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February 15, 2010

Board of Directors
Area IV Development, Inc. and Subsidiaries
660 N. 36th St., P.O. Box 4727
Lafayette, IN 47903

We have reviewed the audit report prepared by Cullar & Associates, PC, Independent Public Accountants, for the period January 1, 2007 to December 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 Area IV Development, Inc. and Subsidiaries, as of December 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. The Independent Auditor's Report makes mention of going concern considerations. Pages 22 through 25 contain six current audit findings. Pages 27 through 29 contain the status of seven prior audit findings. The corrective action plan is on pages 30 and 31.

STATE BOARD OF ACCOUNTS

CONSOLIDATED FINANCIAL AND COMPLIANCE REPORT

AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

CONTENTS

CULLAR & ASSOCIATES, PC
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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SUPPORTING SCHEDULE

To the Board of Directors
AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES
Lafayette, Indiana

We have audited the accompanying consolidated statements of financial position of AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES (the ñOrganizationò) as of December 31, 2007 and 2006, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organizationôs 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES as of December 31, 2007 and 2006, and the consolidated changes in its net assets and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 8 to the financial statements, the Organization has deficits in net assets and working capital at December 31, 2007, factors that raise substantial doubt about the Organizationôs ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts or classification of liabilities that might be necessary in the event the Organization cannot continue in existence.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008 on our consideration of the Organizationôs 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* and important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidated schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Cullen & Associates, P.C.

September 29, 2008

AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2007 and 2006

	2007	2006
Assets:		
Current Assets:		
Cash and cash equivalents	$ 20,086	$ 4,021
Grants receivable	45,885	91,011
Other receivables	-	180
Current portion of home mortgage loans receivable	2,687	2,687
Properties held for sale	-	87,582
Total current assets	68,658	185,481
Long-Term Assets:		
Long-term portion of home mortgage loans receivable	24,380	26,006
Mortgage loans receivable, low-income housing projects	895,000	825,000
Accrued interest receivable on low-income housing project mortgages	30,288	-
Property held for development	-	54,177
Development fees receivable, net of allowance for uncollectibles of $25,000	-	-
Total long-term assets	949,668	905,183
Total assets	$ 1,018,326	$ 1,090,664
Liabilities and Net Assets:		
Current Liabilities:		
Notes payable	$ -	$ 134,462
Accounts payable and accrued liabilities	9,611	65,070
Accounts payable - related entity	25,379	11,013
Advances from related entity	241,317	253,152
Total current liabilities	276,307	463,697
Long-Term Liabilities, refundable advances	895,000	825,000
Total liabilities	1,171,307	1,288,697
Net assets (deficit), unrestricted	(152,981)	(198,033)
Total liabilities and net assets	$ 1,018,326	$ 1,090,664

The accompanying notes are an integral part of these financial statements.

AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2007 and 2006

	2007	2006
Revenues, Gains, and Other Support:		
Grants	$ 230,321	$ 131,817
Development fees	-	40,800
Sale of properties	109,900	30,000
Amortization of mortgage discounts	1,451	1,451
Interest on low-income housing project mortgages	30,288	-
Other	19,516	2,331
Total revenues, gains, and other support	391,476	206,399
Expenses and Losses:		
Development	321,332	143,265
Management and general	25,092	52,366
Total expenses	346,424	195,631
Change in net assets	45,052	10,768
Net assets (deficit), unrestricted, beginning of year	(198,033)	(208,801)
Net assets (deficit), unrestricted, end of year	$ (152,981)	$ (198,033)

The accompanying notes are an integral part of these financial statements.

AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2007 and 2006

	2007			2006		
	Development	Management and General	Total	Development	Management and General	Total
Contracted services	$ 41,889	$ -	$ 41,889	$ 60,527	$ 3,761	$ 64,288
Cost of properties sold	94,531	-	94,531	1,470	-	1,470
Other development and construction costs	178,376	-	178,376	66,555	-	66,555
Occupancy	-	371	371	-	922	922
Travel	272	933	1,205	418	65	483
Office supplies and equipment	-	152	152	-	625	625
Liability insurance	1,485	-	1,485	1,945	264	2,209
Professional fees	-	22,779	22,779	-	18,868	18,868
Interest	4,779	-	4,779	12,350	-	12,350
Bad debts	-	180	180	-	25,000	25,000
Other	-	677	677	-	2,861	2,861
Totals	$ 321,332	$ 25,092	$ 346,424	$ 143,265	$ 52,366	$ 195,631

The accompanying notes are an integral part of these financial statements.

AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006

Change in Cash and Cash Equivalents:	2007	2006
Cash Flows from Operating Activities:		
Change in net assets	$ 45,052	$ 10,768
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debts	180	25,000
Amortization of mortgage discounts	(1,451)	(1,451)
(Increase) decrease in grants receivable	45,126	(57,617)
Decrease in properties held for sale and development	93,226	-
(Increase) in accrued interest receivable	(30,288)	-
Increase (decrease) in accounts payable and accrued liabilities	(41,093)	45,345
Increase in refundable advances	70,000	425,000
Net cash provided by operating activities	180,752	447,045
Cash Flows from Investing Activities:		
Disbursement of mortgage loan, low-income housing project	(70,000)	(425,000)
Payments received on home mortgage loans	3,077	3,563
Net cash (used in) investing activities	(66,923)	(421,437)
Cash Flows from Financing Activities:		
Net (payments) on notes payable	(85,929)	-
(Decrease) in advances from related entity	(11,835)	(43,973)
Net cash (used in) financing activities	(97,764)	(43,973)
Net change in cash and cash equivalents	16,065	(18,365)
Cash and cash equivalents, beginning of year	4,021	22,386
Cash and cash equivalents, end of year	$ 20,086	$ 4,021

Supplemental Disclosure of Cash Flows Information:		
Cash paid for interest	$ 4,779	$ 9,255
Cash paid for income taxes	$ -	$ -

The accompanying notes are an integral part of these financial statements.

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

AREA IV DEVELOPMENT, INC. (the ñOrganizationò) is an Indiana nonprofit corporation that provides community economic development and affordable housing projects for low and moderate-income persons, older adults, physically and mentally disabled persons, homeless persons, and special needs populations who reside in mid-northwestern Indiana. Its operations are supported primarily by grants from government and nonprofit agencies, real estate development fees, and sales of rehabilitated properties.

Significant Accounting Policies:

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of AREA IV DEVELOPMENT, INC. and its wholly owned subsidiaries, HOUSING IV FRANKFORT PLACE, INC., HOUSING IV DELPHI, INC., HOUSING IV MADISON, INC., WATER TOWER PLACE IV SENIORS, INC., and CANAL VIEW APARTMENTS, LP. All significant inter-company accounts and transactions have been eliminated in consolidation.

The subsidiaries own nominal interests in other entities that own low-income housing projects that were developed by the Organization. Management does not expect the Organization to receive any income or losses from these interests; consequently no value for these interests is included in the accompanying consolidated statements of financial position and no related income or loss from the interests is recognized in the accompanying consolidated statements of activities.

Use of estimates:

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The allowance for loan losses on home mortgage loans receivable; the allowance for doubtful development fees receivable; the allowance for impairment on properties held for sale and for development; and the estimated loss for loan guarantees are all material estimates that are particularly susceptible to change in the near term. While management uses all available information to recognize such losses, future additions to the allowances or write-downs for impairment may be necessary based on changes in borrower circumstances, economic conditions, government funding, or tax policies.

The costs of providing the program and supporting service have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated between the program and supporting service benefited based on managementôs best estimates.

Other significant accounting policies are as follows:

The Organization reports its financial position and activities by the following classes of net assets:

Unrestricted net assets are those currently available for use by the Organization.

Temporarily restricted net assets are those received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities. However, if a restriction is fulfilled in the same period in which the gift or grant is received, the Organization reports the support as unrestricted.

Cash and cash equivalents:

The Organization considers all time deposits, certificates of deposit, and all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Home mortgage loans receivable and allowance for loan losses:

The Organization rehabilitates and sells homes to low-income families, generally providing partial financing for the sales with non-interest bearing mortgage loans. These loans are recorded net of discounts for the present value of imputed interest, with the discounts reflected as an expense in the year the mortgages are created. Interest is imputed at market rates at the time the mortgages are created and the discounts are amortized into income over the lives of the mortgages using the straight-line method.

Because homes are typically sold for less than market price, the Organization generally records additional mortgages on the homes for the difference between the market value and the sales price as an incentive for the families to retain long-term ownership. These mortgages are generally forgivable at the end of ten years. Since management expects that most additional mortgages will be completely forgiven, they are not reflected as assets in the accompanying financial statements. The balance of these additional mortgages was approximately $58,000 at both December 31, 2007 and 2006.

The allowance for loan losses is an estimate used by management in the preparation of the Organization's financial statements and is maintained at a level considered by management to be adequate to provide for probable losses inherent in the portfolio. Management's evaluation is based on a continuing review of the loans and includes consideration of its actual loan loss experience, the present and future prospective financial condition of its borrowers, general economic conditions, and the value of the homes that collateralize the mortgages. Management does not believe that circumstances warrant an allowance for loan losses at either December 31, 2007 or 2006.

Development fees receivable and allowance for doubtful accounts:

Development fees receivable are stated at the outstanding principle balance, net of any charge-offs and the allowance for doubtful accounts. The Organization provides an allowance for doubtful accounts based upon the specific identification of receivables where collection is no longer deemed probable. In determining the allowance, management evaluates the payment history and other known information for individual accounts, historical losses, and current economic conditions. Individual accounts are charged-off against the allowance in the period that the receivable is deemed uncollectible. Recoveries of receivables previously charged-off are recorded as income in the period received. The Organization does not generally charge interest on its accounts receivable.

At December 31, 2007 and 2006, the Organization has earned development fees of approximately $130,000 from a low-income housing project discussed in Note 5 that have not been recognized because realization of those fees is not considered probable.

Properties held for sale and for development:

Properties held for sale and for development are carried at the lower of cost or market. However, costs for which the Organization is reimbursed by grants are expensed and are not reflected as assets in the accompanying consolidated statements of financial position. Costs that clearly relate to properties held for sale and development are capitalized. Costs are allocated to project components by the specific identification method whenever possible. Otherwise, acquisition costs are allocated based on their relative fair market value before development, and development costs are allocated based on their relative sales value. Interest costs are capitalized while development is in progress.

Gifts and grants:

The Organization reports gifts and grants of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities. However, if a restriction is fulfilled in the same period in which the gift or grant is received, the Organization reports the support as unrestricted.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions revenue. Conditional promises to give are not recognized as revenue until the conditions are substantially met. Receipts of assets from conditional promises before the conditions are substantially met are reported as refundable advances in the accompanying consolidated statements of financial position.

The Organization occasionally receives properties without charge or at below market prices. Such donations are recognized as revenue to the extent that their fair market value exceeds the purchase price.

Income taxes:

The Organization is exempt from income tax under Internal Revenue Code Section 501(c)(3) and a similar section of the Indiana Code. Consequently, the accompanying financial statements do not include any provision for income taxes. The Organization is classified by the Internal Revenue Service as other than a private foundation under Internal Revenue Code Section 509(a)(1).

NOTE 2. GRANTS RECEIVABLE AND CONDITIONAL PROMISES

Grants receivable consist primarily of reimbursements due under government-sourced contracts and cost-reimbursement grants. All amounts are due within one year, and no allowance for uncollectibles is considered necessary. Also, at December 31, 2007, the Organization has received approximately $5,000 of conditional promises in excess of allowable costs incurred under cost-reimbursement grants, which will not be recognized as revenue unless and until allowable costs are incurred. The Organization has also received $895,000 in refundable advances at December 31, 2007 for low-income housing projects that will not be recognized as revenue unless and until substantially all the conditions of the grants have been met, as discussed in Note 5.

NOTE 3. HOME MORTGAGE LOANS RECEIVABLE

Home mortgage loans receivable consist of non-interest bearing mortgage loans arising from the Organization's home rehabilitation program, which are secured by single-family residences and are payable in monthly installments. The loans generally have original maturities of 180 months. Information about the loans is as follows at December 31, 2007 and 2006, respectively:

	2007	2006
Face amount of loans	$ 42,174	$ 45,252
Discount for imputed interest	(15,107)	(16,559)
Total net mortgages receivable	27,067	28,693
Less current portion	(2,687)	(2,687)
Net long-term mortgages receivable	$ 24,380	$ 26,006

The average effective interest rate used in determining imputed interest is 7.2%. For both the years ended December 31, 2007 and 2006, income arising from the amortization of discounts was $1,451, and the expense arising from the creation of new non-interest bearing mortgages was none.

NOTE 4. PROPERTIES HELD FOR SALE AND FOR DEVELOPMENT

Properties held for sale at December 31, 2006 consisted of the net cost of development of ñNorfolk Crossingò, a single-family housing project for low to moderate-income families, which the Organization completed in 2004. The Organization received grants for development infrastructure costs, which were recognized as revenue and the related costs as expenses.

Consequently, costs for which the Organization was reimbursed by grants are not included in the carrying value of the development.

Property held for development at December 31, 2006 consisted of the cost of land for the ñCanal Viewò project. Canal View was to have been a low-income multi-family housing project. In 2004, the Organization abandoned the project at the current site because the State of Indiana declined to re-grant tax credits, and the Organization recognized an impairment loss of $145,488 for all development costs incurred. The Organizationôs wholly owned subsidiary owned the land, the purchase of which was financed by the seller. During 2007, the seller took back the land in exchange for cancellation of the related debt and payment of accrued interest.

NOTE 5. MORTGAGE LOANS RECEIVABLE, LOW-INCOME HOUSING PROJECTS AND REFUNDABLE ADVANCES

The mortgage loans receivable, low-income housing projects are due from two limited partnerships. The Organizationôs consolidated subsidiaries own minority interests in both partnerships.

The first loan is to The Madison of Benton County, LP for $400,000 and bears interest at 1%, payable from available cash flow, as defined in the Partnership Agreement, and unpaid interest does not accrue from year to year. No interest has been received on the note since its origination, and no accrued interest has been recognized in the accompanying financial statements because realization is not considered probable. The loan is secured by a subordinated mortgage on the Partnershipôs real estate. No payments, other than permitted interest, are due before the loanôs maturity in January 2018.

The Organization received the funds for this loan from a grant from the Federal Home Loan Bank under the Affordable Housing Program. Under the grant, the Organization was required to invest the funds into a low-income housing project, which must maintain prescribed ratios of occupancy by low-income tenants for a fifteen-year period (the ñretention periodò) that expires in 2018. The Organization also has certain monitoring responsibilities during the retention period. During the retention period, if the project fails to comply with the tenant income guidelines; if the project is sold or refinanced without continuing deed restrictions on tenant income; or if the Organization fails to comply with its monitoring responsibilities, any funds received by the Organization from the mortgage loan must be repaid to the Federal Home Loan Bank. Consequently, the contribution from the Federal Home Loan Bank has been treated as a conditional promise, which is reported in the accompanying consolidated statements of financial position as a refundable advance. No income from the Federal Home Loan Bank contribution will be recognized until substantially all conditions of the grant have been met, which is not likely to occur until 2018.

The second loan is to Delphi Housing for Seniors, LP for $495,000 and bears interest at 6%. Principal and all accrued interest is due January 2036. The loan is secured by a subordinated mortgage on the Partnershipôs real estate. Accrued interest of $30,288 has been recognized in the accompanying financial statements.

The Organization received the funds for this loan from a grant from the Indiana Housing and Community Development Authority HOME Program. Under the grant, the Organization was required to invest the funds into a low-income housing project, which must maintain prescribed ratios of occupancy by low-income tenants for a fifteen-year period (the ñretention periodò) after the construction period ends. The Organization also has certain monitoring responsibilities during the retention period. During the retention period, if the project fails to comply with the tenant income guidelines; if the project is sold or refinanced without continuing deed restrictions on tenant income; or if the Organization fails to comply with its monitoring responsibilities, any funds received by the Organization must be repaid to the Indiana Housing and Community Development Authority. Consequently, the contribution from the Indiana Housing and Community Development Authority has been treated as a conditional promise, which is reported in the accompanying consolidated statements of financial position as a refundable advance. No income from the Federal Home Loan Bank contribution will be recognized until substantially all conditions of the grant have been met, which is not likely to occur until 2023.

NOTE 6. NOTES PAYABLE AND LOAN GUARANTEES

Notes payable at December 31, 2006 were as follows:

Bank line of credit for $89,600, secured by a mortgage on property held for sale, interest-only payments at bank prime plus 2.75 points (11.0% at December 31, 2006), due June 2007	$ 85,929
Note payable, seller of land discussed in Note 4, due in March 2003, 0% interest until that date and 6% thereafter, secured by a mortgage on the land[1]	48,533
Total notes payable	$ 134,462

[1]This note was payable by CANAL VIEW APARTMENTS, L.P. and guaranteed by Area IV Development, Inc. The subsidiary was in default on the note at December 31, 2006. As discussed in Note 4, in 2007 seller took back the land in exchange for cancellation of the related debt and payment of accrued interest.

The Organizationôs subsidiaries are general partners in other entities created for the ownership of low and moderate-income multi-family housing complexes. The subsidiariesô ownership interests are less than one percent, and the Organization and its subsidiaries have guaranteed mortgages and other debts to the extent of those ownership interests. The maximum potential amount of future payments the Organization and its subsidiaries could be required to make on these guarantees is approximately $821,000. No loss has been recognized on these guarantees in the accompanying financial statements because management does not believe it is probable that a loss has occurred.

NOTE 7. RELATED ENTITY

The Organization is related through common management and purpose to AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC. (ñArea IV Agencyò), an Indiana nonprofit corporation exempt from income tax under Internal Revenue Code Section 501(c)(3), that administers programs to assist older adults and low-income persons. In addition, Area IV Agency appoints one-third of the Organizationôs Board of Directors and appoints the

Organizationés President, who must also be the Executive Director of Area IV Agency.

For the years ended December 31, 2007 and 2006, the Organization earned $45,673 and $38,778, respectively, in revenues from Area IV Agency for development services, of which $45,885 is included in grants receivable in the accompanying statement of financial position at December 31, 2007. For the years ended December 31, 2007 and 2006, the Organization incurred $41,889 and $64,288, respectively, in expenses, with Area IV Agency, of which $25,379 and $11,013 are reported as accounts payable - related entity in the accompanying statements of financial position at December 31, 2007 and 2006, respectively. In addition, at December 31, 2007 and 2006, the Organization owed $241,317 and $253,152, respectively, to Area IV Agency for non-interest bearing advances received.

NOTE 8. GOING CONCERN

At December 31, 2007, the Organization has a net asset deficit of $152,981, has a working capital deficit of $207,649, and owes a related entity $241,317 for advances. Managementés plans to alleviate the deficits and repay the advances include working to obtain additional sources of funds for its development projects and to develop additional properties from which it can earn fees. However, there can be no assurance that management will be successful in earning the potential development fees, and if it is not able to do so, or if the related entity is unwilling or unable of continuing to fund the advances, or both, the Organization may be unable to continue as a going concern.

NOTE 9. CONCENTRATIONS

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and grants and mortgage loans receivable. The Organization has cash on deposit with a financial institution that, at times, may exceed the insurance limit of the Federal Deposit Insurance Corporation. Cash and cash equivalents are maintained at high-quality financial institutions, and the Organization has not experienced any losses on such deposits. Grants receivable are due primarily from Area IV Agency, which represents a concentration of credit risk. The portfolio of home mortgage loans receivable, which have been granted to low-income families and are secured by real estate located in mid-northwestern Indiana, also represents a concentration of credit risk. In addition, the mortgage loans receivable, low-income housing projects discussed in Note 5 represents a concentration of credit risk.

All of the Organizationés programs and activities occur in mid-northwestern Indiana. Consequently, its sources of support and revenue may be affected by conditions in that area. In addition, for the years ended December 31, 2007 and 2006, approximately 59% and 64%, respectively, of total revenues were received, directly or indirectly, from state and federal governmental sources. Approximately 12% and 19% of total revenues for the year ended December 31, 2007 and 2006, respectively, were received from Area IV Agency; approximately 47% and 24% of total revenues for the years ended December 31, 2007 and 2006 were received from the City of Lafayette Housing Consortium; approximately 21% of total revenues for the year ended December 31, 2006 were received from Indiana Housing and Community Development Authority; and approximately 20% of total revenues for the year ended December

31, 2006 were received from Delphi Housing for Seniors, LP.

NOTE 10. CASH FLOWS INFORMATION

As discussed in Notes 4 and 6, in 2007 the Organization surrendered land to the seller in exchange for cancelation of the related debt of $48,533 in a non-cash investing and financing transaction.

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Grantorðs Agreement Number	Federal Expenditures
U. S. Department of Housing and Urban Development:			
Passed-Through Indiana Housing and Community Development Authority:			
HOME Investment Partnerships Program - Water Tower Place	14.239	CH-006-004	$ 495,000
Passed-Through Lafayette Housing Consortium:			
HOME Investment Partnerships Program -			
Norfolk Crossing	14.239	N/A	36,585
Owner Occupied Rehabilitation Program - Lafayette	14.239	N/A	148,063
Total U. S. Department of Housing and Urban Development			679,648
U. S. Department of Health and Human Services:			
Passed-through Indiana Housing and Community Development Authority:			
Passed-Through Area IV Agency and Community Action Programs, Inc.:			
Community Services Block Grant	93.569	N/A	45,673
Total expenditures of federal awards			$ 725,321

NOTE 1. BASIS OF PRESENTATION

The accompanying consolidated schedule of expenditures of federal awards includes the federal grant activities of AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES and is presented in conformity with accounting principles generally accepted in the United States of America. The information in the schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2. HOME INVESTMENT PARTNERSHIPS PROGRAM – WATER TOWER PLACE

The expenditures reported in the accompanying consolidated schedule of expenditures of federal awards as HOME Investment Partnerships Program ï Water Tower Place for $495,000 represents refundable advances used to make a loan to a low-income housing tax credit project with continuing compliance requirements until 2023.

NOTE 3. SUBRECIPIENTS

The Organization provided no federal awards to subrecipients during the year ended December 31, 2007.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES
Lafayette, Indiana

We have audited the consolidated financial statements of AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES (the ñOrganizationò) as of and for the year ended December 31, 2007, and have issued our report thereon dated September 29, 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 Organizationôs 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 an opinion on the effectiveness of the Organizationôs internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organizationôs 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 over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

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 entityôs 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 entityôs financial statements that is more than inconsequential will not be prevented or detected by the entityôs internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 07-1 through 07-6 to be significant deficiencies in internal control over financial reporting.

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 entityôs 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. However, of the significant deficiencies described above, we consider finding 07-6 to be a material weakness.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the Organizationøs 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 Organizationøs response to the findings identified in our audit is described in the accompanying auditeeøs response and corrective action plan. We did not audit the Organizationøs response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, the Indiana State Board of Accounts, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cullen & Associates, P.C.

September 29, 2008

CULLAR & ASSOCIATES, PC
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES
Lafayette, Indiana

Compliance

We have audited the compliance of AREA IV DEVELOPMENT, INC. AND SUBSIDIARIES (the ñOrganizationò) with the types of compliance requirements described in the U.S. Office of Management and Budget (ñOMBò) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The Organizationôs major federal programs are identified in the summary of auditorôs 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 Organizationôs management. Our responsibility is to express an opinion on the Organizationôs compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organizationôs 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 Organizationôs compliance with those requirements.

In our opinion, AREA IV DEVELOPMENT, INC. 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 December 31, 2007.

Internal Control over Compliance

The management of AREA IV DEVELOPMENT, INC. 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 Organizationôs 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 Organizationôs internal control over compliance.

Our consideration of the internal control over compliance 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 as defined below.

A *control deficiency* in an entityôs 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 entityôs 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 entityôs 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 not be prevented or detected by the entityôs internal control.

Our consideration of 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.

The Organizationôs response to the findings identified in our audit is described in the accompanying auditeeôs response and corrective action plan. We did not audit the Organizationôs response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, the Indiana State Board of Accounts, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cullen & Associates, P.C.

September 29, 2008

Section 1-Summary of Auditor's Results

Financial Statements Audit

Type of auditorôs report issuedC	Unqualified[1]
Internal control over financial reporting:	
CSignificant deficiencies identified?	Yes
CMaterial weaknesses identified?	Yes
Noncompliance material to financial statements noted?	No

[1]-A going concern explanatory paragraph is included in the auditorôs report.

Major Federal Awards Program Audit

Internal control over major programs:	
CSignificant deficiencies identified?	No
CMaterial weaknesses identified?	No
Type of auditorôs report issued on compliance for major programsC	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish between type A and type B programsC	$300,000
Auditee qualified as low-risk auditee?	No

Section 2 – Findings in Financial Statements Audit

SIGNIFICANT DEFICIENCIES

FINDING 07-1

Statement of Condition:

The Finance Department allowed program employees to handle cash receipts prior to the checks being restrictively endorsed and recorded in the daily cash receipts log.

Criteria:

OMB Circular A-110 Subpart C Section .21(b)(3) requires that a recipientôs financial management system provide ñé effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.ò

Effect of Condition:

Employees could steal unsolicited contribution checks with little risk of detection. Additionally, employees with access to billing records could steal checks and conceal the theft through entries to billings records.

Recommendation:

We recommend that management develop a two-person mail opening system. The two employees should jointly open all mail, restrictively endorse all checks, and log the checks into the daily cash receipts log. They should both sign the log to document the control. One of the employees should take the checks and a copy of the signed log to the employee responsible for deposits. The other employee should take a copy of the signed log to the Accountant who will later verify that the bank deposit receipt agrees to the signed daily cash receipts log.

FINDING 07-2

Statement of Condition:

The Finance Department could not locate the cancelled check bank records for two of the twelve months during the year. As a result, the Finance Department could not document that they reviewed cancelled checks for those months.

Criteria:

OMB Circular A-110 Subpart C Section .21(b)(3) requires that a recipientôs financial management system provide ñé effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.ò

Effect of Condition:

Managementô s timely review of cancelled checks each month is a key control to prevent forged check fraud. Management was not aware of the missing records until the records were requested and was unable to determine if the missing records were lost or never received. This indicates noncompliance with a key control procedure over cash and increases the risk of undetected forged checks.

Recommendation:

We recommend that management develop and maintain a control procedure checklist that is reviewed periodically to ensure that all key control procedures have been performed on a timely basis.

FINDING 07-3

Statement of Condition:

We noted that five of the twelve monthly bank statements for the year were missing a review signature and date.

Criteria:

OMB Circular A-110 requires the recipientô s financial management system to provide effective control and accountability for all funds. Basic financial management controls require a segregation of accounting duties to prevent any one person from being in the position to both commit and conceal errors.

Effect of Condition:

The Accountant maintains the general ledger, prepares checks, and reconciles the bank statements. Without management review of bank statements and the related cancelled checks, the Accountant is in the position to perpetrate and cover-up an error.

Recommendation:

We recommend management determine why procedures were not followed for each month and take steps to prevent a recurrence.

FINDING 07-4

Statement of Condition:

We noted that the Accountant did not post one audit adjusting journal entry from the prior year.

Criteria:

OMB Circular A-110 requires the recipientô s financial management system to provide accurate, current, and complete disclosure of financial results of each federally-sponsored project or program.

Effect of Condition:

Assets and net assets were both were overstated by $25,000 throughout the year.

Recommendation:

We recommend the Accountant verify that all audit journal entries are posted each year and reconcile the final general ledger to the audited financial statements.

FINDING 07-5

Statement of Condition:

We noted that the Accountant did not record accrued interest receivable on a loan.

Criteria:

OMB Circular A-110 requires the recipientǿs financial management system to provide accurate, current, and complete disclosure of financial results of each federally-sponsored project or program.

Effect of Condition:

Assets and revenue were both understated by approximately $30,000.

Recommendation:

We recommend the Accountant record accrued interest on loans in future periods.

MATERIAL WEAKNESS

FINDING 07-6

Condition:

As part of our audit, we proposed adjustments relating to complex accounting standards and drafted the Organizationǿs financial statements and related notes, which were reviewed and approved by management. This service is necessary, in our opinion, because management would be unable to completely comply with such standards or to prepare financial statements and related disclosures in accordance with U.S. generally accepted accounting principles because of limited resources (i.e., time and accounting reporting services). Although this service has historically been part of our audit function, new professional standards require that we now communicate this because, as the independent auditor, we are not considered to be part of the Organizationǿs internal control.

Criteria:

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded and that financial statements are complete, including related disclosures.

Effect:

The overall financial statements, including disclosures, would not be completely in accordance with U.S. generally accepted accounting principles without our assistance.

Recommendations:

We recommend that accounting staff take such training courses on nonprofit accounting principles as necessary to develop a sufficient understanding of those principles to either completely comply with U.S. generally accepted accounting principles or to be able to request assistance from another accounting firm when circumstances require.

Section 3 – Findings in Major Federal Awards Program Audit

There were no findings.

Financial Statement Findings

FINDING 06-1

Statement of Condition:

The Organization does not have a written accounting and financial policies and procedures manual.

Recommendation:

We recommend management develop and follow a written accounting and financial policies and procedures manual.

Current Status:

The recommendation was adopted. No similar finding was noted in the 2007 audit.

FINDING 06-2

Statement of Condition:

Community Services Block Grant revenue was not supported by claims or budget to actual comparison reports. Management paid pass-through grant funds from another commonly managed organization based only on internal financial statements.

Recommendation:

We recommend management prepare claim billings between the commonly managed entities in the same manner they would a third-party grantor.

Current Status:

The recommendation was adopted. No similar finding was noted in the 2007 audit.

FINDING 06-3

Statement of Condition:

We noted that five of the twelve monthly bank statements for the year were missing a review signature and date. Additionally, we noted that the last three monthly bank statement reconciliations for the year were missing a review signature and date.

Recommendations:

We recommend management determine why procedures were not followed for each month and take steps to prevent a recurrence.

Current Status:

The recommendation was not adopted. See finding 07-3 in the 2007 audit.

FINDING 06-4

Statement of Condition:

We noted that the Accountant did not post one audit adjusting journal entry from the prior year.

Recommendations:

We recommend the Accountant verify that all audit journal entries are posted each year and reconcile the final general ledger to the audited financial statements.

Current Status:

The recommendation was not adopted. See finding 07-4 in the 2007 audit.

FINDING 06-5

Statement of Condition:

A grant claim was posted to the wrong year.

Recommendations:

We recommend the Accountant post grant claims to the correct period.

Current Status:

The recommendation was adopted. No similar finding was noted in the 2007 audit.

Federal Award Findings

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Passed-Through Indiana Housing and Community Development Authority:
CFDA Number 14.293
Home Investment Partnerships Program

FINDING 06-6

Statement of Condition:

As discussed in Findings 06-1, 06-3, and 06-5 above, the Organization does not have written accounting and financial policies and procedures, had control deficiencies over cash, and posted a grant claim to the wrong year.

Recommendation:

See our recommendations above for these conditions.

Current Status:

See our current status evaluations as noted above for these conditions.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
Passed-Through Indiana Family and Social Services Administration:
CFDA Number 93.569
Community Services Block Grant

FINDING 06-7

Statement of Condition:

As discussed in Findings 06-1 and 06-2, the Organization does not have written accounting and financial policies and procedures and the grant revenue and expenses were not supported by actual claims billed to the related party grantor, although the underlying records did support the allowable costs. See our recommendations above for these conditions.

Recommendation:

See our recommendations above for these conditions.

Current Status:

See our current status evaluations as noted above for these conditions.

AREA IV DEVELOPMENT, INC.

Area IV Development Corp. respectfully submits the following response and corrective action plan for the year ended December 31, 2007.

Contact Information of Independent Public Accounting Firm:

Richard J. Cullar, CPA
Cullar & Associates, PC, Certified Public Accountants
209 North Main Street, Suite 200
South Bend, IN 46601
(574)-288-8320
RCullar@Cullar.com

Contact Information of Auditee:

Sharon Wood
President
PO Box 4727
Lafayette, IN 47903-4727
(800) 382-7556
swood@areaivagency.org

Finding 07-1

Area IV Development Corp. has developed and implemented a cash receipts control system where by all mail is opened and searched for checks which are restrictively endorsed by two people, logged on a daily cash receipts form which is copied and both sheets signed by them, with one copy taken with the restrictively endorsed checks to the employee responsible for deposits and the other copy taken to the accountant, who will later verify the bank deposit slips match the daily cash receipts log. Cash and check receipts arriving from other than the mail are recorded in a Numbered receipt book by the receptionist and placed through an opening in a locked box that can only be opened by the two people opening the mail in the morning for recording on the cash receipts form. A copy of the numbered receipt book is also checked against the cash receipt form by the two mail openers.

Finding 07-2

Area IV Development Corp. has set a check list to ensure that the CD showing all checks cleared in that bank statement are viewed by the Deputy Director, Resources & Operations or designee in a timely manner of receipt of the CD with the CD then being turned over to the accountant for safe keeping.

Finding 07-3

Area VI Development Corp. will institute a checklist monitored monthly by the Deputy Director, Resources & Operations to ensure that all bank statements have a review and signature date.

Finding 07-4

The Accountant will record all audit adjustments in a timely manner and the Deputy Director, Resources and Operations will review and sign off on the journal entries.

Finding 07-05

The Accountant will record accrued interest receivable in future periods as needed.

Finding 07-6

Area IV Development Corp., with respect to the new professional standards and new accounting rules, will undertake additional training courses on nonprofit accounting principles. Area IVõs accountant is in the middle of sitting for the CPA exams. The Deputy Director, Resources and Operations (fiscal director) has in the past 18 years attended 8-10 such courses from Howard Gesbeck and Gerry Zack to keep up with the changing rules and regulations. Area IV will continue to attend such courses and include other fiscal staff as necessary which apparently is necessary with the new professional standards and the necessity of ñincluding related disclosuresò to the complete financial statements. Presently, Area IV Development Corp. will continue to move toward drafting our own financial statements and related notes while minimizing (eliminating) any proposed adjustments for our external A-133 audit by our auditors.

President
Area IV Development Corporation