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February 5, 2015

Board of Directors  
Lincoln Hills Development Corporation  
302 Main Street  
P.O. Box336  
Tell City, IN 47586

We have reviewed the audit report prepared by McCauley, Nicolas & Company, LLC, for the period January 1, 2011 to December 31, 2011. 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 Lincoln Hills Development Corporation, as of December 31, 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

**LINCOLN HILLS DEVELOPMENT CORPORATION  
AND RELATED ENTITIES  
Tell City, Indiana**

**AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS**

**for the year ended December 31, 2011**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Lincoln Hills Development Corporation and Related Entities  
Tell City, Indiana

We have audited the accompanying consolidated statement of financial position of Lincoln Hills Development Corporation (a non-profit organization) and Related Entities (collectively, "the Entities") as of December 31, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Entities' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Entities as of December 31, 2011, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2012, on our consideration of Lincoln Hills Development Corporation and Related Entities' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors  
Lincoln Hills Development Corporation and Related Entities  
Page 2

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of Lincoln Hills Development Corporation and Related Entities as a whole. The Schedule of Functional Expenses on pages 16 through 35 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements of Lincoln Hills Development Corporation and Related Entities. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, and is also not a required part of the consolidated 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 of the consolidated 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 Schedule of Functional Expenses and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects in relation to the consolidated financial statements as a whole.

*McCauley, Nicolas & Company, LLC*

McCauley, Nicolas & Company, LLC  
Certified Public Accountants

Jeffersonville, Indiana  
August 17, 2012

**LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES**  
Tell City, Indiana

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
December 31, 2011

<u>ASSETS</u>	
<b>CURRENT ASSETS</b>	
Cash	\$ 849,083
Tenant security deposits	44,736
Reserve for replacements	215,400
Accounts receivable - trade	22,824
Accounts receivable - grants	710,269
Other current assets	<u>55,308</u>
<b>TOTAL CURRENT ASSETS</b>	<u>1,897,620</u>
<b>PROPERTY AND EQUIPMENT</b>	
Land and improvements	1,601,574
Rental units	284,387
Buildings and improvements	13,862,424
Equipment	<u>2,333,246</u>
	18,081,631
Less accumulated depreciation	<u>(10,416,863)</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>7,664,768</u>
<b>OTHER ASSETS</b>	
Notes receivable - related parties, less current portion	356,855
Financing cost, net	59,772
Investment in related party partnerships	1,298,053
Other assets	<u>1,642,934</u>
<b>TOTAL OTHER ASSETS</b>	<u>3,357,614</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,920,002</u>
<u>LIABILITIES AND NET ASSETS/EQUITY</u>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 339,698
Current portion of long-term debt	372,653
Current portion of accrued interest payable	12,767
Unearned revenue/grants payable	174,928
Other current liabilities	756,067
Deferred compensation	<u>45,420</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,701,533</u>
<b>LONG-TERM LIABILITIES</b>	
Long-term debt, less current portion	4,866,787
Long-term portion of interest payable, less current portion	525,801
Other liabilities	<u>2,626,454</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>8,019,042</u>
<b>TOTAL LIABILITIES</b>	9,720,575
<b>NET ASSETS/EQUITY - UNRESTRICTED</b>	<u>3,199,427</u>
<b>TOTAL LIABILITIES AND NET ASSETS/EQUITY</b>	<u>\$ 12,920,002</u>

See notes to consolidated financial statements.

**LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES**  
Tell City, Indiana

**CONSOLIDATED STATEMENT OF ACTIVITIES**  
for the year ended December 31, 2011

<b>REVENUES AND SUPPORT</b>	
Grant and contract revenue	\$ 7,877,657
Miscellaneous revenue	3,097,884
Housing for the Elderly (including \$841,875 of Federal grant revenue)	1,088,137
Ohio View Apartments	68,585
Lincoln Manor Apartments, Inc.	386,938
Hartford Place Apartments, L.P.	292,198
Village of Marengo, L.P.	251,703
Lincoln Manor of Holland, LP	166,376
Village Apartments of Corydon, LP	258,208
River Hills Management Corporation	7
In-kind contributions	731,729
Interest and dividend income	3,971
Equity in earnings (loss) of Cotton Mill Apartments, Inc.	<u>(26)</u>
<b>TOTAL REVENUES AND SUPPORT</b>	<u>14,223,367</u>
<b>EXPENSES</b>	
Program A - Indiana Family and Social Services Administration	1,155,527
Program B - Indiana Department of Education	121,844
Program C - U.S. Department of Health and Human Services	3,583,445
Program D - Corporation for National Services	72,148
Program E - Indiana Housing and Community Development Authority	3,993,061
Program F - U.S. Department of Housing and Urban Development	37,496
Program G - Federal Emergency Management Agency	11,377
Program H - Department of Transportation	2,800
Program I - Local	3,049,548
Program J - Housing for the Elderly	932,367
Program K - Ohio View Apartments	57,808
Program L - Lincoln Manor Apartments, Inc.	405,467
Program M - Hartford Place Apartments, LP	184,132
Program N - Village of Marengo, LP	113,819
Program O - Lincoln Manor of Holland, LP	205,355
Program P - Village Apartments of Corydon, LP	284,541
Program Q - River Hills Management Corporation	<u>7</u>
<b>TOTAL EXPENSES</b>	<u>14,210,742</u>
<b>CHANGE IN NET ASSETS/EQUITY</b>	12,625
<b>ACQUISITION AND CONSOLIDATION OF VARIOUS ENTITIES</b>	123,773
<b>NET ASSETS/EQUITY, BEGINNING OF YEAR</b>	<u>3,063,029</u>
<b>NET ASSETS/EQUITY, END OF YEAR</b>	<u>\$ 3,199,427</u>

See notes to consolidated financial statements.

**LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES**  
Tell City, Indiana

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the year ended December 31, 2011

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets/equity	\$ 12,625
Adjustments to reconcile change in net assets/equity to net cash provided by operating activities:	
Depreciation and amortization	618,963
Forgiveness of debt	(249,600)
Loss from investment in related party partnerships	26
(Increase) decrease in:	
Accounts receivable - trade	(997)
Accounts receivable - grants	273,041
Other current assets	60,551
(Decrease) increase in:	
Accounts payable	(8,033)
Accrued interest payable	7,116
Grants payable	(152,180)
Deferred compensation	(9,548)
Other current liabilities	<u>(30,278)</u>
Net cash provided by operating activities	<u>521,686</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	(262,246)
Deposits into reserve for replacements	(49,429)
Withdrawals from reserve for replacements	73,797
Advance to related party	(61,000)
Payments received on notes receivable - related parties	<u>7,934</u>
Net cash (used) by investing activities	<u>(290,944)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Payments on long-term debt	<u>(348,412)</u>
Cash (used) by financing activities	<u>(348,412)</u>
Decrease in cash	(117,670)
Cash, beginning of year	<u>966,753</u>
Cash, end of year	<u>\$ 849,083</u>
<b>SUPPLEMENTAL INFORMATION</b>	
Cash payments for:	
Interest	<u>\$ 285,251</u>

See notes to consolidated financial statements.

## LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of Lincoln Hills Development Corporation (LHDC) and Related Entities (collectively, "the Entities") is presented to assist in understanding the Entities' consolidated financial statements. The consolidated financial statements and notes are representations of the Entities' management, who is responsible for their integrity and objectivity.

The more significant accounting policies are as follows:

##### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of LHDC and its related entities: Lincoln Manor Apartments, Inc., Cotton Mill Apartments, Inc., Lincoln Village, Inc., Hartford Place Apartments, LP, Village Apartments of Marengo, LP, Lincoln Manor of Holland, LP, Village Apartments of Corydon, LP and River Hills Management Corporation. Significant intercompany transactions and balances have been eliminated in consolidation. See Note 15 for additional information.

##### Organization and Nature of Operations

LHDC was organized to serve the citizens of southern Indiana, primarily in Crawford, Harrison, Perry, and Spencer Counties. LHDC is primarily funded through a combination of federal, state, and local sources. The primary objective of LHDC is to provide self-help and self-sufficiency opportunities for the low income citizens of the service areas while continually striving to address the unmet service needs of the four counties.

Lincoln Manor Apartments, Inc. (LMA) is a C Corporation, which also owns Quality Cleaning. LMA also has ownership interests in various real estate partnerships. LHDC owns 100% of its 100 shares of no par value common stock, which are issued and outstanding. There are 1,000 shares authorized.

Cotton Mill Apartments, Inc. has an ownership interest in a real estate partnership - Cotton Mill Apartments, LP. LHDC owns 100% of its 100 shares of no par value common stock, which are authorized, issued and outstanding.

Lincoln Village, Inc. has an ownership interest in a real estate partnership - Lincoln Village, LP. LHDC owns 52% of its 100 shares of no par value common stock, which are issued and outstanding. There are 1,000 shares authorized.

Hartford Place Apartments, LP is a real estate partnership that operates an apartment complex in English, Indiana. LHDC is a 99% owner and the general partner. The remaining 1% is owned by River Hills Management Corporation, whose financial information is included in these financial statements.

Village Apartments of Marengo, L. P. is a real estate partnership that operates an apartment complex in Marengo, Indiana. LHDC is a 99% owner and the general manager. The remaining 1% is owned by Lincoln Manor Apartments, Inc. of which LHDC is the 100% owner.

Lincoln Manor of Holland, LP is a real estate partnership that operates an apartment complex in Holland, Indiana. LHDC is a 99% owner and the general manager. The remaining 1% is owned by Lincoln Manor Apartments, Inc. of which LHDC is the 100% owner.

## LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

#### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

##### Organization and Nature of Operations—Continued

Village Apartments of Corydon, LP is a real estate partnership that operates an apartment complex in Corydon, Indiana. LHDC is the 99% owner and the general manager. The remaining 1% is owned by Lincoln Manor Apartments, Inc. of which LHDC is the 100% owner.

River Hills Management Corporation is a 501(c)(3) organization whose members are appointed by LHDC's Board of Directors.

In addition to the above, LHDC is involved in various related parties, all of which were established principally to acquire real estate and to develop one or more multi-family dwelling units. See Note 15 for additional information.

##### Basis of Accounting and Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

##### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities, if any) at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### Cash Equivalents

The Entities consider all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2011.

##### Investments and Market Risk

Investments are valued at fair market value. LHDC has certificates of deposits which are included in the reserve for replacements that are subject to concentrations of credit risk. Investments are made by management. Though the market value of investments is subject to fluctuations, management believes the investments policy is prudent for the long-term welfare of LHDC.

##### Accounts Receivables

The Entities utilize the allowance for bad debts method of valuing doubtful accounts receivable (trade and grant) which is based on historical experience, coupled with a review of the current status of existing receivables. Management has determined no allowance for doubtful accounts was required at December 31, 2011.

##### Property and Equipment

Property and equipment are capitalized and stated at cost. Property and equipment donated are recorded at fair market value at date of donation. Maintenance and repairs are charged to expense as incurred; renewals or betterments are capitalized. Gains or losses on retirement or disposition of assets are credited or charged to operations, and respective costs and accumulated depreciation are eliminated from the accounts. Property and equipment are considered to be owned by the Entities while used in current programs. Grantors maintain a reversionary interest in all non-expendable property purchased in whole or in part with federal and state funds.

## LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

#### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

##### Property and Equipment—Continued

Depreciation is provided on the basis of the estimated useful lives of the assets using the straight-line method. The estimated useful lives are 30 years for rental units, 10 to 40 years for buildings and improvements, and 5 to 10 years for equipment.

##### Revenue Recognition

Revenues from cost-reimbursement grants are recognized in the period in which the related expenses are incurred and claimed for reimbursement. Revenues from grants based upon contractually agreed-upon rates are recognized in the period in which the services are rendered.

Should the Entities receive any gifts of long-lived assets such as land, buildings, or equipment, such amounts would be reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets would be reported as restricted support. If explicit donor stipulations do not specify how long those long-lived assets must be maintained, the Entities recognize expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

##### Expense Allocation

Expenditures that can be identified specifically with a particular program objective are charged to the appropriate funding source and cost category. Indirect administrative expenses are allocated to the various programs based on a cost allocation plan that was submitted to the major funding sources.

##### Advertising

Advertising costs are charged to operations when incurred. Total advertising expense was approximately \$9,900 for the year ended December 31, 2011.

##### Subsequent Events

In accordance with FASB Accounting Standards Codification Topic 885, the Project has evaluated events and transactions for potential recognition or disclosure through August 17, 2012, the date the financials were available to be issued.

#### NOTE 2—RESERVE FOR REPLACEMENT

Under a regulatory agreement, LHDC is required to set aside amounts for the replacement of certain property and other project expenditures approved by HUD. These deposits are held in separate accounts and generally are not available for operating purposes. The balance in the reserve totaled \$215,400 at December 31, 2011.

#### NOTE 3—TENANT SECURITY DEPOSITS

LHDC is required to maintain and fund tenants' security deposits in a separate bank account. The total balance at December 31, 2011 was \$44,736. The liability for such deposits at December 31, 2011 was, \$44,736 and is included in other current liabilities on the Consolidated Statement of Financial Position.

## LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

#### NOTE 4—ACCOUNTS RECEIVABLE - GRANTS

Accounts receivable – grants at December 31, 2011, consist of the following:

Indiana Family and Social Services Administration	\$	229,689
Indiana Housing and Community Development Authority		138,629
U.S. Department of Health and Human Services		58,262
Indiana Department of Education		38,346
U.S. Department of Housing and Urban Development		16,023
Corporation for National Services		573
Local		<u>228,747</u>
	\$	<u>710,269</u>

#### NOTE 5—NOTES RECEIVABLE – RELATED PARTIES

Demand note receivable from Cotton Mill Apartments, LP, with no stated interest rate, unsecured, maturity 90 days upon receipt of demand notice. Note is not anticipated to be collected in the current year.	\$	140,000
Note receivable from Village of Corydon II, LP, with interest at 4%, with quarterly payments of \$3,447 including principal and interest, maturing in June 2018, secured by an apartment building.		140,855
Demand note receivable from Village Apartments of Corydon II, LP with no stated interest rate, unsecured, maturity 90 days upon receipt of demand notice. Note is not anticipated to be collected in the current year.		<u>76,000</u>
Total notes receivable – related parties		356,855
Less current portion		<u>(-)</u>
Notes receivable – related parties, less current portion	\$	<u>356,855</u>

See Note 15 for related party information.

#### NOTE 6—OTHER ASSETS/OTHER LIABILITIES

As of December 31, 2011, LHDC has recorded an amount totaling \$1,642,934 as "Other assets" and \$2,626,454 as "Other liabilities" on the Consolidated Statement of Financial Position. In prior years, LHDC received various loans, convertible to grants, from the Indiana Housing Finance Authority (IHFA), the Federal Home Loan Bank (FHLB), and various financial institutions. Proceeds received were given to various related parties, who guarantee these obligations. Should LHDC and the various related and unrelated parties fulfill certain requirements and maintain the operations for a specific time period (15, 20, 30 or 40 years from the original loan date), the loans received (other liabilities) will be forgiven. See Note 15 for additional information.

**LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

**NOTE 6—OTHER ASSETS/OTHER LIABILITIES—Continued**

A breakdown of the Other Assets/Other Liabilities is as follows:

Cotton Mill Apartments, LP	\$ 620,000
Country Place Apartments VI, LTD	192,934
Village Apartments of Corydon II, LP	330,000
Lincoln Village, LP	<u>500,000</u>
<b>Total of Other Assets</b>	<b>1,642,934</b>
Village Apartment of Marengo, LP	470,000
Lincoln Manor of Holland, LP	250,000
Village Apartments of Corydon, LP	<u>263,520</u>
<b>Total Other Liabilities</b>	<b><u>\$ 2,626,454</u></b>

The projects and the respective notices due to purchase each project as described by the various funding sources are as follows:

Village Apartments of Corydon, LP - purchase option during the last 12 months of compliance period; placed in service on 11/25/1998, 12/4/1998, 12/10/1998, 12/21/1998, 12/23/1998, and 12/30/1998; last unit leased on 8/1/1999; notice due to purchase between 8/1/2013 through 7/31/2014. During 2011, LHDC acquired a 99% interest in this partnership.

Lincoln Manor of Holland, LP - purchase during the last 12 months of compliance period; placed in service on 12/31/2000; last unit leased on 1/1/2001; notice due to purchase between 1/1/2015 through 12/31/2015. During 2011, LHDC acquired a 99% interest in this partnership.

Lincoln Village, LP – purchase option during the 1<sup>st</sup> day of the 15<sup>th</sup> year following the commencement of the 10 year tax credit period to the last day of the 15<sup>th</sup> year; placed in service on 12/28/2000, 12/29/2000, 10/23/2001, 11/27/2001, and 11/30/2001; last unit leased on 9/10/2002; notice due to purchase between 9/10/2016 through 9/9/2017.

Cotton Mill Apartments, LP – purchase option during the 1<sup>st</sup> day of the 1<sup>st</sup> year following the compliance period to the last day of such year; placed in service on 12/28/2001; last unit leased on 10/1/2002; notice due to purchase between 10/1/2016 through 9/30/2017.

Village Apartments of Corydon II, LP – purchase option during the 1<sup>st</sup> day of the 1<sup>st</sup> year following compliance period to the last day of the second year; placed in service on 5/1/2003 and 5/28/2003; last unit leased on 8/31/2003; notice due to purchase between 8/31/2017 through 8/30/2018.

**LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

**NOTE 7 – PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2011, consist of the following:

Land and Improvements	\$ 1,601,574
Rental units	284,387
Building and improvement	13,862,424
Equipment	<u>2,333,246</u>
	18,081,631
Less accumulated depreciation	<u>(10,416,863)</u>
 Net property, plant, and equipment	 <u><u>\$ 7,664,768</u></u>

Depreciation expense charged to operations was \$618,963 for the year ended December 31, 2011.

**NOTE 8—OTHER CURRENT LIABILITIES**

Other current liabilities at December 31, 2011 consist of the following:

Accrued annual leave	\$ 427,499
Retirement payable	106,525
Accrued payroll	73,994
Security deposits	44,736
Property taxes payable	35,729
Insurance payable	26,278
Other accrued payable	18,461
Unemployment payable	8,968
Workers compensation payable	7,387
Accrued payroll taxes payable	3,929
Accrued taxes payable	2,231
Prepaid rent	<u>330</u>
	 <u><u>\$ 756,067</u></u>

**NOTE 9—LONG-TERM DEBT**

The following summarizes the long-term debt at December 31, 2011:

Regions Bank – 4.5% above the one-month LIBOR rate (.2618% at December 31, 2010), due April 2019, monthly installments of \$28,289 including interest, secured by real estate, all fixtures and personal property.	\$ 2,272,790
USDA Rural Development - 5%, due June 2037, monthly installments of \$1,466 including interest, secured by a building.	253,232
City of Tell City, Indiana –3.75%, due May 2016, monthly installments of \$840 including interest, secured by a building.	40,992

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 9—LONG-TERM DEBT—Continued

Old National Bank – 4.50%, due February 2013, monthly installments of \$2,199 including interest and one final payment of the remaining principal and interest, secured by a building.	219,440
Tell City Revolving Loan Fund – prime (3.25% at December 31, 2010), due October 2020, monthly installments of \$2,442 including interest, secured by real estate mortgage.	224,837
Indiana Housing and Finance Authority – 4%, due June 2018, quarterly installments of \$3,447 including interest, secured by an apartment building.	140,835
Mortgage payable to USDA Rural Development, payable in monthly installments of \$752 through July 2051. The actual interest rate on the note is 6.875%, but is discounted to approximately 1% through a monthly subsidy allowance of \$791 from Rural Housing Development Corporation. The mortgage is secured by an apartment complex.	200,998
Mortgage payable to USDA Rural Development, payable in monthly installments of \$4,516 through 2046. The actual interest rate on the note is 6.75%, but is discounted to approximately 1% through a monthly subsidy allowance of \$2,872 from Rural Housing Development Corporation. The mortgage is secured by an apartment complex.	723,601
Mortgage payable to USDA Rural Development, payable in monthly installments of \$943 through 2044. The actual interest rate on the note is 6.75%, but is discounted to approximately 1% through a monthly subsidy allowance of \$600 from Rural Housing Development Corporation. The mortgage is secured by an apartment complex.	150,315
Mortgage payable to USDA Rural Development, payable in monthly installments of \$2,360 through 2027. The actual interest rate on the note is 8.00%, but is discounted to approximately 1% through a monthly subsidy allowance of \$226 from Rural Housing Development Corporation. The mortgage is secured by an apartment complex.	277,480
First State Bank – 5.95%, due July 1, 2014, monthly installments of \$6,985 including interest and one final payment of remaining principal and interest due on July 1, 2014. The note is secured by a corporate guaranty, a mortgage, a security agreement and assignment of rents.	693,835
Old National Bank – 8.50%, due January 2016, monthly installments of \$561 including interest and a final payment of approximately \$13,200 including principal and interest, due on January 28, 2016. Secured by land and building in Holland, Indiana.	21,618
Community First Bank – 6.32%, due October 2015, monthly installments of \$487 including interest, secured by a building.	<u>19,467</u>
Total	5,239,440
Less current portion	<u>(372,653)</u>
Long-term debt, less current portion	<u>\$ 4,866,787</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 9—LONG-TERM DEBT—Continued

Interest expense for the year ended December 31, 2011 was \$278,135 and is included within the various program expenses to which it relates on the Consolidated Statement of Activities.

The aggregate maturities of the long-term debt are as follows:

2012	\$ 372,653
2013	579,245
2014	948,823
2015	360,374
2016	361,644
Thereafter	<u>2,616,701</u>
	<u>\$ 5,239,440</u>

NOTE 10—UNEARNED REVENUE/GRANTS PAYABLE

For grants and contracts where future use of grant funds is contingent upon approval from the funding source and the grant or contract is of a cost-reimbursement type, LHDC accounts for funds received but not yet earned and carried over from one year to the next as unearned revenue/grants payable. The total unearned revenue/grants payable at December 31, 2011 was \$174,928 and is shown as follows:

Retired and Senior Volunteer Program	\$ 2,947
Healthy Families	4,379
Business Expansion	3,433
Section 8	98,082
Neighborhood Development	43,252
Neighborhood Assistance Program	3,900
Indiana University	700
Tobacco Use Prevention	5,971
Youth Services Bureau	4,898
City of Tell City	5,083
Perry County Community Foundation	1,000
Other	<u>1,283</u>
	<u>\$ 174,928</u>

NOTE 11—DEFERRED COMPENSATION

LHDC had adopted an executive salary continuation agreement for its current Executive Director. This Agreement required LHDC to provide future benefits to the Executive Director or his designated beneficiary beginning no later than June 1, 2012. At such time, the Executive Director would be entitled to receive either \$500 per month for the remainder of his life or a lump sum equaling ninety percent of the cash value of the life insurance policy or \$60,000, whichever is greater. During 2011, the Executive Director executed his right to this benefit. The life insurance policy was cashed in and the Executive Director was paid a partial payment. At December 31, 2011, the amount remaining to be paid was \$45,420.

**LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

**NOTE 12—PENSION PLAN**

LHDC has a defined contribution retirement plan covering all of its employees who meet certain guidelines as to age and years of service. Under the Plan, LHDC contributes approximately 5% of the employees' wages. The amount contributed to the Plan by LHDC was \$188,701 for the year ended December 31, 2011.

**NOTE 13—DONATED SERVICES/GRANT MATCHING REQUIREMENT**

In the course of providing its programs, LHDC receives the services of volunteers in the community and includes the estimated fair value of these services as equal amounts of "in-kind" revenue and "in-kind" expense. Free or reduced fees for consultants, transportation and space costs are also included as in-kind contributions. The in-kind revenue is shown directly in the Consolidated Statement of Activities, whereas the in-kind expense is included within the various program expenses to which it relates.

Certain grants administered by LHDC during the year ended December 31, 2011, required LHDC to attain minimum levels of matching funds consisting of the aforementioned "in-kind" as well as actual cash contributions. All such contractual requirements pertaining to contracts ending within the year December 31, 2011 were achieved. The total amount of in-kind contributions received and expended during the year ended December 31, 2011 was approximately \$732,000.

**NOTE 14—INCOME TAXES**

LHDC is a non-profit corporation incorporated under the laws of the State of Indiana and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

LHDC's wholly owned subsidiaries, Lincoln Manor Apartments, Inc., Cotton Mill Apartments, Inc., and Lincoln Village, Inc., are organized as regular C corporations, and consequently are subject to federal, state, and local income tax on their earnings and profits. With respect to these corporations, there was no significant operating activity during the year ended December 31, 2011. Therefore, no income tax provision has been recorded in the financial statement for the year ended December 31, 2011. Additionally, there are no significant timing differences between financial statement reporting and income tax reporting. Therefore, no provision has been recorded for deferred taxes.

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2009-6 defines tax positions applicable to pass-through entities, such as S corporations and limited liability companies, and only requires income taxes attributed to the reporting entity and not the individual owners to be considered tax positions. The Entities are no longer subject to Federal or Indiana state examinations by tax authorities for the closed tax years before 2008.

## LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

#### NOTE 15—RELATED PARTY INFORMATION/INVESTMENTS

LHDC has ownership interest and/or control over various entities as indicated below:

- Hartford Place Apartments, LP - LHDC is a 99% owner and general partner
- Lincoln Manor Apartments, Inc. (Lincoln Manor) (also D.B.A. Quality Cleaning Solutions) - LHDC is a 100% sole stockholder.
- Village Apartments of Marengo, LP – LHDC is a 99% owner and Lincoln Manor is a 1% owner and general partner.
- Village Apartments of Corydon, LP - LHDC is a 99% owner and Lincoln Manor is a 1% owner and general partner.
- Village Apartments of Corydon II, LP – Lincoln Manor is a 1% owner and general partner.
- Lincoln Manor Apartments of Holland, LP - LHDC is a 99% owner and Lincoln Manor is a 1% owner and general partner.
- Cotton Mill Apartments, Inc. – LHDC is a 100% sole stockholder.
- Cotton Mill Apartments, LP – Cotton Mill Apartments, Inc. is a .01% owner and general partner.
- Lincoln Village, Inc. – LHDC is a 52% stockholder.
- Lincoln Village, LP – Lincoln Village, Inc. is a .01% owner and general partner.
- Country Place Apartments VI, LTD – LHDC is a 5% owner and general partner.

The above Partnerships were established principally to acquire real estate and to develop one or more multi-family dwelling units.

Additionally, LHDC has invested funds in various partnerships which are being reported under the equity method. The net value of the investment in the Partnerships was approximately \$1,298,000 at December 31, 2011.

#### NOTE 16—CONCENTRATION OF CREDIT RISK

##### Cash Concentration Risk

LHDC's cash held by various financial institutions at December 31, 2011 totaled approximately \$1,200,000. Of the total cash balance, approximately \$545,000 was covered by Federal depository insurance. LHDC had approximately \$685,000 in cash with German American Bank in excess of the FDIC of \$250,000 at December 31, 2011. However, LHDC has obtained a collateral agreement from German American Bank whereby the bank has pledged up to \$1,000,000 of bank owned securities as collateral for deposits of LHDC. This pledge by the bank has no expiration date.

##### Group Concentration Risk

LHDC is substantially funded by grants and contracts awarded directly and indirectly by the federal government and the State of Indiana. The majority of the agreements contain provisions which permit the arrangement to be terminated or the funds provided to be reduced if the unit of government does not appropriate adequate funds to maintain the current funding levels.

#### NOTE 17—GUARANTEE OF INDEBTEDNESS OF RELATED PARTY

As of December 31, 2011, LHDC is contingently liable as guarantor of the indebtedness of various related parties as described in Note 15. No material loss is anticipated by reason of such guarantee.

SUPPLEMENTAL INFORMATION

**LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES**  
**RECAP SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCES**  
 for the year ended December 31, 2011

	Indiana Family and Social Services Administration	Indiana Department of Education	U.S. Department of Health and Human Services	U.S. Department of Housing and Urban Development	Federal Emergency Management Agency	Department of Transportation	Local	Housing for the Elderly	Ohio View Apartments	Lincoln Manor Apartments	Hartford Place Apartments, LP	Village Apartments of Marengo, LP	Lincoln Manor of Holland, LP	Village Apartments of Corydon, LP	River Hills Management Corporation	Total Expenses
Selcho	672,852	-	-	-	-	-	-	-	-	-	-	-	-	-	-	672,852
Private benefits	191,452	-	-	-	-	-	-	-	-	-	-	-	-	-	-	191,452
Severance pay	1,726	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,726
Communications	30,753	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,753
Signage	62,747	-	-	-	-	-	-	-	-	-	-	-	-	-	-	62,747
Travel	151,672	-	-	-	-	-	-	-	-	-	-	-	-	-	-	151,672
Insurance and bonding	92,364	-	-	-	-	-	-	-	-	-	-	-	-	-	-	92,364
Liabilities	6,322	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,322
Miscellaneous	23,329	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,329
Copying	7,425	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,425
Audit	10,445	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,445
Computer	3,523	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,523
Vehicle maintenance	10,765	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,765
Contractor/retiree costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contractual	23,307	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,307
Dues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Training	472	-	-	-	-	-	-	-	-	-	-	-	-	-	-	472
Equipment and maintenance	2,027	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,027
Energy assistance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Support services	21,734	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,734
Printing and advertising	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fees	1,210	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,210
Maintenance	1,259	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,259
Medical/dental	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Malpractice	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Direct services/screen	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Food	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business and building repair	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Program subsidy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes and licenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation/Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing assistance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
In-kind/match	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 1,185,677</b>	<b>\$ 121,844</b>	<b>\$ 3,083,445</b>	<b>\$ 72,148</b>	<b>\$ 11,377</b>	<b>\$ 37,498</b>	<b>\$ 3,049,548</b>	<b>\$ 332,357</b>	<b>\$ 67,508</b>	<b>\$ 405,457</b>	<b>\$ 104,132</b>	<b>\$ 113,819</b>	<b>\$ 295,355</b>	<b>\$ 284,541</b>	<b>\$ 7</b>	<b>\$ 14,210,742</b>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCES  
for the year ended December 31, 2011

INDIANA FAMILY AND SOCIAL SERVICES ADMINISTRATION

	Youth Service Bureau 7/1/2010 - 6/30/2011	Youth Service Bureau 7/1/2011 - 6/30/2012	Healthy Families 9/1/2010 - 8/31/2011	Healthy Families 9/1/2011 - 8/31/2012	Kids First Trust Fund	FP Child Welfare 1/1/2009 - 6/30/2011	FPIL Child Welfare 7/1/2011 - 6/30/2012	FP Child Welfare 7/1/2011 - 6/30/2013	Totals
Salaries	\$ 12,862	\$ 6,956	\$ 175,355	\$ 78,429	\$ 1,803	\$ 224,985	\$ 76,644	\$ 95,571	\$ 672,605
Fringe benefits	3,920	1,965	53,477	21,218	526	68,009	21,957	26,883	197,955
Space/utilities	1,973	1,200	16,682	8,078	-	7,291	2,800	3,702	41,726
Communications	663	886	9,380	4,478	-	7,822	1,949	5,175	30,353
Supplies	1,050	114	6,511	1,860	206	336	329	302	10,708
Travel	779	723	18,118	7,823	-	44,058	19,287	23,713	114,501
Insurance and bonding	18	111	147	1,198	-	-	1,287	2,561	5,322
Miscellaneous	123	168	1,944	901	41	2,479	822	1,017	7,495
Copying	442	213	2,848	877	-	3,547	950	1,604	10,481
Audit	322	-	1,516	1,691	-	-	-	-	3,529
Computer	882	553	3,350	-	-	3,564	1,403	1,031	10,783
Contractual	-	-	4,900	-	-	12,219	4,353	1,895	23,367
Training	-	-	400	-	-	-	-	72	472
Equipment and maintenance	-	-	1,204	349	-	-	396	78	2,027
Support services	-	-	-	-	-	8,286	13,448	-	21,734
Fees	-	-	1,150	-	-	-	60	-	1,210
Medical/dental	-	-	-	-	-	1,139	-	120	1,259
<b>Total</b>	<b>\$ 23,034</b>	<b>\$ 12,889</b>	<b>\$ 296,962</b>	<b>\$ 126,902</b>	<b>\$ 2,576</b>	<b>\$ 383,735</b>	<b>\$ 145,665</b>	<b>\$ 163,724</b>	<b>\$ 1,155,527</b>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

INDIANA DEPARTMENT OF EDUCATION

	Headstart PA22 10/1/2010 - 9/30/2011	Headstart PA22 10/1/2011 - 9/30/2012	Totals
Food	\$ <u>83,498</u>	\$ <u>38,346</u>	\$ <u>121,844</u>
Total	\$ <u>83,498</u>	\$ <u>38,346</u>	\$ <u>121,844</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE

for the year ended December 31, 2011

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

	Headstart PA22 8/1/2010 - 7/31/2011	Headstart PA22 8/1/2011 - 7/31/2012	Headstart PA20 8/1/2010 - 7/31/2011	Headstart PA20 8/1/2011 - 7/31/2012	Headstart ARRA Expansion 8/1/2011 - 7/31/2012
Salaries	\$ 565,827	\$ 465,081	\$ -	\$ -	\$ 36,510
Fringe benefits	160,430	123,417	-	-	9,654
Space/utilities	55,069	36,809	-	-	6,438
Communications	21,186	18,264	-	-	487
Supplies	17,788	40,148	719	-	468
Travel	9,077	11,807	8,481	841	1,851
Insurance and bonding	895	15,607	-	-	461
Miscellaneous	5,005	5,058	-	-	452
Copying	11,036	10,340	-	-	1,124
Audit	9,576	-	-	-	-
Computer	12,948	10,864	-	-	982
Vehicle maintenance	30,436	32,063	-	-	1,597
Contractual	2,716	4,723	-	-	1,225
Dues	765	273	-	-	-
Training	-	3,250	-	-	-
Equipment/maintenance	-	-	-	-	-
Support services	-	-	-	-	-
Printing and advertising	2,169	2,901	-	-	-
Medical/dental	3,650	4,822	-	-	218
Maintenance	3,599	1,842	-	-	-
Direct service/screen	5,149	7,098	9,821	3,475	2,682
Food	2,036	2,752	-	-	-
Business and building repair	41,596	13,370	-	-	8,057
Inkind/match	294,654	126,429	-	-	7,895
Total	\$ 1,255,607	\$ 936,918	\$ 19,021	\$ 4,316	\$ 80,101

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE

for the year ended December 31, 2011

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES--Continued

	Headstart ARRA Expansion 09/30/2010 - 9/29/2011	Early Headstart ARRA Expansion 12/1/2010 - 9/30/2011	Early Headstart ARRA Expansion 8/1/2011 - 7/31/2012	Early Headstart ARRA Expansion 12/1/2010 - 9/30/2011	Early Headstart ARRA Expansion 8/1/2011 - 7/31/2012	Totals
	\$	\$	\$	\$	\$	\$
Salaries	75,750	-	-	314,775	100,190	1,558,133
Fringe benefits	21,481	-	-	94,408	28,700	438,090
Space/utilities	25,203	-	-	29,258	9,749	162,526
Communications	4,276	-	-	14,207	4,327	62,747
Supplies	10,923	252	29	75,060	6,485	151,872
Travel	9,725	5,111	3,483	30,692	11,316	92,384
Insurance and bonding	106	-	-	348	6,112	23,529
Miscellaneous	2,021	-	-	3,161	1,195	16,892
Copying	5,727	-	-	11,395	2,358	41,980
Audit	1,000	-	-	5,625	-	16,201
Computer	3,801	-	-	5,214	2,988	36,797
Vehicle maintenance	3,499	-	-	2,666	-	70,261
Contractual	808	-	-	6,119	2,956	18,547
Dues	457	-	-	456	256	2,207
Training	2,105	74	-	11,363	105	16,897
Support services	-	-	-	560	197	757
Printing and advertising	403	-	-	-	-	5,473
Medical/dental	443	-	-	-	208	9,341
Maintenance	-	-	-	-	-	5,441
Direct service/screen	4,475	18,387	2,420	-	-	53,507
Food	1,345	-	-	-	-	10,158
Business and building repair	18,722	-	-	2,679	1,346	81,745
Inkind/match	31,962	-	-	185,404	61,616	707,960
Total	\$ 224,232	\$ 23,824	\$ 5,932	\$ 793,390	\$ 240,104	\$ 3,583,445

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

CORPORATION FOR NATIONAL SERVICES

Salaries	\$	26,692
Fringe benefits		7,638
Space/utilities		3,835
Communications		2,403
Supplies		573
Travel		2,426
Insurance and bonding		661
Miscellaneous		239
Copying		697
Computer		1,830
Contractual		1,020
Recognition		365
In-kind/match		<u>23,769</u>
Total	\$	<u>72,148</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

	CSBG 11/1/2011 - 12/31/2011	BEED		LIHEAP 10/1/2010 - 9/30/2011	LIHEAP 10/1/2011 - 9/30/2012	SERC ARRA 11/1/2010 - 12/31/2011	Section 8 Housing Choice Vouchers		IDA Admin 9/1/2010 - 6/30/2011	IDA Admin 9/1/2011 - 6/30/2012	Owner Occupied Rehabilitation 11/1/2010 - 12/31/2011
		PILOT GRANT 8/26/2010 - 12/31/2012	LIHEAP 10/1/2010 - 9/30/2011				ARRA 11/1/2010 - 12/31/2011	Choice Vouchers 1/1/2011 12/31/2011			
Salaries	\$ 74,010	\$ 7,635	\$ 77,149	\$ 1,641	\$ 11,464	\$ 67,154	\$ 3,170	\$ -	\$ -	\$ 12,748	
Fringe benefits	22,026	2,243	29,033	475	3,468	19,216	986	-	-	3,778	
Space/utilities	35,518	-	3,551	70	-	2,200	-	-	-	-	
Communications	2,155	-	1,491	550	125	3,387	425	6	662		
Supplies	730	-	12,105	-	110	3,907	96	-	136		
Travel	4,000	9	7,371	-	363	7,270	73	-	809		
Insurance and bonding	944	-	1,031	369	-	3,349	-	-	-		
Miscellaneous	1,927	50,113	771	94	19	3,152	17	-	325		
Copying	77	-	139	-	-	1,987	598	21	423		
Audit	4,589	-	-	-	-	993	-	-	148		
Computer	1,965	-	4,238	388	409	67	256	-	594		
Vehicle maintenance	-	-	-	-	-	-	-	-	-		
Contractor/rehab costs	-	-	196,449	15,494	184,042	-	-	-	77,436		
Contractual	-	-	-	-	-	-	10,041	-	-		
Training	-	-	-	-	-	577	-	-	-		
Housing assistance	-	-	-	-	-	791,841	-	-	-		
Energy assistance	-	-	-	-	-	-	-	-	-		
<b>Total</b>	<b>\$ 147,941</b>	<b>\$ 60,000</b>	<b>\$ 327,328</b>	<b>\$ 19,081</b>	<b>\$ 200,000</b>	<b>\$ 905,100</b>	<b>\$ 15,662</b>	<b>\$ -</b>	<b>\$ 27</b>	<b>\$ 97,059</b>	

**LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES**  
**SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE**  
for the year ended December 31, 2011

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY—Continued**

	EAP 10/1/2010 - 9/30/2011	EAP Leveraging 10/1/2010 - 9/30/2011	EAP 10/1/2011 - 9/30/2012	CHDO 3/1/2010 - 2/28/2012	DOE WX-009-016 4/4/2010 - 3/31/2012	ARRA Weatherization HEC-010-016 7/1/2010 - 12/31/2011	Indiana Fore- closure Prevention 7/1/2010 - 6/30/2011	Holland Housing Rehab 3/9/2010 - 8/31/2013	Ferdinand II Housing Rehab 7/30/2009 - 6/15/2011	Ferdinand I Housing Rehab 11/13/2009 - 11/31/2011	Totals
Salaries	\$ 63,500	-	\$ 18,037	\$ 14,451	\$ 17,742	\$ 229,512	\$ -	\$ 20,331	\$ -	\$ 2,086	\$ 620,630
Fringe benefits	19,287	-	5,158	4,286	5,182	68,512	-	5,962	-	705	184,317
Space/utilities	4,121	-	2,349	-	8,025	10,715	-	-	-	-	66,549
Communications	3,070	-	1,933	-	614	6,716	-	256	-	178	21,568
Supplies	2,839	-	820	386	1,263	3,490	-	42	-	59	25,983
Travel	1,811	-	551	410	1,291	10,280	-	-	-	111	34,349
Insurance and bonding	455	-	479	-	4,489	7,084	-	3,418	-	294	21,912
Miscellaneous	662	-	81	142	367	2,070	-	221	-	33	59,994
Copying	944	-	1,371	-	164	4,145	-	155	-	86	10,110
Audit	3,567	-	-	-	-	4,508	-	1,143	-	711	15,659
Computer	2,207	-	644	25	1,011	5,756	-	495	-	446	18,501
Vehicle maintenance	-	-	-	-	1,000	1,696	-	-	-	-	2,696
Contractor/rehab costs	(208)	-	-	-	30,804	489,075	-	16,090	6,042	291,899	1,307,123
Contractual	-	-	-	-	-	-	2,550	-	5,250	55,500	73,341
Training	-	-	-	-	538	-	-	-	-	-	1,115
Housing assistance	-	-	-	-	-	-	-	-	-	-	791,841
Energy assistance	-	-	-	-	-	-	-	-	-	-	737,373
	470,228	10,590	256,555	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 572,483</b>	<b>\$ 10,590</b>	<b>\$ 287,978</b>	<b>\$ 19,700</b>	<b>\$ 72,490</b>	<b>\$ 843,569</b>	<b>\$ 2,550</b>	<b>\$ 48,113</b>	<b>\$ 11,292</b>	<b>\$ 352,108</b>	<b>\$ 3,998,061</b>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

	Housing Counseling 10/1/2010 - 9/30/2011
Salaries	\$ 28,179
Fringe benefits	8,488
Supplies	51
Miscellaneous	262
Training	516
Total	<u>\$ 37,496</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

FEDERAL EMERGENCY MANAGEMENT AGENCY

	<u>Crawford County</u>	<u>Spencer County</u>	<u>Perry County</u>	<u>Totals</u>
Computer	\$ 116	\$ 56	\$ 56	\$ 228
Food	<u>5,661</u>	<u>2,744</u>	<u>2,744</u>	<u>11,149</u>
Total	<u>\$ 5,777</u>	<u>\$ 2,800</u>	<u>\$ 2,800</u>	<u>\$ 11,377</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

DEPARTMENT OF TRANSPORTATION

	Safe Kids 10/1/2010 - 9/30/2011	IU Permanent Fitting Station 11/1/2010 - 9/30/2011	Totals
Supplies	\$ 2,000	\$ 800	\$ 2,800
	<u>\$ 2,000</u>	<u>\$ 800</u>	<u>\$ 2,800</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

LOCAL

Salaries	\$ 1,186,878
Fringe benefits	316,297
Space/utilities	62,935
Communications	8,837
Supplies	31,149
Travel	14,811
Insurance and bonding	45,330
Miscellaneous	79,860
Copying	6,145
Audit	36,302
Computer	17,672
Vehicle maintenance	553
Contractor/rehab costs	643,998
Contractual	11,234
Training	1,562
Equipment and maintenance	8,239
Energy assistance	1,250
Fees	50
Maintenance	41,256
Food	2,589
Business and building repair	6,652
Legal	6,353
Lease	26,965
Program subsidy	215,459
Taxes and licenses	15,530
Depreciation	261,642
	<u>261,642</u>
	<u>\$ 3,049,548</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

HOUSING FOR THE ELDERLY

Salaries	\$	238,299
Fringe benefits		70,613
Space/utilities		12,244
Communications		4,805
Supplies		31,947
Insurance and bonding		29,840
Miscellaneous		12,983
Audit		18,000
Contractual		209,993
Equipment and maintenance		24,779
Printing and advertising		4,069
Maintenance		9,567
Interest		114,662
Depreciation/Amortization		<u>150,566</u>
	\$	<u><u>932,367</u></u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

OHIO VIEW APARTMENTS

Salaries	\$	16,975
Fringe benefits		4,199
Space/utilities		5,024
Supplies		2,007
Insurance and bonding		3,155
Miscellaneous		1,754
Vehicle maintenance		987
Contractual		1,637
Training		191
Printing and advertising		286
Maintenance		5,437
Direct services		1,091
Interest		4,771
Depreciation		10,294
		<hr/>
	\$	<u>57,808</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

LINCOLN MANOR APARTMENTS, INC.

Salaries	\$ 262,919
Fringe benefits	39,360
Space/utilities	5,100
Supplies	23,865
Travel	263
Insurance and bonding	3,973
Miscellaneous	16,303
Vehicle maintenance	6,801
Contractual	41,250
Printing and advertising	44
Medical/dental	480
Interest	1,750
Taxes and licenses	450
Depreciation	2,909
	<hr/>
	\$ 405,467

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE

for the year ended December 31, 2011

HARTFORD PLACE APARTMENTS, LP

Salaries	\$	34,918
Fringe benefits		10,424
Space/utilities		24,840
Supplies		3,692
Insurance and bonding		4,918
Miscellaneous		1,992
Audit		4,900
Equipment and maintenance		12,315
Interest		17,520
Taxes and licenses		6,310
Depreciation		62,303
		<hr/>
	\$	184,132
		<hr/>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

VILLAGE APARTMENTS OF MARENGO, LP

Salaries	\$	17,048
Fringe benefits		4,977
Space/utilities		25,704
Supplies		3,208
Insurance and bonding		4,863
Miscellaneous		689
Audit		1,000
Equipment and maintenance		8,183
Interest		12,660
Taxes and licenses		528
Depreciation		34,959
		<hr/>
	\$	113,819
		<hr/>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

LINCOLN MANOR OF HOLLAND, LP

Salaries	\$	35,590
Fringe benefits		10,583
Space/utilities		36,389
Communications		846
Supplies		4,222
Insurance and bonding		3,953
Miscellaneous		2,666
Audit		1,700
Contractual		10,502
Equipment and maintenance		11,285
Interest		36,147
Taxes and licenses		12,187
Depreciation		39,285
		<hr/>
	\$	205,355
		<hr/>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

VILLAGE APARTMENTS OF CORYDON, LP

Salaries	\$	31,718
Fringe benefits		10,416
Space/utilities		31,791
Communications		2,198
Supplies		15,914
Insurance and bonding		1,014
Miscellaneous		1,204
Audit		1,400
Contractual		11,650
Equipment and maintenance		41,585
Interest		64,220
Taxes and licenses		12,056
Depreciation		59,375
		<hr/>
	\$	284,541
		<hr/>

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE  
for the year ended December 31, 2011

RIVER HILLS MANAGEMENT CORPORATION

Contractual	\$	<u>7</u>
	\$	<u>7</u>

**LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
for the year ended December 31, 2011**

<u>Federal Grantor/Pass Through Grantor/Project Title/Grant</u>	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
<b><u>Directly Received from the Department of Health &amp; Human Resources</u></b>			
Head Start Cluster:			
Head Start PA22	05CH-4010/46	93.600	\$ 960,906
Head Start PA22	05CH-4010/47	93.600	838,022
Head Start PA 20	05CH-4010/46	93.600	19,021
Head Start PA 20	05CH-0410/47	93.600	4,316
Head Start ARRA Expansion 1st Year	05SH-4010/01	93.708	72,206
Head Start ARRA Expansion 2nd Year	05SH-4010/02	93.708	192,270
Early Head Start ARRA Expansion	05SA-4010/02	93.709	631,810
Early Head Start ARRA Expansion	05SA-4010/03	93.709	184,420
Total Directly Received from the Department of Health & Human Resources			<u>2,902,971</u>
<b><u>Passed Through the Indiana Family &amp; Social Services</u></b>			
FP Child Welfare	97-09-72-1680	93.645	142,102
FP Child Welfare	A93-2-12-CBP00254	93.645	163,725
FP Child Welfare (Independent Living)	97-09-24-1680	93.674	32,706
FP Child Welfare (Independent Living)	A93-9-97-09-24-1680	93.674	145,685
Healthy Families	62-09-60-1680	93.558	126,901
Healthy Families	62-09-60-1680	93.558	261,795
Total Passed Through the Indiana Family & Social Services			<u>872,914</u>
<b><u>Passed Through the Indiana Housing &amp; Community Development Authority</u></b>			
Community Services Block Grant	CS-011-016	93.569	147,941
Low Income Home Energy Assistance	WL-012-016	93.568	19,081
Low Income Home Energy Assistance	WL-011-016	93.568	327,328
Low Income Home Energy Assistance	LI-011-016	93.568	287,979
Low Income Home Energy Assistance	LI-010-016	93.568	572,483
Low Income Home Energy Assistance	LI-010-016	93.568	10,590
Total Passed Through the Indiana Housing & Community Development Authority			<u>1,365,402</u>
<b>TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u><b>5,141,287</b></u>
<b><u>U.S. Department of Homeland Security</u></b>			
<b><u>Directly Received from the Department of Homeland Security</u></b>			
Emergency Food & Shelter Spencer	29-2784-00	97.024	2,800
Emergency Food & Shelter Pery	29-2758-00	97.024	2,800
Emergency Food & Shelter Crawford	29-2646-00	97.024	5,777
Total Directly Received from the Department of Homeland Security			<u>11,377</u>
<b>TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<u><b>11,377</b></u>
<b><u>U.S. Department of Transportation</u></b>			
<b><u>Passed Through Indiana University</u></b>			
Safe Kids		20.600	2,000
IU Permanent Fitting Station		20.600	800
Total Passed Through Indiana University			<u>2,800</u>
<b>TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF TRANSPORTATION</b>			<u><b>2,800</b></u>

**LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—Continued**  
for the year ended December 31, 2011

<u>Federal Grantor/Pass Through Grantor/Project Title/Grant</u>	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<b><u>Directly Received from the Housing &amp; Urban Development</u></b>			
Tenant Assistance (Section 8) - Tell City	IN36T781019	14.182	\$ 136,545
Tenant Assistance (Section 8) - English	IN36T791011	14.182	236,424
Tenant Assistance (Section 8) - Marengo	IN36T811049	14.182	203,629
Tenant Assistance (Section 8) - Milltown	IN36T801016	14.182	227,781
Housing Counseling	HC10-0421-169	14.169	37,496
Total Directly Received from the Housing & Urban Development			841,875
<b><u>Passed Through the Indiana Housing &amp; Community Development Authority</u></b>			
HOME Investment Partnership Program	CW-009-007	14.239	19,700
HOME Investment Partnership Program	HM-008-009	14.239	352,108
HOME Investment Partnership Program	CH-008-007	14.239	11,292
HOME Investment Partnership Program	CH-009-008	14.239	48,113
Community Development Block Grant	DR20R-009-036	14.228	97,059
Section 8 Housing Choice Voucher		14.871	905,100
Indiana Foreclosure Prevention	A161-10-IFRN-117	14.251	2,550
Total Passed Through the Indiana Housing & Community Development Authority			1,435,922
<b>TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<b>2,277,797</b>
<b><u>U.S. Department of Agriculture</u></b>			
<b><u>Passed Through the Indiana Department of Education</u></b>			
Head Start Food Program	05CH-4010/46	10.558	83,498
Head Start Food Program	05CH-4010/47	10.558	38,346
Total Passed Through the Indiana Department of Education			121,844
<b>TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF AGRICULTURE</b>			<b>121,844</b>
<b><u>U.S. Department of Energy</u></b>			
<b><u>Passed Through the Indiana Housing &amp; Community Development Authority</u></b>			
Weatherization Assistance for Low Income Persons	WX-010-016	81.042	72,490
Home Energy Conservation Program	HEC-010-016	81.042	843,559
Weatherization Assistance for Low Income Persons	SE-011-016	81.042	200,000
Total Passed Through the Indiana Housing & Community Development Authority			1,116,049
<b>TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF ENERGY</b>			<b>1,116,049</b>
<b><u>Corporation for National and Community Service</u></b>			
<b><u>Directly Received from Corporation for National and Community Service</u></b>			
Retired Senior Volunteer Program	08SRNIN001	94.002	48,378
<b>TOTAL RECEIVED FROM THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>			<b>48,378</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 8,719,532</b>

**Basis of Presentation**

The above schedule of expenditures of federal awards included the federal grant activity of Lincoln Hills Development Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Lincoln Hills Development Corporation  
and Related Entities  
Tell City, Indiana

We have audited the financial statements of Lincoln Hills Development Corporation and Related Entities (the Entities) (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated August 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Lincoln Hills Development Corporation and Related Entities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Entities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entities' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Entities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Entities in a separate letter dated August 17, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McCauley, Nicolas & Company, LLC*  
McCauley, Nicolas & Company, LLC  
Certified Public Accountants

Jeffersonville, Indiana  
August 17, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Lincoln Hills Development Corporation and Related Entities  
Tell City, Indiana

Compliance

We have audited Lincoln Hills Development Corporation and Related Entities' (the Entities) (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Entities major programs for the year ended December 31, 2011. The Entities' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Entities' management. Our responsibility is to express an opinion on the Entities' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Entities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Entities' compliance with those requirements.

In our opinion, the Entities complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Entities is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Entities' internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entities' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McCauley, Nicolas & Company, LLC*  
McCauley, Nicolas & Company, LLC  
Certified Public Accountants

Jeffersonville, Indiana  
August 17, 2012

**LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

for the year ended December 31, 2011

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Lincoln Hills Development Corporation and Related Entities.
2. No reportable conditions were disclosed during the audit of the financial statements reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Lincoln Hills Development Corporation and Related Entities, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions in internal control were disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements That Could Have A Direct And Material Effect On Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Lincoln Hills Development Corporation and Related Entities expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that were required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

<u>Program</u>	<u>CFDA #</u>
Head Start Cluster:	
Head Start	93.600
ARRA – Head Start	93.708
ARRA – Early Head Start	93.709
Section 8 Housing Choice Vouchers	14.871
Home Investments Partnership Program	14.239
Section 8 New Construction and Substantial Rehabilitation	14.182

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Lincoln Hills Development Corporation and Related Entities was determined to be a low-risk auditee.

**B. FINDINGS—FINANCIAL STATEMENTS AUDIT**

None

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

<u>Audit Findings</u>	<u>Questioned Costs</u>
None	None

LINCOLN HILLS DEVELOPMENT CORPORATION AND RELATED ENTITIES  
Tell City, Indiana

EXIT CONFERENCE

Subsequent to the conclusion of the audit, an exit conference was held. Those in attendance, along with those associated with the audit report from McCauley, Nicolas & Company, LLC are as follows:

Representatives of the Entities:

Larry Kleeman, Executive Director

Debbie Katterhenry, Fiscal Director

Natalie Polk, Accountant

Shannon Sprinkle, Accountant

Representatives of McCauley, Nicolas & Company, LLC:

John C. Pieper, Member

Karen Basham, Manager

The following matters were discussed at the exit conference:

- A. The format and content of the audit report draft.
- B. Review and approval of the audit report by the representatives of the Entities.