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June 3, 2009

Board of Directors
Providence Housing Corporation
219 N. Providence Place
West Terre Haute, IN 47885

We have reviewed the audit report prepared by Deming Malone Livesay & Ostroff, Independent Public Accountants, for the period September 1, 2006 to August 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Providence Housing Corporation, as of August 31, 2007, 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.

We call your attention to the findings in the report. Page 17 contains one current audit finding. Management's corrective action plan is on page 19.

STATE BOARD OF ACCOUNTS

PROVIDENCE HOUSING CORPORATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended August 31, 2007 and 2006

CONTENTS

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Providence Housing Corporation
Louisville, Kentucky

We have audited the accompanying statements of financial position of Providence Housing Corporation, as of August 31, 2007 and 2006, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Providence Housing Corporation as of August 31, 2007 and 2006, and the changes in its net assets and cash flows for the years 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 February 19, 2008 on our consideration of Providence Housing Corporation's 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 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 audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Expenditures of Federal Awards on page 11 for the year ended August 31, 2007 is presented for purposes of additional analysis as required by the U.S. 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 basic financial statements. Such information has been subjected to procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
February 19, 2008

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PROVIDENCE HOUSING CORPORATION

STATEMENTS OF FINANCIAL POSITION

August 31, 2007 and 2006

ASSETS	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	$ 323,687	$ 226,388
Accounts receivable	54,201	
	377,888	226,388
ASSETS WHOSE USE IS LIMITED		
Tenant security deposits	13,287	7,564
PROPERTY AND EQUIPMENT, at cost		
Land and improvements	107,315	119,470
Building and improvements	3,438,863	2,680,908
Leasehold improvements	4,980	4,980
Equipment	8,762	6,388
Vehicles	8,079	8,079
	3,567,999	2,819,825
Less accumulated depreciation	369,530	260,500
	3,198,469	2,559,325
OTHER ASSETS		
Loan costs, net of amortization of $1,584 for 2007 and $1,188 for 2006	6,338	6,734
Total assets	$ 3,595,982	$ 2,800,011

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2007	2006
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 26,342	$ 23,815
Accounts payable	2,858	2,277
Accrued interest payable	4,362	2,709
Deferred revenue		400
Payable to related party	3,408	11,180
Total current liabilities	36,970	40,381
TENANT SECURITY DEPOSITS	13,080	10,765
LONG-TERM DEBT, less current maturities	573,179	430,479
Total liabilities	623,229	481,625
NET ASSETS		
Unrestricted	2,942,615	2,277,967
Temporarily restricted	30,138	40,419
	2,972,753	2,318,386
Total liabilities and net assets	$ 3,595,982	$ 2,800,011

PROVIDENCE HOUSING CORPORATION

STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2007 and 2006

	2007		
	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Grant revenues	$ 1,275,879		$ 1,275,879
Rental income	146,112		146,112
Single family home sales	576,400		576,400
Miscellaneous income	2,152		2,152
Interest income	1,229		1,229
	2,001,772		2,001,772
Net assets released from restriction	10,281	$ (10,281)	
Total revenues and other support	2,012,053	(10,281)	2,001,772
Expenses:			
Contract services	40,926		40,926
Repairs and maintenance	16,627		16,627
Management fee expense	8,081		8,081
Insurance	12,102		12,102
Utilities	22,466		22,466
Professional fees	141,836		141,836
Rehabilitation expenses	28,058		28,058
Travel	6,571		6,571
Telephone	978		978
Office supplies	2,750		2,750
Advertising and public relations	308		308
Construction costs of single family homes	917,646		917,646
Depreciation and amortization	109,426		109,426
Postage	471		471
Interest expense	37,886		37,886
Miscellaneous	1,273		1,273
Total expenses	1,347,405		1,347,405
Net increase (decrease) in total net assets	664,648	(10,281)	654,367
Net assets at beginning of year	2,277,967	40,419	2,318,386
Net assets at end of year	$ 2,942,615	$ 30,138	$ 2,972,753

See Notes to Financial Statements.

2006		
Unrestricted	Temporarily Restricted	Total
$ 77,620		$ 77,620
128,952		128,952
1,108		1,108
207,680		207,680
10,197	$ (10,197)	
217,877	(10,197)	207,680
41,181		41,181
16,425		16,425
48,876		48,876
9,888		9,888
18,239		18,239
11,529		11,529
51,750		51,750
2,248		2,248
821		821
1,378		1,378
5,293		5,293
100,843		100,843
281		281
34,058		34,058
1,444		1,444
344,254		344,254
(126,377)	(10,197)	(136,574)
2,404,344	50,616	2,454,960
$ 2,277,967	$ 40,419	$ 2,318,386

PROVIDENCE HOUSING CORPORATION

STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net increase (decrease) in total net assets	$ 654,367	$ (136,574)
Adjustments to reconcile net increase (decrease) in total net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	109,426	100,843
Contributions restricted for long-term use	(709,750)	
Amortization of discount on below-market interest debt	10,281	10,197
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable	(54,201)	111,285
Increase (decrease) in:		
Accounts payable	581	1,337
Accrued expenses	(1,755)	(663)
Deferred revenue	(400)	400
Related party payable	(7,772)	(96,320)
Total adjustments	(653,590)	127,079
Net cash provided by (used in) operating activities	777	(9,495)
Cash flows from investing activities:		
Purchases of property and equipment	(748,174)	(4,872)
Net cash used in investing activities	(748,174)	(4,872)
Cash flows from financing activities:		
Payments on long-term debt	(25,054)	(24,574)
Proceeds from long-term debt	160,000	
Contributions restricted for long-term use	709,750	
Net cash provided by (used in) financing activities	844,696	(24,574)
Net increase (decrease) in cash and cash equivalents	97,299	(38,941)
Cash and cash equivalents at beginning of year	226,388	265,329
Cash and cash equivalents at end of year	$ 323,687	$ 226,388
Supplemental disclosure of cash flow information:		
Interest paid	$ 27,196	$ 23,965

See Notes to Financial Statements.

PROVIDENCE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Organization and Summary of Significant Accounting Policies

Description of organization:

Providence Housing Corporation (PHC), is a not-for-profit organization formed for the purpose of providing affordable housing opportunities for residents of West Terre Haute, Indiana, including housing rehabilitation for qualified individuals, senior citizen apartments, single family homes and new home construction for citizens who qualify based on income. These construction projects and apartment facilities are managed by a related not-for-profit organization that provides program services to the needy. PHC is supported primarily through grants, rents and contributions from the general public.

Summary of significant accounting policies:

This summary of significant accounting policies of PHC is presented to assist in understanding PHC's financial statements. The financial statements are representations of PHC's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Cash and cash equivalents:

Unrestricted demand deposits and interest bearing checking accounts intended to be used for current operations are classified as cash and cash equivalents.

Receivables:

The valuation of accounts and grants receivable is based upon a detail analysis of past due accounts and the history of uncollectible accounts. Estimated uncollectible accounts increase the allowance for doubtful accounts and when the receivable is written off, the allowance for doubtful accounts is decreased. Management considers all receivable amounts to be fully collectible. Accordingly, no allowance for uncollectible accounts has been recorded.

Assets whose use is limited:

Assets whose use is restricted by donors for a specific purpose; designated by PHC's Board of Directors for future use; and security deposits are classified as assets whose use is limited.

NOTES TO FINANCIAL STATEMENTS

Property, equipment and depreciation:

PHC has a policy to capitalize property and equipment with a cost of $1,000 or greater with a useful life greater than one year. Purchased property and equipment are stated at cost. Donated property is stated at fair market value as of the date of donation. Depreciation of property and equipment is computed by the straight-line method over their estimated useful lives.

Donations:

PHC records donated services that require specific expertise and would normally have been purchased, and donated services that create or enhance non-financial assets, at fair market value. Those donated services that do not meet these specific criteria are not reflected in the financial statements. Donations other than cash are recorded at their fair market value as of the date of donation. Donations of long-lived assets with explicit restrictions that specify how the assets are to be used and donations of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, PHC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Assets restricted by donors for future use are classified as temporarily restricted. When a donor's temporary restriction expires, those net assets are reclassified to unrestricted net assets. Temporarily restricted donations are treated as unrestricted if the restriction expires in the same period as it is received.

Conditional promises to give, which depend on the occurrence of specified future and uncertain events to bind the promise, are recognized when the conditions on which they depend are substantially met

Discount on below market interest financing:

The face amount of below market interest financing was discounted to net present value using a market borrowing rate of 7%. The debt is shown net of discount on the statement of financial position, and the discount is being amortized into interest expense over the life of the loan using the effective interest method. The discount is recognized as a temporarily restricted net asset and is released from restriction at the same rate as the discount amortization.

NOTES TO FINANCIAL STATEMENTS

Functional classification:

Total expenses reported on the Statement of Activities by functional classification are as follows:

	2007	2006
Program services	$1,316,688	$314,277
Management and general	25,145	26,338
Fund-raising	5,572	3,639
	$1,347,405	$344,254

Loan costs:

Loan costs are amortized on the straight-line basis over the life of the loan.

Estimates:

The preparation of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes:

The Organization is a not-for-profit corporation within the terms of Internal Revenue Code Section 501(c)(3) and, therefore, is not subject to income taxes.

NOTES TO FINANCIAL STATEMENTS

Note 2. Related Party Transactions

Providence Self Sufficiency Ministries, Inc. (PSSM), a related not-for-profit organization through having a common president, provides certain management and administrative duties to PHC under a management agreement. For the year ended August 31, 2006, management fee expense to PSSM under this agreement was approximately $49,000. For the year ended August 31, 2007, PSSM also provided consulting services in connection with the construction of housing facilities and grant application and administration for PHC and was paid a developer fee for these services. Total management and developer fee expense for the year ended August 31, 2007 was approximately $138,000. PSSM also incurs certain shared expenses that are paid by PSSM and charged back to PHC. As of August 31, 2007 and 2006, total amounts due to PSSM for management fees and shared expense were $3,408 and $11,180, respectively, and are included as a payable on the statements of financial position.

Note 3. Long-Term Debt

Long-term debt consists of the following:

	2007	2006
Mortgage note with Indiana Housing Finance Authority, with a face amount of $210,000 discounted to net present value using a borrowing rate of 7%, payable in annual installments of $12,830, with remaining unpaid principal and interest due November 2009. The note bears interest at 2%. The Phase I apartment building is pledged as collateral on this note.	$153,448	$155,400
Mortgage note with Indiana Housing Finance Authority, with a face amount of $86,000 discounted to net present value using a borrowing rate of 7%, payable in annual installments of $5,259, with remaining unpaid principal and interest due June 2010. The note bears interest at 2%. The Phase II apartment building is pledged as collateral on this note.	65,778	66,390

NOTES TO FINANCIAL STATEMENTS

	2007	2006
Mortgage note with Old National Bank, payable in monthly installments of $641, including interest at 7.29%, with remaining unpaid principal and interest due August 2010. The Phase II apartment building is pledged as collateral on this note.	35,648	45,504
Mortgage note with Terre Haute Savings Bank, payable in monthly installments of $1,264, including interest at 7%, with remaining unpaid principal and interest due May 2020. The Phase III apartment building is pledged as collateral on this note.	185,037	187,000
Mortgage note with Terre Haute Savings Bank, payable in monthly installments of $1,175, including interest at 8%, with remaining unpaid principal and interest due May 2022. The Phase IV apartment building is pledged as collateral on this note.	159,610	
	599,521	454,294
Less current maturities	(26,342)	(23,815)
	$573,179	$430,479

Undiscounted future maturities of long-term debt are as follows:

Year ending August 31, 2009	$ 28,638
2010	239,329
2011	7,020
2012	4,919
2013	5,295
Thereafter	318,116
	603,317
Unamortized discount	(30,138)
	$573,179

Note 4. Concentration of Credit Risk

PHC maintains cash balances at various financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At August 31, 2007, PHC's uninsured cash balances total approximately $238,000. Management does not believe that PHC is exposed to any significant credit risk on uninsured amounts.

Note 5. Deed Restrictions

PHC's senior apartment facilities are limited by deed restrictions to low-income housing for periods ranging from fifteen to twenty years. The restrictions expire in the years 2018, 2019 and 2025. Failure to comply with the deed restrictions may result in a refundable balance due up to the original amounts of the grants of approximately $1,315,000.

PROVIDENCE HOUSING CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2007

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Pass-through – Indiana Housing and Community Development Agency:			
HOME Investment Partnership		CH-006-007	$ 440,000
HOME Investment Partnership		CH-006-005	315,000
HOME Investment Partnership		CH-006-021	157,000
HOME Investment Partnership		CW-006-010	20,701
			932,701
Pass-through – Indiana Housing Finance Authority:			
HOME Investment Partnership		CH-004-007	455,000
	14.239		1,387,701
Total federal expenditures			$1,387,701

Note A. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Providence Housing 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.

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

To the Board of Directors
Providence Housing Corporation
Louisville, Kentucky

We have audited the financial statements of Providence Housing Corporation as of and for the year ended August 31, 2007, and have issued our report thereon dated February 19, 2008. 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

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency and material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiency described in item 07-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider item 07-1 described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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.

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, others within the Organization, and 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.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
February 19, 2008

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CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Providence Housing Corporation
Louisville, Kentucky

Compliance

We have audited the compliance of Providence Housing Corporation (Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended August 31, 2007. The Organization's major federal programs are identified in the summary of auditor's 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 Organization's management. Our responsibility is to express an opinion on the Organization's 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, Audit 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 Organization's 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 on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2007.

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Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Organization's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Organization, and 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.

Deming, Malone, Livesay & Ostroff

Louisville, Kentucky
February 19, 2008

PROVIDENCE HOUSING CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended August 31, 2007

Section 1 – Summary of Auditors' Result (Under Section 505(d)(1) of OMB Circular A-133)

An unqualified opinion was issued on the audit of the financial statements of Providence Housing Corporation for the year ended August 31, 2007.

A material weakness in internal control was disclosed by the audit of the financial statements.

The audit did not disclose any noncompliance which is material to the financial statements of Providence Housing Corporation.

No material weaknesses or significant deficiencies in the internal control over major programs were disclosed by the audit.

An unqualified opinion was issued on compliance for the major federal program of Providence Housing Corporation for the year ended August 31, 2007.

The audit did not disclose audit findings required to be reported under Section 510(a) OMB Circular A-133.

The Program tested as a major program was:

Federal CFDA Number	Name of Major Federal Program
	Department of Housing and Urban Development:
14.239	HOME Investment Partnership

$300,000 was the dollar threshold used to distinguish between Type A and Type B programs.

The auditee does not qualify as a low-risk auditee.

PROVIDENCE HOUSING CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2007

Section II – Financial Statement Findings (Under Section 505(d)(2) of OMB Circular A-133)

Department of Housing and Urban Development

Finding 07-1: HOME Investment Partnership, CFDA 14.239

Statement of Condition: Interim and year end internal financial reports prepared for management and the Board to assess ongoing operating results are not prepared in accordance with accounting principles generally accepted in the United States, in that they do not include various adjustments for certain items, a statement of cash flows, and full note disclosures.

Criteria: Current accounting staff and management could consider obtaining a better understanding of the accounting and reporting requirements for its financial statements.

Effect of Condition: The accounting staff and management prepare interim and year end internal financial reports used by management and the Board to assess ongoing operating results. While these financial reports are considered adequate for management purposes, they are not prepared in accordance with accounting principles generally accepted in the United States, in that they do not include various adjustments for certain items, a statement of cash flows, and full note disclosures. This level of financial statement preparation is beyond the current ability of the accounting staff and management. Management relies on our assistance to prepare the financial statements including full disclosures, as part of performing the audit.

Cause of Condition: The current accounting staff and management have a general knowledge and understanding of accounting and reporting requirements for their financial statements but lack the skills to prepare complete financial statements in accordance with accounting principles generally accepted in the United States of America and understand and comply with all related accounting and reporting issues applicable to the Organization.

Recommendation: We understand that the current size and complexity of the Organization may not justify the addition of additional accounting personnel with the skills to prepare complete financial statements and who understands and complies with all related accounting and reporting issues applicable to the Organization. However, we recommend that the current accounting staff and management consider obtaining a better understanding of the accounting and reporting requirements for its financial statements. We are available throughout the year to assist with providing guidance with accounting and reporting issues and also with the preparation of the Organization's year-end financial statements.

Section III – Federal Award Findings and Questioned Costs (Under Section 505(d)(3) of OMB Circular A-133)

There are no findings required to be reported by OMB Circular A-133 Section 510(a).

PROVIDENCE HOUSING CORPORATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended August 31, 2007

There were no prior year findings under Government Auditing Standards or required to be reported by OMB Circular A-133.

PROVIDENCE HOUSING CORPORATION

CORRECTIVE ACTION PLAN
Year Ended August 31, 2007

Department of Housing and Urban Development

Providence Housing Corporation respectfully submits the following corrective action plan for the year ended August 31, 2007.

Name and address of the independent public accounting firm: Deming, Malone, Livesay & Ostroff, PSC, 9300 Shelbyville Road, Suite 1100, Louisville, Kentucky 40222.

Audit period: September 1, 2006 through August 31, 2007.

The findings from the August 31, 2007 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section 1 of the schedule, Summary of Auditors' Result, does not include the findings and is not addressed.

Findings – Financial Statement Audit

Finding No. 07-1: HOME Investment Partnership, CFDA 14.239

Recommendation: We understand that the current size and complexity of the Organization may not justify the addition of additional accounting personnel with the skills to prepare complete financial statements and who understands and complies with all related accounting and reporting issues applicable to the Organization. However, we recommend that the current accounting staff and management consider obtaining a better understanding of the accounting and reporting requirements for its financial statements. We are available throughout the year to assist with providing guidance with accounting and reporting issues and also with the preparation of the Organization's year-end financial statements.

Action Taken: The current accounting staff and management will consider obtaining a better understanding of the accounting and reporting requirements for its financial statements. They will continue to rely on the auditor throughout the year to assist with providing guidance with accounting and reporting issues and also with the preparation of the Organization's year-end financial statements.

If the United States Department of Housing and Urban Development has questions regarding this plan, please call Sister Barbara Ann Zeller, SP at 812-951-1878.

Sincerely yours,

Sister Barbara Ann Zeller, SP
Providence Housing Corporation