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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 Mountjoy Chilton Medley LLP, for the period January 1, 2012 to December 31, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Lincoln Hills Development Corporation, as of December 31, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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**

Consolidated Financial Statements

For the Year Ended December 31, 2012

Lincoln Hills Development Corporation and Related Entities

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December 31, 2012

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Independent Auditor's Report

Board of Directors
Lincoln Hills Development Corporation and Related Entities

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lincoln Hills Development Corporation (a non-profit organization) and Related Entities (collectively, "the Entities"), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

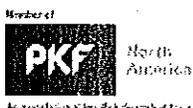
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Kentucky
Indiana
Ohio

Independent Auditor's Report (Continued)

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, 2012, 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.

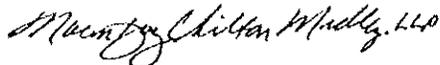
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the consolidated financial statements. The schedules of functional expenses on pages 16 through 35 are also presented for purposes of additional analysis and are 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 consolidated 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013, on our consideration of the Entities' internal control over financial reporting and on our tests of its 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* in considering the Entities' internal control over financial reporting and compliance.



Jeffersonville, Indiana
September 20, 2013

Lincoln Hills Development Corporation and Related Entities
Consolidated Statement of Financial Position
December 31, 2012

Assets

Current Assets

Cash	\$ 1,312,891
Tenant security deposits	48,358
Reserve for replacements	240,038
Accounts receivable - trade	64,620
Accounts receivable - grants	462,750
Notes receivable - related parties, current portion	8,678
Other current assets	<u>31,523</u>

Total Current Assets 2,168,858

Property and Equipment, net 7,180,923

Other Assets

Notes receivable - related parties	339,882
Financing cost, net	17,042
Investment in related party partnerships	1,298,025
Other assets	<u>1,642,933</u>

Total Other Assets 3,297,882

Total Assets \$ 12,647,663

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 234,349
Current portion of long-term debt	324,548
Current portion of accrued interest payable	53,021
Unearned revenue/grants payable	199,415
Other current liabilities	<u>696,588</u>

Total Current Liabilities 1,507,921

Long-term Liabilities

Long-term debt, less current portion	4,868,313
Long-term portion of interest payable, less current portion	525,801
Other liabilities	<u>2,626,454</u>

Total Long-term Liabilities 8,020,568

Total Liabilities 9,528,489

Net Assets - Unrestricted 3,119,174

Total Liabilities and Net Assets \$ 12,647,663

See notes to consolidated financial statements.

Lincoln Hills Development Corporation and Related Entities
Consolidated Statement of Activities
For the Year Ended December 31, 2012

Revenues and Support	
Grant and contract revenue	\$ 7,475,425
Miscellaneous revenue	2,603,313
Housing for the Elderly (including \$751,502 of Federal grant revenue)	1,144,035
Ohio View Apartments	66,863
Lincoln Manor Apartments, Inc.	496,526
Hartford Place Apartments, L.P.	163,700
Village of Marengo, L.P.	92,076
Lincoln Manor of Holland, LP	157,926
Village Apartments of Corydon, LP	264,339
River Hills Management Corporation	7
In-kind contributions	1,044,548
Gain on asset disposal	33,988
Interest and dividend income	2,674
Equity in earnings (loss) of Cotton Mill Apartments, Inc.	(28)
Total Revenues and Support	<u>13,545,392</u>
Expenses	
Program A - Indiana Family and Social Services Administration	836,789
Program B - Indiana Department of Education	118,632
Program C - U.S. Department of Health and Human Services	4,006,316
Program D - Corporation for National Services	55,925
Program E - Indiana Housing and Community Development Authority	3,547,433
Program F - U.S. Department of Housing and Urban Development	25,500
Program G - Federal Emergency Management Agency	50
Program H - Department of Transportation	2,950
Program I - Local	2,725,689
Program J - Housing for the Elderly	976,176
Program K - Ohio View Apartments	65,463
Program L - Lincoln Manor Apartments, Inc.	507,907
Program M - Hartford Place Apartments, LP	194,742
Program N - Village of Marengo, LP	118,471
Program O - Lincoln Manor of Holland, LP	168,048
Program P - Village Apartments of Corydon, LP	275,547
Program Q - River Hills Management Corporation	7
Total Expenses	<u>13,625,645</u>
Change in Net Assets	(80,253)
Net Assets, Beginning of Year	<u>3,199,427</u>
Net Assets, End of Year	<u>\$ 3,119,174</u>

See notes to consolidated financial statements.

Lincoln Hills Development Corporation and Related Entities
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2012

Cash Flows from Operating Activities	
Change in net assets	\$ (80,253)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	644,629
Loss from investment in related party partnerships	28
(Increase) decrease in:	
Accounts receivable - trade	(2,862)
Accounts receivable - grants	247,519
Other current assets	(38,000)
(Decrease) increase in:	
Accounts payable	(107,994)
Accrued interest payable	40,254
Unearned revenue/grants payable	24,487
Deferred compensation	(45,420)
Other current liabilities	(62,337)
	<u>620,051</u>
Net Cash Provided by Operating Activities	
Cash Flows from Investing Activities	
Purchase of property and equipment	(115,618)
Deposits into reserve for replacements	(49,044)
Withdrawals from reserve for replacements	24,406
Payments received on notes receivable - related parties	8,295
	<u>(131,961)</u>
Net Cash Used by Investing Activities	
Cash Flows from Financing Activities	
Proceeds from issuance of debt	3,270,000
Payments on long-term debt	(3,316,579)
	<u>(46,579)</u>
Net Cash Used by Financing Activities	
Increase in Cash	441,511
Cash, Beginning of Year	<u>871,380</u>
Cash, End of Year	<u>\$ 1,312,891</u>
Supplemental Information	
Cash payments for:	
Interest	<u>\$ 257,826</u>

See notes to consolidated financial statements.

Lincoln Hills Development Corporation and Related Entities
Notes to Consolidated Financial Statements
December 31, 2012

Note A - Nature of Organization and Operations

Lincoln Hills Development Corporation (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.

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.

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.

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 with 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 P for additional information.

Note B - Summary of Significant Accounting Policies

The summary of significant accounting policies of the Lincoln Hills Development Corporation and Related Entities (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.

Lincoln Hills Development Corporation and Related Entities
Notes to Consolidated Financial Statements (Continued)
December 31, 2012

Note B - Summary of Significant Accounting Policies (Continued)

The more significant accounting policies are as follows:

1. Basis of Accounting and Presentation: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").
2. 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.
3. 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, 2012.
4. Investments and Market Risk: Investments are valued at fair market value. The Entities have certificates of deposits which are included in the reserve for replacements that are subject to concentrations of credit risk. Though the market value of investments is subject to fluctuations, management believes the investments policy is prudent for the long-term welfare of the Entities.
5. Accounts Receivables: The Entities utilize the allowance for bad debts method of valuing doubtful accounts receivable (trade and grants) 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, 2012.
6. 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.

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.

7. 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.

Lincoln Hills Development Corporation and Related Entities
Notes to Consolidated Financial Statements (Continued)
December 31, 2012

Note B - Summary of Significant Accounting Policies (Continued)

8. 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.
9. Advertising: Advertising costs are charged to operations when incurred. Total advertising expense was approximately \$5,000 for the year ended December 31, 2012.
10. Subsequent Events: Subsequent events for the Entities have been considered through the date of the Independent Auditor's Report, which represents the date that the financials were available to be issued.

Note C - Reserve for Replacement

Under a regulatory agreement, the Entities are 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 \$240,038 at December 31, 2012.

Note D - Tenant Security Deposits

The Entities are required to maintain and fund tenants' security deposits in a separate bank account. The total balance at December 31, 2012, was \$48,358. The liability for such deposits at December 31, 2012, was \$48,358 and is included in other current liabilities on the Consolidated Statement of Financial Position.

Note E - Accounts Receivable - Grants

Accounts receivable - grants at December 31, 2012, consist of the following:

Indiana Family and Social Services Administration	\$	209,249
Indiana Housing and Community Development Authority		65,033
U.S. Department of Health and Human Services		6,507
Indiana Department of Education		41,562
Corporation for National Services		829
Local		139,570
	\$	<u>462,750</u>

Lincoln Hills Development Corporation and Related Entities
Notes to Consolidated Financial Statements (Continued)
December 31, 2012

Note F - Notes Receivable - Related Parties

Note receivable - related parties consisted of the following at December 31, 2012:

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.	132,560
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 long-term notes receivable - related parties	\$ 348,560
Less current portion	<u>(8,678)</u>
Notes receivable - related parties, less current portion	<u><u>\$ 339,882</u></u>

Note G - Fair Value Measurement

GAAP has as single authoritative definition of fair value, sets a comprehensive framework for measuring fair value and requires additional disclosures concerning fair value measurements. Assets and liabilities measured at fair value are categorized into a three-tier hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. The standard defines levels within the hierarchy of inputs as follows:

The three-tier hierarchy of inputs is as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets
- Level 2 - Quoted prices for similar assets and liabilities in active markets (other than those included Level 1) which are observable for the asset or liability, either directly or indirectly
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

Fair values of financial assets measured on a recurring basis at December 31, 2012, consisted of the following:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment in related party partnerships	<u>\$ 1,298,025</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,298,025</u>

Lincoln Hills Development Corporation and Related Entities
Notes to Consolidated Financial Statements (Continued)
December 31, 2012

Note G - Fair Value Measurement (Continued)

Changes in the fair value of the Entities' Level 3 financial assets during the year ended December 31, 2012, were as follows:

Balance at December 31, 2011	\$ 1,298,053
Net loss	<u>(28)</u>
Balance at December 31, 2012	<u>\$ 1,298,025</u>

The Entities' Level 3 financial assets represents LHDC's ownership interest in the net book value of the underlying assets, which management believes approximates fair market value.

Note H - Other Assets/Other Liabilities

In prior years, LHDC received funds from the Indiana Housing Finance Authority (IHFA), the Federal Home Loan Bank (FHLB), and various financial institutions for the development of low-income housing projects. The total amount received of \$2,626,454 has been recorded as "Other Liabilities" in the Consolidated Statement of Financial Position. A portion of these proceeds were provided to various related parties, who guarantee these obligations, or to projects owned by the Entities. The amount provided to related parties totaled \$1,642,933 and has been recorded as "Other Assets" in the Consolidated Statement of Financial Position. Should LHDC and these related parties fulfill certain requirements for a specific time period (15, 20, 30 or 40 years from the original loan date), the loans will be forgiven.

Amounts recorded as Other Assets from related parties are as follows:

Cotton Mill Apartments, LP	\$ 620,000
Country Place Apartments VI, LTD	192,933
Village Apartments of Corydon II, LP	330,000
Lincoln Village, LP	<u>500,000</u>
Total of Other Assets	<u>\$ 1,642,933</u>

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

Cotton Mill Apartments, LP - purchase option during the 1st day of the 1st 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 1st day of the 1st 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 Village, LP - purchase option during the 1st day of the 15th year following the commencement of the 10 year tax credit period to the last day of the 15th 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.

Lincoln Hills Development Corporation and Related Entities
Notes to Consolidated Financial Statements (Continued)
December 31, 2012

Note I - Property and Equipment

Property and equipment at December 31, 2012, consist of the following:

Land and improvements	\$ 1,601,574
Rental units	246,600
Building and improvement	13,909,223
Equipment	<u>2,415,453</u>
	18,172,850
Less accumulated depreciation	<u>(10,991,927)</u>
Net property, plant, and equipment	<u>\$ 7,180,923</u>

Depreciation expense charged to operations was \$644,629 for the year ended December 31, 2012.

Note J - Other Current Liabilities

Other current liabilities at December 31, 2012, consisted of the following:

Accrued annual leave	\$ 422,290
Retirement payable	38,550
Accrued payroll	65,126
Security deposits	48,358
Property taxes payable	34,900
Insurance payable	32,577
Other accrued payable	41,165
Unemployment payable	934
Workers compensation payable	3,606
Accrued payroll taxes payable	6,154
Accrued taxes payable	2,231
Prepaid rent	<u>697</u>
	<u>\$ 696,588</u>

Lincoln Hills Development Corporation and Related Entities
Notes to Consolidated Financial Statements (Continued)
December 31, 2012

Note K - Long-term Debt

The following summarizes the long-term debt at December 31, 2012:

German American Bank - 3.95% , due October 2022, monthly installments of \$26,316 including interest, secured by real estate, all fixtures and personal property.	\$ 2,466,044
USDA Rural Development - 5%, due June 2037, monthly installments of \$1,466 including interest, secured by a building.	248,186
City of Tell City, Indiana -3.75%, due May 2016, monthly installments of \$840 including interest, secured by a building.	32,053
Tell City Revolving Loan Fund - prime (3.25% at December 31, 2012), due October 2020, monthly installments of \$2,442 including interest, secured by real estate mortgage.	202,498
Indiana Housing and Finance Authority - 4%, due June 2018, quarterly installments of \$3,447 including interest, secured by an apartment building.	132,559
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.	196,146
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.	717,247
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.	149,938
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.	268,307

Lincoln Hills Development Corporation and Related Entities
Notes to Consolidated Financial Statements (Continued)
December 31, 2012

Note K - Long-term Debt (Continued)

First Savings Bank - 5.00%, due on June 22, 2022, monthly installments of \$1,064 including interest. The note is secured by an apartment complex.	96,113
German American Bank - 4.125%, due November 13, 2027, monthly installments of \$5,017 including interest. The note is secured by a mortgage and assignment of rents.	667,286
Community First Bank - 6.32%, due October 2015, monthly installments of \$487 including interest, secured by a building.	<u>16,484</u>
Total	5,192,861
Less current portion	<u>(324,548)</u>
Long-term debt, less current portion	<u>\$ 4,868,313</u>

Interest expense for the year ended December 31, 2012 was \$240,840 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:

2013	\$	324,548
2014		338,530
2015		353,195
2016		356,375
2017		368,372
Thereafter		<u>3,451,841</u>
	\$	<u>5,192,861</u>

Note L - 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, the Entities account 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, 2012, was \$199,415 and is shown as follows:

Health Families	\$	14,375
Hardest Hit Fund		880
Business Expansion		23,831
Section 8		95,699
Neighborhood Development		53,591
Early Head Start		258
Tobacco Use Prevention		1,755
Youth Services Bureau		5,137
Other		<u>3,889</u>
	\$	<u>199,415</u>

Lincoln Hills Development Corporation and Related Entities
Notes to Consolidated Financial Statements (Continued)
December 31, 2012

Note M - 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 \$248,420 for the year ended December 31, 2012.

Note N - 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, 2012, 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, 2012, were achieved. The total amount of in-kind contributions received and expended during the year ended December 31, 2012, was approximately \$1,040,000.

Note O - 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, 2012. Therefore, no income tax provision has been recorded in the financial statement for the year ended December 31, 2012. 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 2009.

Lincoln Hills Development Corporation and Related Entities
Notes to Consolidated Financial Statements (Continued)
December 31, 2012

Note P - Related Party Information/Investments

LHDC has invested funds in four 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, 2012, and include the following:

- Village Apartments of Corydon II, LP - Lincoln Manor is a 1% owner and general partner.
- Cotton Mill Apartments, LP - Cotton Mill Apartments, Inc. is a .01% owner and general partner.
- 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.

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

See Note A for additional related party information.

Note Q - Concentration of Credit Risk

Cash Concentration Risk

The Entities' cash held by various financial institutions at December 31, 2012 totaled approximately \$1,256,000. At December 31, 2012, all funds were covered by Federal depository insurance or by an agreement with German American Bank whereby the bank has pledged up to \$1,000,000 of bank owned securities as collateral for deposits held at the financial institution. 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 R - Guarantee of Indebtedness of Related Party

As of December 31, 2012, LHDC is contingently liable as guarantor of the indebtedness of various related parties as described in Note P. No material loss is anticipated by reason of such guarantee.

Supplementary Information

	U.S. Department of Health and Human Services	U.S. Department of Housing and Urban Development	Indiana Housing and Community Development Authority	Federal Emergency Management Agency	Department of Transportation	Local	Housing for the Elderly	Ohio View Apartments	Lincoln Manor Apartments	Hartford Place Apartments, L.P.	Village Apartments of Marengo, L.P.	Lincoln Manor of Holland, L.P.	Village Apartments of Corydon, L.P.	River Hills Management Corporation	Total Expenses
	\$ 1,660,557	\$ 25,048	\$ 393,032	\$ 19,013	\$ 1,290,666	\$ 223,995	\$ 23,798	\$ 301,626	\$ 43,827	\$ 12,123	\$ 29,694	\$ 35,191	\$ -	\$ 4,523,461	
	453,484	4,756	116,952	5,361	333,710	52,002	7,185	32,259	12,569	3,569	8,413	10,163	-	1,186,860	
	166,363	2,826	73,919	-	101,016	97,327	10,163	4,862	23,092	24,182	26,872	27,481	-	596,601	
	63,073	1,604	21,372	35	11,828	4,931	-	31,752	6,970	3,503	1,147	2,058	-	132,619	
	97,451	43	11,915	-	32,891	23,090	547	3,689	3,689	3,613	2,950	7,471	-	250,835	
	84,937	1,198	26,608	-	54,612	22,071	1,524	6,953	2,639	2,534	6,635	1,328	-	103,880	
	25,112	395	7,359	-	20,249	89,981	2,471	15,324	4,900	1,000	2,300	1,100	-	215,600	
320	18,145	279	4,043	-	66,197	8,024	-	-	-	-	-	-	-	63,419	
	39,847	361	6,889	-	14,948	19,313	-	11,190	-	-	-	-	-	99,693	
	13,590	1,046	9,245	80	14,948	855	900	62,200	-	-	-	-	-	95,188	
	37,418	-	28,178	-	13,202	13,717	-	-	-	-	2,588	-	-	85,128	
	72,013	-	426	-	4,857	86,797	-	-	10,436	21,499	12,166	-	-	764,005	
	-	-	750,803	-	13,717	-	-	-	-	-	-	15,825	-	305,017	
	13,981	1,020	84,375	-	855	15,920	40	-	-	-	-	-	-	1,816	
	1,816	-	-	-	4,857	-	-	-	-	-	-	-	-	19,568	
	15,487	-	850	891	13,717	-	-	-	-	-	-	-	-	89,954	
	-	-	947,854	-	375	-	-	-	-	-	-	-	-	947,854	
	56	-	-	-	2,003	-	-	-	-	-	-	-	-	12,712	
	4,731	-	304	-	18,325	12,656	380	227	-	-	-	-	-	14,637	
	-	-	-	-	375	8,924	63	1,080	-	-	-	-	-	2,363	
	11,206	-	-	-	-	-	-	-	-	-	-	-	-	12,553	
	8,356	-	-	-	28,061	16,639	3,334	-	-	-	-	-	-	56,550	
	66,267	-	-	-	2,109	-	-	-	-	-	-	-	-	66,267	
13,312	17,261	-	-	-	32,090	-	-	-	-	-	-	-	-	137,632	
	106,905	-	-	-	53,731	-	-	-	-	-	-	-	-	138,995	
	-	-	1,062,829	-	2,003	-	-	-	-	-	-	-	-	416	
	1,028,160	16,933	-	-	18,325	-	-	-	-	-	-	-	-	2,307	
	-	-	-	-	53,731	111,635	4,643	99	17,080	7,769	35,276	64,338	-	18,325	
	-	-	-	-	2,000	-	-	38,977	8,015	3,223	9,355	14,315	-	240,840	
	-	-	-	-	261,297	180,895	10,478	1,295	61,325	34,456	24,618	69,065	-	55,731	
	-	-	-	-	314,900	-	-	-	-	-	-	-	-	76,085	
	-	-	-	-	-	-	-	-	-	-	-	-	-	644,629	
	-	-	-	-	-	-	-	-	-	-	-	-	-	314,900	
	-	-	-	-	-	-	-	-	-	-	-	-	-	1,062,829	
	1,028,160	16,933	1,062,829	-	-	-	-	-	-	-	-	-	-	1,045,093	
	4,006,316	65,925	3,547,433	25,500	2,725,689	976,176	65,463	567,907	194,742	118,471	168,048	275,547	7	13,625,645	

**Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012**

	Indiana Family and Social Services Administration								
	Youth Service Bureau	Healthy Families		Healthy Families		FP		FP	
		7/1/2011 - 6/30/2012	9/1/2011 - 8/31/2012	9/1/2012 - 8/31/2013	7/1/2011 - 6/30/2012	7/1/2011 - 6/30/2012	7/1/2011 - 6/30/2013	7/1/2011 - 6/30/2013	Totals
Salaries	\$ 18,258	\$ 160,975	\$ 84,152	\$ 21,772	\$ 179,734	\$ 464,891			
Fringe benefits	5,012	45,365	23,570	20,120	52,070	146,137			
Space/utilities	1,200	16,495	8,294	12,506	3	38,498			
Communications	893	8,183	3,870	3,067	10,078	26,091			
Supplies	2,522	3,068	1,124	366	298	7,378			
Travel	978	17,360	7,792	16,869	40,481	83,480			
Insurance and bonding	119	-	1,409	-	986	2,514			
Miscellaneous	164	1,639	1,018	799	2,084	5,704			
Copying	539	3,170	1,351	629	2,609	8,298			
Audit	600	1,435	-	1,663	3,320	7,018			
Computer	1,368	4,666	2,160	2,592	2,762	13,548			
Contractual	5,472	-	-	9,035	-	14,507			
Training	-	901	416	20	108	1,445			
Equipment and maintenance	-	-	-	14,214	339	14,553			
Fees	-	2,300	-	-	-	2,300			
Medical/dental	-	-	-	267	-	267			
Maintenance	-	160	-	-	-	160			
Total	\$ 37,125	\$ 265,717	\$ 135,156	\$ 103,919	\$ 294,872	\$ 836,789			

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

	<u>Indiana Department of Education</u>		
	Headstart PA22 10/1/2011 - 9/30/2012	Headstart PA22 10/1/2012 - 9/30/2013	Totals
Food	\$ 76,750	\$ 41,562	\$ 118,312
Miscellaneous	320	-	320
Total	<u>\$ 77,070</u>	<u>\$ 41,562</u>	<u>\$ 118,632</u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

	U.S. Department of Health and Human Services				
	Headstart PA22 8/1/2011 - 7/31/2012	Headstart PA22 8/1/2012 - 7/31/2013	Headstart PA20 8/1/2011 - 7/31/2012	Headstart PA20 8/1/2012 - 7/31/2013	Headstart ARRA Expansion 8/1/2011 - 7/31/2012
Salaries	\$ 595,618	\$ 562,224	\$ -	\$ -	\$ 66,479
Fringe benefits	163,276	145,248	-	-	18,514
Space/utilities	61,747	39,958	-	-	13,126
Communications	24,936	20,231	-	-	1,329
Supplies	16,275	46,684	312	-	2,061
Travel	17,824	12,790	6,802	3,085	3,086
Insurance and bonding	-	17,593	-	-	-
Miscellaneous	6,458	6,203	-	-	718
Copying	10,211	15,097	-	-	3,018
Audit	10,000	-	-	-	840
Computer	13,318	13,615	-	-	1,980
Vehicle maintenance	28,397	37,564	-	-	3,055
Contractual	912	4,617	-	-	361
Dues	726	782	-	-	-
Training	208	2,114	-	-	1,545
Printing and advertising	1,669	2,837	-	-	225
Medical/dental	4,908	5,754	-	-	456
Maintenance	3,710	4,646	-	-	-
Direct service/screen	7,628	14,880	15,023	16,738	5,773
Food	3,430	7,986	-	-	-
Business and building repair	32,518	65,212	-	-	1,665
Inkind/match	304,336	540,514	-	-	37,866
Total	\$ 1,308,105	\$ 1,566,549	\$ 22,137	\$ 19,823	\$ 162,097

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

U.S. Department of Health and Human Services (Continued)

	Early Headstart ARRA Expansion 8/1/2011 - 7/31/2012	Early Headstart ARRA Expansion 8/1/2012 - 7/31/2013	Early Headstart ARRA Expansion 8/1/2011 - 7/31/2012	Early Headstart ARRA Expansion 8/1/2012 - 7/31/2013	Totals
Salaries	\$ -	\$ -	\$ 262,843	\$ 173,393	\$ 1,660,557
Fringe benefits	-	-	78,042	48,504	453,584
Space/utilities	-	-	33,568	17,964	166,363
Communications	-	-	10,525	6,052	63,073
Supplies	-	219	21,595	10,305	97,451
Travel	4,791	3,654	22,001	10,904	84,937
Insurance and bonding	-	-	-	7,519	25,112
Miscellaneous	-	-	2,754	2,012	18,145
Copying	-	-	8,102	3,419	39,847
Audit	-	-	2,750	-	13,590
Computer	-	-	4,902	3,603	37,418
Vehicle maintenance	-	-	1,841	1,156	72,013
Contractual	-	-	4,701	3,390	13,981
Dues	-	-	-	308	1,816
Training	-	-	8,736	2,884	15,487
Support services	-	-	56	-	56
Printing and advertising	-	-	-	-	4,731
Medical/dental	-	-	88	-	11,206
Maintenance	-	-	-	-	8,356
Direct service/screen	5,595	-	630	-	66,267
Food	-	-	3,604	2,241	17,261
Business and building repair	-	-	7,510	-	106,905
Inkind/match	-	-	145,444	-	1,028,160
Total	\$ 10,386	\$ 3,873	\$ 619,692	\$ 293,654	\$ 4,006,316

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

<u>Corporation for National Services</u>	
Salaries	\$ 25,048
Fringe benefits	4,756
Space/utilities	2,826
Communications	1,604
Supplies	43
Travel	1,198
Insurance and bonding	395
Miscellaneous	279
Copying	361
Computer	1,046
Contractual	1,020
Recognition	416
In-kind/match	<u>16,933</u>
Total	<u>\$ 55,925</u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

	Indiana Housing and Community Development Authority									
	Section 8								Owner	
	CSBG	BEED	LIHEAP	LIHEAP	LIHEAP	State	Choice Vouchers	IDA	Occupied	Rehabilitation
1/1/2012 - 12/31/2012	Grant	10/1/2011 - 9/30/2012	10/1/2012 - 9/30/2013	LIHEAP	LIHEAP	LIHEAP	1/1/2012 12/31/2012	Admin	9/1/2011 - 6/30/2012	11/1/2010 - 12/31/2011
Salaries	\$ 83,256	\$ 7,903	\$ 77,611	\$ 4,549	\$ -	\$ -	\$ 76,943	\$ 9,393	\$ 4,660	\$ -
Fringe benefits	24,627	2,082	23,693	1,313	-	-	21,887	2,717	1,331	-
Space/utilities	42,191	15	6,021	2,868	-	-	2,400	-	-	-
Communications	976	-	2,267	1,568	-	-	3,844	946	120	-
Supplies	624	-	2,087	909	-	-	3,014	205	26	-
Travel	2,515	-	6,200	1,480	-	-	7,692	1,165	146	-
Insurance and bonding	-	-	819	800	200	-	4,920	-	-	-
Legal	236	-	-	-	-	-	-	-	-	-
Miscellaneous	873	-	959	48	-	-	851	193	31	-
Copying	351	-	555	185	-	-	1,171	918	189	-
Audit	3,034	-	576	-	-	-	2,042	-	-	-
Computer	1,053	-	2,749	882	-	-	19,958	567	81	-
Vehicle maintenance	-	-	-	-	-	-	-	-	-	-
Contractor/rehab costs	-	-	97,290	2,890	-	-	2,697	-	11,568	-
Contractual	-	-	-	-	-	-	-	-	-	-
Training	-	-	-	-	-	-	484	-	-	-
Housing assistance	-	-	-	-	-	-	1,062,829	-	-	-
Energy assistance	-	-	-	-	-	-	-	-	-	-
Total	\$ 159,736	\$ 10,000	\$ 220,827	\$ 17,492	\$ 200	\$ 1,210,732	\$ 16,104	\$ 18,152	\$ -	\$ -

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

	Indiana Housing and Community Development Authority											
	EAP		EAP		EAP		DOE		ARRA		Indiana	
	EAP 10/1/2011 - 9/30/2012	Emergency IR-012-016 10/1/2011 - 9/30/2012	EAP 10/1/2011 - 9/30/2012	EAP 10/1/2011 - 9/30/2012	Hoosier Energy Wood	WX-009-016 4/4/2010 - 3/31/2012	Weatherization HEC-010-016 7/1/2010 - 12/31/2011	Fore- closure Prevention 7/1/2010 - 6/30/2011	Holland Housing Rehab 3/9/2010 - 8/31/2013	Totals		
Salaries	\$ 47,607	\$ 18,441	\$ 20,134	\$ 886	\$ 29,759	\$ 11,890	\$ -	\$ -	\$ -	\$ 393,032		
Fringe benefits	14,389	5,867	5,589	260	9,128	4,069	-	-	-	116,952		
Space/utilities	5,808	3,264	3,264	-	7,088	1,000	-	-	-	73,919		
Communications	5,098	518	3,590	-	2,430	377	-	-	138	21,872		
Supplies	1,709	275	843	1	683	748	-	-	791	11,915		
Travel	327	1,103	704	-	2,965	949	1,010	352	-	26,608		
Insurance and bonding	-	-	600	-	-	-	-	-	-	7,339		
Legal	-	-	-	-	-	-	-	-	68	304		
Miscellaneous	246	306	200	9	220	107	-	-	-	4,043		
Copying	1,552	76	1,358	-	331	186	-	-	17	6,889		
Audit	-	531	-	-	1,062	2,000	-	-	-	9,245		
Computer	1,152	-	567	-	-	998	-	-	171	28,178		
Vehicle maintenance	-	-	-	-	426	-	-	-	-	426		
Contractor/rehab costs	-	-	-	10,594	59,018	27,676	-	-	539,070	750,803		
Contractual	-	-	-	-	-	-	-	-	84,375	84,375		
Training	-	-	-	-	366	-	-	-	-	850		
Housing assistance	-	-	-	-	-	-	-	-	-	1,062,829		
Energy assistance	353,237	306,976	287,641	-	-	-	-	-	-	947,854		
Total	\$ 431,125	\$ 337,357	\$ 324,490	\$ 11,750	\$ 113,476	\$ 50,000	\$ 1,010	\$ 5624,982	\$ 3,547,433			

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

<u>U.S. Department of Housing and Urban Development</u>	
Salaries	\$ 19,013
Fringe benefits	5,561
Supplies	35
Training	<u>891</u>
Total	<u>\$ 25,500</u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

Federal Emergency Management Agency

	<u>Crawford</u> <u>County</u>	<u>Spencer</u> <u>County</u>	<u>Totals</u>
Computer	\$ 25	\$ 25	\$ 50
Total	<u>\$ 25</u>	<u>\$ 25</u>	<u>\$ 50</u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

Department of Transportation			
	Safe Kids	IU Permanent Fitting Station	
	10/1/2011 - 9/30/2012	11/1/2011 - 9/30/2012	Totals
Supplies	\$ 2,000	\$ 950	\$ 2,950
Total	\$ 2,000	\$ 950	\$ 2,950

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

<u>Local</u>	
Salaries	\$ 1,290,666
Fringe benefits	333,710
Space/utilities	101,016
Communications	11,828
Supplies	32,891
Travel	54,612
Insurance and bonding	20,249
Miscellaneous	66,197
Copying	8,024
Audit	41,227
Computer	14,948
Vehicle maintenance	599
Contractor/rehab costs	13,202
Contractual	13,717
Training	855
Equipment and maintenance	4,857
Printing and advertising	375
Maintenance	28,061
Food	2,109
Business and building repair	32,090
Legal	2,003
Lease	18,325
Program subsidy	55,731
Taxes and licenses	2,200
Depreciation	261,297
Construction/Rehab	<u>314,900</u>
 Total	 <u><u>\$ 2,725,689</u></u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

<u>Housing for the Elderly</u>	
Salaries	\$ 223,995
Fringe benefits	52,002
Space/utilities	97,327
Communications	4,931
Supplies	23,090
Insurance and bonding	22,071
Miscellaneous	89,981
Audit	19,313
Contractual	96,797
Equipment and maintenance	15,920
Tax and licenses	12,656
Printing and advertising	8,924
Maintenance	5,870
Interest	111,635
Depreciation/Amortization	<u>191,664</u>
 Total	 <u>\$ 976,176</u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

Ohio View Apartments

Salaries	\$ 23,798
Fringe benefits	7,185
Space/utilities	10,163
Supplies	547
Insurance and bonding	1,524
Miscellaneous	2,471
Vehicle maintenance	900
Training	40
Printing and advertising	380
Maintenance	3,334
Interest	4,643
Depreciation	10,478
Total	\$ 65,463

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

<u>Lincoln Manor Apartments, Inc.</u>	
Salaries	\$ 301,626
Fringe benefits	32,259
Space/utilities	4,862
Supplies	31,752
Insurance and bonding	6,953
Miscellaneous	15,324
Vehicle maintenance	11,190
Contractual	62,200
Fees	63
Printing and advertising	227
Medical/dental	1,080
Interest	99
Taxes and licenses	38,977
Depreciation	<u>1,295</u>
Total	<u>\$ 507,907</u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

Hartford Place Apartments, LP	
Salaries	\$ 43,827
Fringe benefits	12,569
Space/utilities	23,092
Supplies	6,970
Insurance and bonding	3,689
Miscellaneous	2,639
Audit	4,900
Equipment and maintenance	10,436
Interest	17,080
Taxes and licenses	8,015
Depreciation	61,525
Total	<u>\$ 194,742</u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

<u>Village Apartments of Marengo, LP</u>	
Salaries	\$ 12,123
Fringe benefits	3,569
Space/utilities	24,182
Supplies	3,503
Insurance and bonding	3,613
Miscellaneous	2,534
Audit	1,000
Equipment and maintenance	21,499
Interest	7,769
Taxes and licenses	3,223
Depreciation	<u>35,456</u>
Total	<u>\$ 118,471</u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

Lincoln Manor of Holland, LP	
Salaries	\$ 29,694
Fringe benefits	8,413
Space/utilities	26,872
Communications	1,147
Supplies	6,034
Insurance and bonding	2,950
Miscellaneous	6,635
Audit	2,300
Contractual	2,588
Equipment and maintenance	12,166
Interest	35,276
Taxes and licenses	9,355
Depreciation	24,618
Total	<u>\$ 168,048</u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

<u>Village Apartments of Corydon, LP</u>		
Salaries	\$	35,191
Fringe benefits		10,163
Space/utilities		27,481
Communications		2,038
Supplies		16,709
Insurance and bonding		7,471
Miscellaneous		1,328
Audit		1,100
Contractual		15,825
Equipment and maintenance		10,523
Interest		64,338
Taxes and licenses		14,315
Depreciation		<u>69,065</u>
Total	\$	<u>275,547</u>

See independent auditor's report.

Lincoln Hills Development Corporation and Related Entities
Schedule of Functional Expenses by Funding Source
Year Ended December 31, 2012

<u>River Hills Management Corporation</u>	
Contractual	<u>\$ 7</u>
Total	<u><u>\$ 7</u></u>

See independent auditor's report.

**Lincoln Hills Development Corporation and Related Entities
Schedule of Expenditures of Federal Awards
Year ended December 31, 2012**

<u>Federal Grantor/Pass Through Grantor/Project Title/Grant</u>	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
<u>Directly Received from the Department of Health & Human Resources</u>			
Head Start Cluster:			
Head Start PA22	05CH-4010/48	93.600	\$ 1,026,033
Head Start PA22	05CH-4010/47	93.600	1,003,769
Head Start PA 20	05CH-4010/48	93.600	19,823
Head Start PA 20	05CH-0410/47	93.600	22,137
Head Start Expansion - ARRA	05SH-4010/48	93.708	124,230
Early Head Start - ARRA	05CH-4010/48	93.709	297,526
Early Head Start - ARRA	05SA-4010/03	93.709	484,635
Total Directly Received from the Department of Health & Human Resources			<u>2,978,153</u>
<u>Passed Through the Indiana Family & Social Services</u>			
FP Child Welfare	A93-2-12-CBP00254	93.645	294,944
FP Child Welfare (Independent Living)	A93-9-97-09-24-1680	93.674	103,919
Healthy Families (Temporary Assistance for Needy Families)	62-09-60-1680	93.558	135,156
Healthy Families (Temporary Assistance for Needy Families)	62-09-60-1680	93.558	265,716
Total Passed Through the Indiana Family & Social Services			<u>799,735</u>
<u>Passed Through the Indiana Housing & Community Development Authority</u>			
Community Services Block Grant	CS-012-016	93.569	159,736
Low Income Home Energy Assistance	WL-012-016	93.568	220,828
Low Income Home Energy Assistance	WL-013-016	93.568	17,492
Low Income Home Energy Assistance	LI-011-016	93.568	431,125
Low Income Home Energy Assistance	LI-013-016	93.568	324,490
EAP Emergency	IR-012-016	92.570	337,357
Total Passed Through the Indiana Housing & Community Development Authority			<u>1,491,028</u>
TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>5,268,916</u>
<u>U.S. Department of Homeland Security</u>			
<u>Directly Received from the Department of Homeland Security</u>			
Emergency Food & Shelter Spencer	30-2784-00	97.024	25
Emergency Food & Shelter Crawford	30-2646-00	97.024	25
Total Directly Received from the Department of Homeland Security			<u>50</u>
TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF HOMELAND SECURITY			<u>50</u>
<u>U.S. Department of Transportation</u>			
<u>Passed Through Indiana University</u>			
Safe Kids		20.600	2,000
IU Permanent Fitting Station		20.600	950
Total Passed Through Indiana University			<u>2,950</u>
TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF TRANSPORTATION			<u>2,950</u>

**Lincoln Hills Development Corporation and Related Entities
Schedule of Expenditures of Federal Awards (Continued)
Year ended December 31, 2012**

<u>Federal Grantor/Pass Through Grantor/Project Title/Grant</u>	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
<u>Directly Received from the Housing & Urban Development</u>			
Tenant Assistance (Section 8) - Tell City	IN36T781019	14.182	\$ 132,826
Tenant Assistance (Section 8) - English	IN36T791011	14.182	211,237
Tenant Assistance (Section 8) - Marengo	IN36T811049	14.182	196,253
Tenant Assistance (Section 8) - Milltown	IN36T801016	14.182	211,186
Housing Counseling	HC12-0421-152	14.169	25,500
Total Directly Received from the Housing & Urban Development			<u>777,002</u>
<u>Passed Through the Indiana Housing & Community Development Authority</u>			
HOME Investment Partnership Program	CH-009-008	14.239	624,982
Community Development Block Grants	DR20R-011-036	14.228	18,152
Section 8 Housing Choice Voucher		14.871	1,210,732
Indiana Foreclosure Prevention	SF-11-025IFPN	14.251	1,010
Total Passed Through the Indiana Housing & Community Development Authority			<u>1,854,876</u>
TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>2,631,878</u>
<u>U.S. Department of Agriculture</u>			
<u>Passed Through the Indiana Department of Education</u>			
Head Start Food Program	05CH-4010/48	10.558	41,562
Head Start Food Program	05CH-4010/47	10.558	77,070
Total Passed Through the Indiana Department of Education			<u>118,632</u>
TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF AGRICULTURE			<u>118,632</u>
<u>U.S. Department of Energy</u>			
<u>Passed Through the Indiana Housing & Community Development Authority</u>			
Weatherization Assistance for Low Income Persons	WX-010-016	81.042	113,475
Home Energy Conservation Program	HEC-012-016	81.042	50,000
Total Passed Through the Indiana Housing & Community Development Authority			<u>163,475</u>
TOTAL RECEIVED FROM THE U.S. DEPARTMENT OF ENERGY			<u>163,475</u>
<u>Corporation for National and Community Service</u>			
<u>Directly Received from Corporation for National and Community Service</u>			
Retired Senior Volunteer Program	11SRNIN001	94.002	8,373
Retired Senior Volunteer Program	11SRNIN001	94.002	31,166
TOTAL RECEIVED FROM THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>39,539</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 8,225,440</u>

Basis of Presentation

The above schedule of expenditures of federal awards includes the federal grant activity of Lincoln Hills Development Corporation and Related Entities 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.



Independent Auditor's 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

We have audited, in accordance with the 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, the financial statements of Lincoln Hills Development Corporation (a nonprofit organization) and Related Entities (the Entities) as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2013.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Entities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Entities' internal control.

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 a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Entities' financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



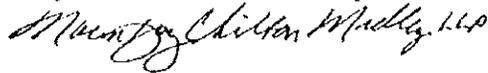
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Entities' financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Jeffersonville, Indiana
September 20, 2013



**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance**

Board of Directors
Lincoln Hills Development Corporation and Related Entities

Report on Compliance for Each Major Federal Program

We have audited Lincoln Hills Development Corporation and Related Entities' (the Entities) 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 federal program for the year ended December 31, 2012. The Entities' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Entities' major federal programs based on our audit of the types of compliance requirements referred to above. 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 Lincoln Hills Development Corporation and Related 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Entities' compliance.



**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance (Continued)**

Opinion on Each Major Federal Program

In our opinion, the Entities' complied, in all material respects, with the types of compliance 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, 2012.

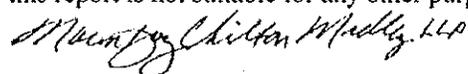
Report on Internal Control over Compliance

Management of the Entities is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Entities' internal control over compliance with the types of requirements that could have a direct and material effect on each of the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of the major federal programs 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 Lincoln Hills Development Corporation and Related 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 over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Jeffersonville, Indiana
September 20, 2013

Lincoln Hills Development Corporation and Related Entities
Schedule of Findings and Questioned Costs
Year ended December 31, 2012

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 Independent Auditor's 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 for Each Major Federal Program and Report on Internal Control Over Compliance.
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
Temporary Assistance for Needy Families	93.558
Low Income Home Energy Assistance	93.568
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
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 Mountjoy Chilton Medley LLP are as follows:

Representatives of the Entities:

Larry Kleeman, Executive Director

Debbie Katterhenry, Fiscal Director

Natalie Polk, Accountant

Liz Newton, Accountant

Representatives of Mountjoy Chilton Medley LLP:

John C. Pieper, Partner

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.