bloomington, which represents an expense to the LLCD. Receipts during the week at LLCD are relatively low, while weekend receipts can be substantial. Hence, after much discussion on this topic with the auditor, LLCD will deposit receipts in the bank on Friday and Monday of

each week. The LLCD Office has a substantial fire proof safe to store the receipts collected during the week.

6. Errors on Claims: In the future, claims will be signed by the LLCD treasurer and presented to the LLCD board for approve at the monthly LLCD Board meetings.
7. Optical Image of Checks: The Monroe County Bank makes provisions for LLCD to print both sides of its monthly checks on it's web sight. LLCD will print these as required each month from the Web site.
8. Sales Tax: The sales tax paid was found in FY 2001, and was left over from errors found in the audit for the years1996 thru 2000. LLCD makes every effort to prevent paying sales tax on all purchases.
9. Penalties, Interest and other charges: These were items left over from the FY 2000 Audit, and were corrected by switching to a new accounting service in 2001.
10. Compensation and Benefits: Starting in 2003, the annual budget resolution contained two clauses; one being board approval of the following year annual budget, and the other approving the annual salary and benefits package for all paid LLCD personnel. Hence LLCD believes we are already in compliance with this requirement.

In closing, I'd like to compliment the professional and helpful approach brought to this audit by Mr. Scott Boyle. His courteous and sometimes patient discussions with me were very helpful in my understanding the procedural changes needed to meet the budget requirements of the LLCD.

This response respectfully submitted to the State Board of Accounts, this day, October 2, 2006.



Dennis L. Friesel
Treasurer, Lake Lemon Conservancy District
7599 N. Tunnel Rd.
Unionville, IN 47468
Friesel@Insightbb.com