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May 9, 2008

Board of Directors
Shafer & Freeman Lakes Environmental
Conservation Corporation
218 North Main
Monticello, IN 47960

We have reviewed the audit report prepared by Reed & Company, PC, Independent Public Accountants, for the period January 1, 2006 to December 31, 2006. 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 & Freeman Lakes Environmental Conservation Corporation, as of December 31, 2006, and the results of its operations for the period then ended, on the basis of accounting described in the report except for the statements of assets, liabilities and net assets – cash basis on which an opinion was not expressed because the auditors were unable to confirm the fair market value of the appraised land which was donated.

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

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**Shafer & Freeman Lakes Environmental
Conservation Corporation**

**Audited Financial Statements
December 31, 2006 and 2005**

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 assets, liabilities and net assets-cash basis of Shafer & Freeman Lakes Environmental Conservation Corporation (an Indiana nonprofit organization) as of December 31, 2006 and 2005, and the related statements of support, revenue and expenses-cash basis, changes in net assets-cash basis and functional expenses-cash basis for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our 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 State Board of Accounts. 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 opinion.

As described 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 1995 and we were not able to apply other auditing procedures to satisfy ourselves as to the value of the land. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying statements of assets, liabilities and net assets-cash basis as of December 31, 2006 and 2005.

As described in the footnotes, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the statements of support, revenue and expenses-cash basis, changes in net assets-cash basis and functional expenses-cash basis of Shafer & Freeman Lakes Environmental Conservation Corporation referred to above present fairly, in all material respects, its support, revenue, expenses, and changes in net assets for the years ended December 31, 2006 and 2005, on the basis of accounting described in the footnotes.

Reed & Company, P.C.

Lafayette, Indiana

July 11, 2007

**SHAFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 112,889	\$ 73,446
Certificates of deposit	314,888	401,089
Corporate bond	20,270	0
Total Current Assets	448,047	474,535
FIXED ASSETS		
Equipment	1,124,680	1,091,534
Land	27,000,130	27,145,843
Leasehold improvements	4,210	4,210
	28,129,020	28,241,587
Less: accumulated depreciation	(665,341)	(557,103)
Total Fixed Assets	27,463,679	27,684,484
TOTAL ASSETS	\$ 27,911,726	\$ 28,159,019
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payroll taxes withheld	\$ 918	\$ 1,393
NET ASSETS		
Unrestricted	27,910,808	28,157,626
TOTAL LIABILITIES AND NET ASSETS	\$ 27,911,726	\$ 28,159,019

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, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
UNRESTRICTED NET ASSETS		
REVENUE AND PUBLIC SUPPORT		
Contributions	\$ 22,606	\$ 21,113
License	137,855	138,734
Grant	326,575	3,298
Rental income	4,311	3,191
Interest income	7,782	11,789
Gain (loss) on investments	(1,233)	0
Fundraising	11,372	14,590
Other revenue	3,961	6,570
Total Revenue and Public Support	<u>513,229</u>	<u>199,285</u>
EXPENSES		
Program	575,113	505,557
Management and general	130,903	124,481
Fundraising	5,319	5,773
Total Expenses	<u>711,335</u>	<u>635,811</u>
OTHER INCOME AND (EXPENSES)		
Gain (loss) on sale of assets	<u>(48,712)</u>	<u>(11,017)</u>
CHANGE IN NET ASSETS	<u>\$ (246,818)</u>	<u>\$ (447,543)</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, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Net Assets at the Beginning of the Year	\$ 28,157,626	\$ 28,605,169
Change in Net Assets	<u>(246,818)</u>	<u>(447,543)</u>
Net Assets at the End of the Year	<u>\$ 27,910,808</u>	<u>\$ 28,157,626</u>

See Accompanying Notes to Financial Statements

**SHAFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**

**STATEMENTS OF FUNCTIONAL EXPENSES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Program</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Advertising	\$ 0	\$ 684	\$ 0	\$ 684
Bank charges	0	59	0	59
Contract services	47,890	0	3,207	51,097
Depreciation	107,676	1,199	0	108,875
Engineering	2,694	0	0	2,694
Fuel	93,719	0	0	93,719
Insurance	57,317	3,000	410	60,727
Legal and professional fees	0	8,799	0	8,799
Lobbying	17,420	0	0	17,420
Meals and entertainment	0	368	0	368
Mileage	402	0	0	402
Office expense	0	1,038	0	1,038
Postage	0	3,936	0	3,936
Printing	0	2,778	4	2,782
Rent	5,900	5,500	971	12,371
Repairs and maintenance	34,832	0	0	34,832
Salaries	182,985	93,312	0	276,297
Payroll taxes	15,968	8,143	0	24,111
Supplies	7,573	0	727	8,300
Telephone	522	2,087	0	2,609
Utilities	215	0	0	215
Total Expenses	<u>\$ 575,113</u>	<u>\$ 130,903</u>	<u>\$ 5,319</u>	<u>\$ 711,335</u>

See Accompanying Notes to Financial Statements

**SHAFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**

STATEMENTS OF FUNCTIONAL EXPENSES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Program</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Advertising	\$ 0	\$ 461	\$ 240	\$ 701
Bank charges	0	95	0	95
Contract services	10,684	0	3,040	13,724
Depreciation	109,677	387	0	110,064
Engineering	20,751	0	0	20,751
Fuel	55,110	0	0	55,110
Insurance	64,770	3,000	410	68,180
Legal and professional fees	0	9,763	0	9,763
Lobbying	18,081	0	0	18,081
Meals and entertainment	0	35	0	35
Office expense	0	1,700	0	1,700
Postage	0	3,227	0	3,227
Printing	0	3,642	493	4,135
Rent	5,960	5,000	774	12,734
Repairs and maintenance	35,966	0	0	35,966
Salaries	161,830	86,493	0	248,323
Payroll taxes	14,129	7,552	0	21,681
Supplies	7,880	0	816	8,696
Telephone	531	2,126	0	2,657
Utilities	188	0	0	188
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenses	<u>\$ 505,557</u>	<u>\$ 124,481</u>	<u>\$ 5,773</u>	<u>\$ 635,811</u>

See Accompanying Notes to Financial Statements

**SHAFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 corporation'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. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses and purchases are recognized when cash is disbursed rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with U.S. generally accepted accounting principles.

Concentration of Credit Risk for Cash Held at Bank

Shafer & Freeman Lakes Environmental Conservation Corporation maintains cash balances at three banks. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000 per bank. The amount of cash in excess of the insured limits at December 31, 2006 and 2005 were \$0 and \$157,758.

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.

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.

**SHAFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 2006 and 2005 was \$108,875 and \$110,064.

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.

Significant Group Concentrations of Credit Risk

During the years ended December 31, 2006 and 2005, Shafer & Freeman Lakes Environmental Conservation Corporation received approximately 38.6% and 1.7% of its revenues from the Indiana Department of Natural Resources.

**SHAFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

INVESTMENTS

Shafer & Freeman Lakes Environmental Conservation Corporation accounts for its investments under SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. 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, expense and other changes in net assets—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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Cash and money funds at brokerage account	\$ 41,324	\$ 0
Certificates of deposit	314,888	401,089
Corporate bond	<u>20,270</u>	<u>0</u>
Cash and Investments	<u>\$ 376,482</u>	<u>\$ 401,089</u>

Following is the activity during the year ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Balance, January 1	\$ 401,089	\$ 610,422
Interest and dividends	11,835	11,273
Early withdrawal penalty	(5,016)	0
Withdrawal	(30,194)	(220,606)
Adjustment to market	<u>(1,232)</u>	<u>0</u>
Balance, December 31	<u>\$ 376,482</u>	<u>\$ 401,089</u>

**SHAFFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

INVESTMENTS, continued

Certificates of Deposits

Shafer & Freeman Lakes Environmental Conservation Corporation has the following certificates of deposit as of December 31, 2006 and 2005:

	2006	2005
Certificate of deposit with an interest rate of 2.85%, which was closed on January 12, 2006.	\$ 0	\$ 42,880
Certificate of deposit with an interest rate of 2.6%, which was closed on January 12, 2006.	0	4,110
Certificate of deposit with an interest rate of 2.43%, which was closed on January 12, 2006.	0	123,566
Certificate of deposit with an interest rate of 3.2%, which was closed on January 9, 2005.	0	81,635
Certificate of deposit with an interest rate of 4.26%, which was closed on January 9, 2006.	0	46,293
Certificate of deposit with an interest rate of 2.25%, which was closed on January 12, 2006.	0	11,902
Certificate of deposit with an interest rate of 3.5%, which was closed on January 11, 2006.	0	90,703
Certificate of deposit with an interest rate of 4.55%, which matures on January 25, 2007.	39,977	0
Certificate of deposit with an interest rate of 4.55%, which matures on January 25, 2007.	48,971	0
Certificate of deposit with an interest rate of 4.6%, which matures on January 31, 2007.	10,993	0
Certificate of deposit with an interest rate of 5%, which matures on February 7, 2007.	39,000	0
Certificate of deposit with an interest rate of 5%, which matures on March 1, 2007.	50,000	0
Certificate of deposit with an interest rate of 5.25%, which matures on March 9, 2007.	46,000	0
Certificate of deposit with an interest rate of 5.25%, which matures on April 30, 2007.	30,000	0
Certificate of deposit with an interest rate of 5%, which matures on May 3, 2007.	49,947	0
Total Certificates of Deposit	<u>\$ 314,888</u>	<u>\$ 401,089</u>

**SHAFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

INVESTMENTS, continued

Corporate Bond

Shafer & Freeman Lakes Environmental Conservation Corporation has the following corporate bond as of December 31, 2006 and 2005:

	2006	2005
General Elec Capital Corp Note with an interest rate of 8.75%, which matures on May 21, 2007.	\$ <u>20,270</u>	\$ <u>0</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.

LEASE COMMITMENTS

Shafer & Freeman Lakes Environmental Conservation Corporation is leasing office space under a month-to-month operating lease arrangement. The rent for the office space in Monticello, Indiana, was \$500 per month in 2006 and 2005.

The Corporation began leasing land on June 1, 2001, under a two year lease agreement. This lease has subsequently become a year-to-year arrangement. The annual lease payment was \$5,500.

The Corporation was paying \$400 annually beginning in 2004 for boat storage. This was a verbal agreement.

The total rent expense for 2006 and 2005 was \$12,371 and \$12,734.

RENTAL INCOME

Shafer & Freeman Lakes Environmental Conservation Corporation leases land to local farmers. Rental agreements are annual agreements. The total rental income for 2006 and 2005 was \$4,311 and \$3,191.

**SHAFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

FUNDRAISING EVENTS

In 2006 and 2005, Shafer & Freeman Lakes Environmental Conservation Corporation held a fish fry as a fundraiser. For 2006 and 2005, the income and expenses are as follows:

	2006	2005
Income	\$ 11,372	\$ 14,590
Expenses	(5,319)	(5,773)
Net	\$ 6,053	\$ 8,817

WHITE COUNTY COMMISSIONERS GRANT

Shafer & Freeman Lakes Environmental Conservation Corporation was awarded a grant of \$387,736 from the White County Commissioner to be used for the development of the McDaniel's site and \$175,000 for the dredging of Keans & Hoagland. Shafer & Freeman Lakes Environmental Conservation Corporation approves invoices for payment and the White County Commissioner pays the invoices directly. Since the financial statements are cash basis, these transactions have not been recorded. During 2006 and 2005 the White County Commissioner paid expenses of \$371,303 and \$0 on Shafer & Freeman Lakes Environmental Conservation Corporation's behalf.

LAND VALUATION

We 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 1995 from NIPSCO. We were unable to apply other auditing procedures to satisfy ourselves as to the value of the land. The value of the land as determined by NIPSCO was \$26,320,036 as of December 31, 2006 and 2005. Since the value of this donation is material to the financial statements, we were unable to issue an unqualified opinion on the statements of assets, liabilities and net assets-cash basis.

**SHAFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

CONTINGENCIES

Shafer & Freeman Lakes Environmental Conservation Corporation is a defendant in a lawsuit involving an individual suing for physical injuries. The plaintiff claims that he dove off of the dock into the channel and struck his head on a submerged and unmarked dredge pipe resting on the floor of the channel. Commonwealth Engineers, Inc., the engineering company that assisted Shafer & Freeman Lakes Environmental Conservation Corporation in planning the dredging project, is also named as a defendant.

On October 21, 2006, the jury entered a judgment against Shafer & Freeman Lakes Environmental Conservation Corporation in the amount of \$1,019,400. The verdict rendered against Shafer & Freeman Lakes Environmental Conservation Corporation is currently being appealed. The attorney is optimistic that the matter can be either settled at an amount lower than the jury verdict or that it can be retried and a more favorable jury verdict obtained. Shafer & Freeman Lakes Environmental Conservation Corporation's general liability carrier has coverage limits of \$1,000,000 for this incident. The attorney is optimistic that any amount ultimately rendered or offered in this case would be for amounts less than that limit. Presently, Shafer & Freeman Lakes Environmental Conservation Corporation is only obligated for the judgment rendered in excess of \$1,000,000 or \$19,400, and does not bear any responsibility for any additional appellate costs or legal fees.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

Our report on our audit of the basic financial statements of Shafer & Freeman Lakes Environmental Conservation Corporation, as of and for the years ended December 31, 2006 and 2005, appears on page one. We conducted our 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 State Board of Accounts for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of federal, state and local grant awards are presented for purposes of additional analysis and are 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.

Reed & Company, P.C.

Lafayette, Indiana
July 11, 2007

**SHAFER & FREEMAN LAKES ENVIRONMENTAL
CONSERVATION CORPORATION**
SCHEDULES OF FEDERAL, STATE AND LOCAL GRANT AWARDS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
STATE GRANT AWARDS		
INDIANA DEPARTMENT OF NATURAL RESOURCES		
Budgeted Line Item from DNR		
Grant balance, as of January 1	\$ 1,000,000	\$ 3,298
Additional awards	0	1,000,000
Funds expended	<u>(197,945)</u>	<u>(3,298)</u>
Grant balance, as of December 31	<u>\$ 802,055</u>	<u>\$ 1,000,000</u>
Lake and River Enhancement Grant		
Grant balance, as of January 1	\$ 0	\$ 0
Additional awards	113,000	0
Funds expended	<u>0</u>	<u>0</u>
Grant balance, as of December 31	<u>\$ 113,000</u>	<u>\$ 0</u>

See Accompanying Independent Auditor's Report on Supplementary Information