



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B35794

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

February 17, 2010

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

We have reviewed the audit report prepared by Reed & Company, PC, Independent Public Accountants, for the period January 1, 2007 to December 31, 2008. 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, 2008 and 2007, and the results of its operations for the periods 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.

STATE BOARD OF ACCOUNTS

**Shafer & Freeman Lakes Environmental
Conservation Corporation**

**Audited Financial Statements
December 31, 2008 and 2007**

Shafer & Freeman Lakes Environmental Conservation Corporation

Table of Contents

Independent Auditor's Report	1-2
<i>Financial Statements</i>	
Statements of Assets, Liabilities and Net Assets-Cash Basis	3
Statements of Support, Revenue and Expenses-Cash Basis	4
Statements of Changes in Net Assets-Cash Basis	5
Notes to Financial Statements	6-13
<i>Supplementary Information</i>	
Schedules of Functional Expenses-Cash Basis	14-15
Schedules of Federal, State and Local Grant Awards	16



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, 2008 and 2007, and the related statements of support, revenue and expenses-cash basis, and changes in net assets-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 Indiana 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 1997, 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, 2008 and 2007.

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 and changes in net assets-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, 2008 and 2007, on the basis of accounting described in the footnotes.

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 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.

Beed & Company, P.C.
Lafayette, Indiana
July 09, 2009

**Shafer & Freeman Lakes Environmental
Conservation Corporation**

Statements of Assets, Liabilities and Net Assets-Cash Basis
December 31, 2008 and 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 107,284	\$ 113,006
Certificates of deposit	90,969	304,000
Bonds	9,146	0
Overpayment of federal payroll taxes withheld	1,268	0
Total Current Assets	208,667	417,006
 FIXED ASSETS		
Equipment	1,161,325	1,148,412
Land	27,302,775	27,000,130
Leasehold improvements	4,210	4,210
	28,468,310	28,152,752
Less: accumulated depreciation	(880,530)	(772,672)
Total Fixed Assets	27,587,780	27,380,080
 OTHER ASSETS		
Certificates of deposit	50,545	0
Bonds	252,474	84,690
Beneficial interest in funds held by others	3,466	5,000
Total Other Assets	306,485	89,690
TOTAL ASSETS	\$ 28,102,932	\$ 27,886,776

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Payroll taxes withheld	\$ 773	\$ 3,693
 NET ASSETS		
Unrestricted	28,102,159	27,883,083
TOTAL LIABILITIES AND NET ASSETS	\$ 28,102,932	\$ 27,886,776

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, 2008 and 2007

	2008	2007
UNRESTRICTED NET ASSETS		
REVENUE AND PUBLIC SUPPORT		
Contributions	\$ 18,452	\$ 17,810
License	149,743	138,945
Grant	1,071,394	571,295
Rental income	4,138	2,013
Interest income	25,971	24,942
Loss on investments	(7,734)	(1,217)
Loss on investments held by others	(1,534)	0
Fundraising	0	11,768
Other revenue	8,493	2,213
Total Revenue and Public Support	1,268,923	767,769
EXPENSES		
Program	888,028	640,213
Management and general	161,969	150,227
Fundraising	0	4,877
Total Expenses	1,049,997	795,317
OTHER INCOME AND (EXPENSES)		
Gain (loss) on sale of assets	150	(177)
CHANGE IN NET ASSETS	\$ 219,076	\$ (27,725)

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Net Assets at the Beginning of the Year	\$ 27,883,083	\$ 27,910,808
Change in Net Assets	<u>219,076</u>	<u>(27,725)</u>
Net Assets at the End of the Year	<u>\$ 28,102,159</u>	<u>\$ 27,883,083</u>

See Accompanying Notes to Financial Statements

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2008 and 2007

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. 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. Accounts at each institution are insured by the FDIC up to \$100,000 for the year ended December 31, 2007. Effective October 3, 2008 the FDIC increased the insured amount to \$250,000. The FDIC will revert back to \$100,000 on December 31, 2009. The cash and money funds held at the brokerage accounts are insured by SIPC. Effective September 17, 2008, all deposits made to the brokerage account prior to September 17, 2008 are fully insured by the SIPC. The SIPC covers up to \$100,000 of cash or \$500,000 of the investment balance, which includes mutual funds.

The amount of cash in excess of the insured limits at December 31, 2008 and 2007 was \$0 and \$0.

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, 2008 and 2007

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 2008 and 2007 was \$113,994 and \$111,181.

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, 2008 and 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Significant Group Concentrations of Credit Risk

During the years ended December 31, 2008 and 2007, Shafer & Freeman Lakes Environmental Conservation Corporation received approximately 81.5% and 54.8% of its revenues from the Indiana Department of Natural Resources.

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 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:

	<u>2008</u>	<u>2007</u>
Cash and money funds at brokerage account	\$ 12,094	\$ 9,889
Certificates of deposit	141,514	304,000
Corporate bonds	166,229	30,658
Municipal bonds	62,051	20,274
Foreign bond	<u>33,340</u>	<u>33,758</u>
Cash and Investments	<u>\$ 415,228</u>	<u>\$ 398,579</u>

Following is the activity during the year ended December 31:

	<u>2008</u>	<u>2007</u>
Balance, January 1	\$ 398,579	\$ 376,481
Interest and dividends	24,383	23,315
Deposit	50,000	0
Withdrawal	(50,000)	0
Adjustment to market	<u>(7,734)</u>	<u>(1,217)</u>
Balance, December 31	<u>\$ 415,228</u>	<u>\$ 398,579</u>

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2008 and 2007

INVESTMENTS, continued

Certificates of Deposits

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

	2008	2007
Certificate of deposit with an interest rate of 5.05%, which matures on January 25, 2008.	\$ 0	\$ 50,000
Certificate of deposit with an interest rate of 4.9%, which matures on February 20, 2008.	0	60,000
Certificate of deposit with an interest rate of 5.00%, which matures on March 12, 2008.	0	50,000
Certificate of deposit with an interest rate of 5.3%, which matures on March 13, 2008.	0	61,000
Certificate of deposit with an interest rate of 5.2%, which matures on May 15, 2008.	0	83,000
Certificate of deposit with an interest rate of 3.7%, which matures on December 11, 2009.	40,420	0
Certificate of deposit with an interest rate of 3.75%, which matures on December 17, 2009.	50,549	0
Certificate of deposit with an interest rate of 3.8%, which matures on February 18, 2010.	50,545	0
	\$ 141,514	\$ 304,000
Total Certificates of Deposit	\$ 141,514	\$ 304,000

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2008 and 2007

INVESTMENTS, continued

Corporate Bonds

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

	2008	2007
PPL Electric Utilities Senior Bond with an interest rate of 6.25%, which matures on August 15, 2009.	\$ 9,146	\$ 9,279
Bank of America Note with an interest rate of 7.8%, which matures on February 15, 2010.	20,491	21,379
Fifth Third Bank NW Note with an interest rate of 6.25%, which matures on May 1, 2013.	97,188	0
General Elec Corp Note with an interest rate of 5.4%, which matures on February 15, 2017.	39,404	0
Total Corporate Bonds	\$ 166,229	\$ 30,658

Municipal Bonds

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

	2008	2007
Polk Cnty, IA Health Care Bond with an interest rate of 7.0%, which matures on April 1, 2010.	\$ 15,260	\$ 20,274
Massachusetts St. Port Note with an interest rate of 13.0%, which matures on July 1, 2013.	19,048	0
Chicago IL Pub Bldg Note with an interest rate of 6.5%, which matures on January 1, 2017.	27,743	0
Total Corporate Bonds	\$ 62,051	\$ 20,274

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2008 and 2007

INVESTMENTS, continued

Foreign Bond

Shafer & Freeman Lakes Environmental Conservation Corporation has the following foreign bond as of December 31:

	2008	2007
Midland Bank PLC Sub Note with an interest rate of 6.95%, which matures on March 15, 2011.	\$ 33,340	\$ 33,758

BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

In March 2007, Shafer & Freeman Lakes Environmental Conservation Corporation entered into a charitable Designated Endowment Fund Agreement with the White County Community Foundation. The Organization established the endowment to secure resources that will help to fund the future goals and needs of the Organization. The endowment fund is accounted for pursuant to Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. The principal amount transferred by the Organization was \$5,000.

The Foundation accepts contributions directly from donors on behalf of Shafer & Freeman Lakes Environmental Conservation Corporation or receives transfers of assets from the Organization. Contributions that are received with restrictions or conditions will be honored by the Foundation; however, provisions in the agreement allow the Foundation variance power over donors' direction.

The annual earnings allocable to the fund, net of the fees, expenses, and fund set aside for principal appreciation, are available to the Organization. Distributions of the earnings are subject to the authorization by the Community Foundation's Board of Directors.

The activity in this account is as follows:

	2008	2007
Balance, January 1	\$ 5,000	\$ 0
Contribution	0	5,000
Earnings	118	0
Realized gain	79	0
Adjustment to market	(1,717)	0
Fee	(14)	0
Balance, December 31	\$ 3,466	\$ 5,000

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2008 and 2007

NOTE PAYABLE

On April 2, 2008, Shafer & Freeman Lakes Environmental Conservation Corporation took out a note payable with a local bank in the amount of \$300,000 for the purchase of property. This note was repaid on August 25, 2008. The interest rate was 6.5% and the interest expense for 2008 was \$7,764.

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 2008 and 2007. The Organization entered into a new lease for office space beginning January 1, 2009 and terminating December 30, 2012. The monthly rent is \$550.

The Organization 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. In April 2008, the Organization purchased this property and was refunded part of the lease payment from the prior year.

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

Minimum future rental payments, under the non-cancelable operating leases, as of December 31, 2008:

Year Ending December 31,	Amount
2009	\$ 6,600
2010	6,600
2011	6,600
2012	6,600
	<u>\$ 26,400</u>

The total rent expense for 2008 and 2007 was \$6,159 and \$13,347.

Shafer & Freeman Lakes Environmental Conservation Corporation

Notes to the Financial Statements
December 31, 2008 and 2007

RENTAL INCOME

Shafer & Freeman Lakes Environmental Conservation Corporation leases land to local farmers. Rental agreements are annual agreements. The total rental income for 2008 and 2007 was \$4,138 and \$2,013.

FUNDRAISING EVENTS

In 2007, Shafer & Freeman Lakes Environmental Conservation Corporation held a fish fry as a fundraiser. For 2007, the income and expenses are as follows:

Income	\$	11,768
Expenses		<u>4,877</u>
Net	\$	<u>6,891</u>

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 2008 and 2007 were \$35,778 and \$39,989, 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 as of December 31, 2008 and 2007. Since the value of this donation 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, 2008

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 0	\$ 1,758	\$ 0	\$ 1,758
Bank charges	0	30	0	30
Contract services	297,831	0	0	297,831
Depreciation	112,593	1,401	0	113,994
Engineering	1,443	0	0	1,443
Fish stock	5,000	0	0	5,000
Fuel	86,869	0	0	86,869
Interest	0	7,764	0	7,764
Insurance	65,211	3,000	0	68,211
Legal and professional fees	0	11,723	0	11,723
Lobbying	6,137	0	0	6,137
Meals and entertainment	0	347	0	347
Office expense	0	2,611	0	2,611
Postage	0	4,749	0	4,749
Printing	0	2,875	0	2,875
Rent	(941)	7,100	0	6,159
Repairs and maintenance	56,313	0	0	56,313
Salaries	224,327	106,993	0	331,320
Payroll taxes	20,053	9,564	0	29,617
Supplies	12,316	0	0	12,316
Telephone	514	2,054	0	2,568
Utilities	362	0	0	362
Total Expenses	<u>\$ 888,028</u>	<u>\$ 161,969</u>	<u>\$ 0</u>	<u>\$ 1,049,997</u>

**Shafer & Freeman Lakes Environmental
Conservation Corporation**

Schedule of Functional Expenses-Cash Basis
For the Year Ended December 31, 2007

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 0	\$ 1,213	\$ 0	\$ 1,213
Bank charges	0	265	0	265
Contract services	54,396	0	2,807	57,203
Depreciation	109,908	1,273	0	111,181
Engineering	12,047	0	0	12,047
Fuel	56,400	0	0	56,400
Insurance	55,986	3,000	0	58,986
Legal and professional fees	0	18,047	0	18,047
Lobbying	15,754	0	0	15,754
Meals and entertainment	0	621	0	621
Office expense	0	1,876	0	1,876
Postage	0	2,940	0	2,940
Printing	0	2,783	0	2,783
Rent	5,900	6,500	947	13,347
Repairs and maintenance	27,507	0	0	27,507
Salaries	199,062	100,774	0	299,836
Payroll taxes	17,593	8,906	0	26,499
Supplies	84,876	0	1,123	85,999
Telephone	507	2,029	0	2,536
Utilities	277	0	0	277
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenses	<u>\$ 640,213</u>	<u>\$ 150,227</u>	<u>\$ 4,877</u>	<u>\$ 795,317</u>

**Shafer & Freeman Lakes Environmental
Conservation Corporation**

Schedules of Federal, State and Local Grant Awards
For the Years Ended December 31, 2008 and 2007

	2008	2007
STATE GRANT AWARDS		
INDIANA DEPARTMENT OF NATURAL RESOURCES		
Budgeted Line Item from DNR		
Grant balance, as of January 1	\$ 381,640	\$ 802,055
Additional awards	850,000	0
Funds expended	(1,035,616)	(420,415)
Grant balance, as of December 31	\$ 196,024	\$ 381,640
Lake and River Enhancement Grant		
Grant balance, as of January 1	\$ 0	\$ 113,000
Funds expended	0	(110,891)
Funds expired	0	(2,109)
Grant balance, as of December 31	\$ 0	\$ 0
LOCAL FUNDS		
INNKEEPERS REVENUE		
Funds expended	\$ 35,778	\$ 39,989