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February 15, 2010

Board of Directors  
Area IV Agency on Aging and  
Community Action Programs, Inc.  
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 Agency on Aging and Community Action Programs, Inc., 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 except for the effects of not providing an allowance for uncollectibles for advances to a related entity.

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. Pages 21 through 25 contain seven current audit findings. Pages 26 through 31 contain the status of ten prior audit findings. Management's corrective action plan is on pages 32 through 34.

STATE BOARD OF ACCOUNTS

*FINANCIAL AND COMPLIANCE REPORT*

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**

December 31, 2007 and 2006

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**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS  
AND SUPPORTING SCHEDULE**

To the Board of Directors  
AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.  
Lafayette, Indiana

We have audited the accompanying statements of financial position AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC. (the "Organization") as of December 31, 2007 and 2006, and the related statements of activities, functional expenses, 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 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.

The Organization has not provided an allowance for uncollectibles for advances to a related entity for which it is probable that a loss has occurred. Accounting principles generally accepted in the United States of America require that assets be written-down to estimated realizable value when it is probable that a loss has occurred. As discussed in Note 5 to the financial statements, at December 31, 2007 that entity had substantial net asset and working capital deficits, factors that, in our opinion, indicate a loss has occurred. If the advances were stated at estimated realizable value, assets and net assets at December 31, 2007 and 2006 would be decreased by \$241,317 and \$253,152, respectively, and the change in net assets for the years ended December 31, 2007 and 2006 would be increased by \$11,835 and \$43,973, respectively.

In our opinion, except for the effects of not providing an allowance for uncollectibles for advances to a related entity, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC. as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 2 to financial statements, in 2007 the Organization retroactively changed its overall basis of accounting from accounting practices prescribed by a funding source, which was not in conformity with accounting principles generally accepted in the United States of America, to accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008 on our consideration of the Organization'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 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 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 financial statements. Such information has been subjected to the auditing 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.

*Cullen & Associates, P.C.*

September 29, 2008

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2007 and 2006

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<b>Assets:</b>	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and cash equivalents	\$ 214,540	\$ 141,666
Prepaid expenses	58,699	-
Grants and fees receivable	794,587	938,622
Accounts receivable - related entity	<u>25,379</u>	<u>11,013</u>
<i>Total current assets</i>	<u>1,093,205</u>	<u>1,091,301</u>
 Long-Term Assets:		
Advances to related entity	241,317	253,152
Property and equipment	<u>99,001</u>	<u>115,130</u>
<i>Total long-term assets</i>	<u>340,318</u>	<u>368,282</u>
 <i>Total assets</i>	 <u>\$ 1,433,523</u>	 <u>\$ 1,459,583</u>
 <b>Liabilities and Net Assets:</b>		
Current Liabilities:		
Note payable, bank	\$ -	\$ 199,842
Accounts payable and accrued liabilities	817,802	886,088
Deferred revenue	<u>341,050</u>	<u>187,197</u>
<i>Total current liabilities</i>	<u>1,158,852</u>	<u>1,273,127</u>
 Net Assets:		
Unrestricted	274,671	179,661
Temporarily restricted	<u>-</u>	<u>6,795</u>
<i>Total net assets</i>	<u>274,671</u>	<u>186,456</u>
 <i>Total liabilities and net assets</i>	 <u>\$ 1,433,523</u>	 <u>\$ 1,459,583</u>

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

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years Ended December 31, 2007 and 2006

	2007			2006		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues, Gains, Other Support:</b>						
Government grants and fees	\$ 8,219,328	\$ -	\$ 8,219,328	\$ 7,723,801	\$ -	\$ 7,723,801
Program service revenue	83,020	79,746	162,766	70,641	61,696	132,337
Contributions - cash	8,688	9,777	18,465	10,825	11,918	22,743
Contributions - services and facilities	272,668	-	272,668	197,371	-	197,371
Special events	25,320	-	25,320	28,196	-	28,196
Interest income	7,170	-	7,170	5,523	-	5,523
Net assets released from restrictions	96,318	(96,318)	-	66,819	(66,819)	-
<i>Total revenues, gains, and other support</i>	<u>8,712,512</u>	<u>(6,795)</u>	<u>8,705,717</u>	<u>8,103,176</u>	<u>6,795</u>	<u>8,109,971</u>
<b>Expenses:</b>						
Area Agency on Aging	2,784,777	-	2,784,777	2,914,457	-	2,914,457
Energy Assistance	1,655,379	-	1,655,379	1,756,885	-	1,756,885
Weatherization	751,008	-	751,008	509,198	-	509,198
Housing	833,487	-	833,487	422,233	-	422,233
Case Management	481,053	-	481,053	454,268	-	454,268
Transportation	86,069	-	86,069	49,559	-	49,559
Head Start	1,334,859	-	1,334,859	1,260,286	-	1,260,286
Community Services	159,500	-	159,500	193,883	-	193,883
Management and general	531,370	-	531,370	522,169	-	522,169
<i>Total expenses</i>	<u>8,617,502</u>	<u>-</u>	<u>8,617,502</u>	<u>8,082,938</u>	<u>-</u>	<u>8,082,938</u>
<b>Change in net assets</b> (as restated for 2006)	95,010	(6,795)	88,215	20,238	6,795	27,033
Net assets, beginning of year (as restated for 2006)	179,661	6,795	186,456	159,423	-	159,423
<i>Net assets, end of year</i>	<u>\$ 274,671</u>	<u>\$ -</u>	<u>\$ 274,671</u>	<u>\$ 179,661</u>	<u>\$ 6,795</u>	<u>\$ 186,456</u>

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

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2007

	<u>Area Agency on Aging</u>	<u>Energy Assistance</u>	<u>Weather- ization</u>	<u>Housing</u>	<u>Case Management</u>	<u>Transpor- tation</u>	<u>Head Start</u>	<u>Community Services</u>	<u>Management and General</u>	<u>Total</u>
Personnel	\$ 577,755	\$ 115,723	\$ 153,352	\$ 78,693	\$ 372,180	\$ 36,448	\$ 821,489	\$ 109,193	\$ 433,561	\$ 2,698,394
Travel	37,350	2,840	109	1,031	20,032	935	10,299	7,327	1,000	80,923
Occupancy	53,786	17,823	6,075	4,885	25,330	2,015	117,205	5,280	24,210	256,609
Telephone	18,146	6,324	2,834	1,386	14,206	1,958	10,245	1,933	7,848	64,880
Postage	7,569	3,560	1,763	1,880	2,613	83	2,521	1,491	1,769	23,249
Office supplies	65,719	6,593	3,080	3,276	8,626	459	15,389	4,350	12,794	120,286
Program supplies	5,166	235	3,651	137	420	14	12,356	809	382	23,170
Food	590,895	-	(18)	48	-	-	59,731	22	-	650,678
Equipment leasing	7,405	3,054	1,079	377	6,304	156	5,259	671	3,568	27,873
Vehicle expenses	10,676	57	5,421	612	242	8,864	39,830	660	205	66,567
Training and education	13,578	770	761	167	2,208	363	10,641	1,288	1,678	31,454
Contracted services	23,487	5,019	3,043	47,441	12,562	780	4,668	2,659	12,558	112,217
Insurance	7,469	674	8,104	1,675	3,293	1,214	5,524	599	3,591	32,143
Professional fees	9,376	2,115	1,867	2,401	7,595	358	5,160	1,593	7,715	38,180
Dues and subscriptions	7,670	317	389	260	3,430	250	762	582	4,911	18,571
Equipment	-	-	6,000	-	-	-	960	-	-	6,960
Home energy improvements	-	-	549,379	-	-	-	100	11,179	-	560,658
Home energy assistance	-	1,488,441	-	-	-	-	-	1,788	-	1,490,229
Health care assistance and respite	1,048,749	-	-	-	-	-	-	-	-	1,048,749
Senior employment services	194,936	-	-	-	-	-	4,776	-	-	199,712
Other assistance	-	-	-	687,934	-	-	-	-	-	687,934
Interest	-	-	-	-	-	-	-	-	11,348	11,348
Contributed services and facilities	71,201	-	-	-	-	21,846	174,200	5,421	-	272,668
Depreciation	6,480	-	3,578	-	-	9,048	18,337	-	-	37,443
Other	27,364	1,834	541	1,284	2,012	1,278	15,407	2,655	4,232	56,607
<i>Totals</i>	<u>\$ 2,784,777</u>	<u>\$ 1,655,379</u>	<u>\$ 751,008</u>	<u>\$ 833,487</u>	<u>\$ 481,053</u>	<u>\$ 86,069</u>	<u>\$ 1,334,859</u>	<u>\$ 159,500</u>	<u>\$ 531,370</u>	<u>\$ 8,617,502</u>

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

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2006

	<u>Area Agency on Aging</u>	<u>Energy Assistance</u>	<u>Weather- ization</u>	<u>Housing</u>	<u>Case Management</u>	<u>Transpor- tation</u>	<u>Head Start</u>	<u>Community Services</u>	<u>Management and General</u>	<u>Total</u>
Personnel	\$ 655,408	\$ 133,968	\$ 116,308	\$ 70,373	\$ 346,882	\$ 27,659	\$ 798,393	\$ 133,151	\$ 417,158	\$ 2,699,300
Travel	26,602	4,318	175	90	20,550	710	12,908	4,510	647	70,510
Occupancy	46,128	17,119	5,799	933	22,703	1,973	75,538	11,730	23,782	205,705
Telephone	16,841	5,639	2,695	126	12,682	1,387	9,977	3,293	7,043	59,683
Postage	7,626	2,779	547	1,605	3,500	215	2,448	1,964	1,320	22,004
Office supplies	26,281	5,269	1,949	393	6,497	333	16,650	3,692	7,322	68,386
Program supplies	1,646	-	828	-	-	-	10,934	-	-	13,408
Food	514,305	3	26	4	-	1	68,770	4	-	583,113
Equipment leasing	8,978	3,959	1,267	16	7,764	204	6,235	1,643	4,264	34,330
Vehicle expenses	3,434	81	6,455	299	117	4,517	27,882	468	(35)	43,218
Training and education	8,437	962	546	205	2,905	86	11,967	1,465	2,565	29,138
Contracted services	27,416	5,387	3,301	38,778	11,946	788	12,361	5,843	13,993	119,813
Insurance	11,053	1,777	8,313	2,324	5,566	1,056	6,651	2,076	6,423	45,239
Professional fees	9,598	2,097	1,975	-	7,898	373	1,006	3,162	7,824	33,933
Dues and subscriptions	6,264	209	154	5	3,903	240	737	3,637	3,763	18,912
Home energy improvements	1,375	-	356,774	-	-	-	-	6,878	-	365,027
Home energy assistance	-	1,572,720	-	-	-	-	-	2,793	-	1,575,513
Health care assistance and respite	1,310,110	-	-	-	-	-	-	-	-	1,310,110
Rent assistance	-	-	-	306,654	-	-	-	-	-	306,654
Other assistance	192,300	-	-	-	-	-	5,891	-	-	198,191
Interest	-	-	-	-	-	-	-	-	6,855	6,855
Contributed services and facilities	19,706	-	-	-	-	480	155,979	4,490	16,716	197,371
Depreciation	6,480	-	1,804	-	-	9,048	18,337	-	-	35,669
Other	14,469	598	282	428	1,355	489	17,622	3,084	2,529	40,856
<i>Totals</i>	<u>\$2,914,457</u>	<u>\$1,756,885</u>	<u>\$ 509,198</u>	<u>\$ 422,233</u>	<u>\$ 454,268</u>	<u>\$ 49,559</u>	<u>\$1,260,286</u>	<u>\$ 193,883</u>	<u>\$ 522,169</u>	<u>\$ 8,082,938</u>

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

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**

**STATEMENTS OF CASH FLOWS**

Year Ended December 31, 2007 and 2006

<b>Change in Cash and Cash Equivalents:</b>	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 88,215	\$ 27,033
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	37,443	35,669
Changes in assets and liabilities:		
Prepaid expenses	(58,699)	-
Grants and fees receivable	144,035	(232,212)
Accounts receivable - related entity	(14,366)	(11,013)
Advances to related entity	11,835	43,973
Accounts payable and accrued liabilities	(68,286)	(40,835)
Deferred revenue	153,853	26,251
<i>Net cash provided by (used in) operating activities</i>	<u>294,030</u>	<u>(151,134)</u>
 Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(21,314)</u>	<u>-</u>
 Cash Flows from Financing Activities:		
Net borrowings (payments) on note payable, bank	<u>(199,842)</u>	<u>199,842</u>
 <b>Net change in cash and cash equivalents</b>	<b>72,874</b>	<b>48,708</b>
Cash and cash equivalents, beginning of year	<u>141,666</u>	<u>92,958</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 214,540</u>	<u>\$ 141,666</u>

*Supplemental Disclosures of Cash Flows Information:*

Cash paid for interest	<u>\$ 11,348</u>	<u>\$ 6,855</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

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

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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**NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC. (the "Organization") is an Indiana nonprofit corporation administering programs that assist older adults and low-income persons. Its operations are supported primarily by grants from, and contracts with, government agencies.

**Significant Accounting Policies:**

As discussed in Note 2, the Organization retroactively changed its overall basis of accounting in 2007 from accounting practices prescribed by a funding source, which was not in conformity with accounting principles generally accepted in the United States of America, to accounting principles generally accepted in the United States of America

*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 losses for advances to a related entity is a material estimate that is particularly susceptible to change in the near term. As discussed in Note 5, the collectibility of those advances is largely dependent upon that entity's ability to complete and obtain investor financing for one or more of its real estate projects in the development stage, or to generate fees from other development projects, or both. While management uses available information to recognize losses on the advances, future write-downs may be necessary based on changes in economic conditions, government funding or tax policies, or other circumstances related to the entity's operations.

The costs of providing the programs and supporting service have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and the supporting service benefited based on management's best estimates.

Other significant accounting policies are as follows:

*Net asset classes:*

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 statements of activities as net assets released from restrictions.

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2007 and 2006

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*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.

*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 statements of activities as net assets released from restrictions.

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. Unearned amounts received on conditional promises are reported as deferred revenue in the statements of financial position.

*Fees for services:*

Fees for services are recognized as revenue when the services are substantially performed. Fees received in advance of substantial performance are reported as deferred revenue in the statements of financial position.

*Contributed services and facilities:*

Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such services are recorded at their estimated fair market value. The Organization also uses certain facilities for its Head Start program without charge or at reduced charge, and the difference between the fair value for the use of these facilities and the cost are recorded as revenue and expense. Total contributed services and facilities recognized in these financial statements are \$272,668 and \$197,371 for the years ended December 31, 2007 and 2006, respectively. In addition, for the years ended December 31, 2007 and 2006, the Organization received approximately \$168,000 and \$192,000 of contributed services that did not meet the criteria to be recognized in the financial statements.

*Property and equipment:*

Property and equipment is stated at cost, if acquired or at fair market at the date of receipt, if donated. Depreciation is recorded by the straight-line method over the estimated useful lives of the assets, generally 5 years for program equipment and light vehicles and 7 years for heavy vehicles.

AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

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*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. CORRECTION OF ERROR IN PRIOR PERIOD FINANCIAL STATEMENTS**

In 2007, the Organization retroactively changed its overall basis of accounting from accounting practices prescribed by a funding source, which was not in conformity with accounting principles generally accepted in the United States of America, to accounting principles generally accepted in the United States of America. The change has been reported as a correction of an error by restating the 2006 financial statements. The effects of the restatement were to increase net assets at the beginning of 2006 by \$83,407; decrease total revenues by \$192,131, decrease total expenses by \$162,843, and decrease the change in net assets by \$29,288, for the year ended December 31, 2006; and to increase property equipment by \$115,130, increase accounts payable and accrued liabilities by \$61,011, and increase unrestricted and total net assets by \$54,119, at December 31, 2006.

**NOTE 3. GRANTS AND FEES RECEIVABLE**

Grants and fees receivable at both December 31, 2007 and 2006 consist primarily of reimbursements due under government contracts and cost-reimbursement grants. All amounts are due within one year, and no allowance for uncollectibles is considered necessary.

At December 31, 2007, the Organization had received approximately \$4,500,000 of conditional promises to give in excess of allowable costs incurred under cost-reimbursement grants. Such promises will be recognized as revenue if and when allowable costs are incurred.

**NOTE 4. PROPERTY AND EQUIPMENT**

The cost of property and equipment and the related accumulated depreciation are as follows at December 31, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Vehicles	\$ 493,824	\$ 472,510
Program equipment	<u>9,025</u>	<u>9,025</u>
	502,849	481,535
Less accumulated depreciation	<u>(403,848)</u>	<u>(366,405)</u>
<i>Net property and equipment</i>	<u>\$ 99,001</u>	<u>\$ 115,130</u>

All of the Organization's property and equipment has been purchased with governmental grant funds. Disposition of these assets, as well as the ownership of any sales proceeds is subject to funding source and other regulatory directives. Because management expects such assets to be

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2007 and 2006

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used in accordance with the funding sources directives, the cost of the assets is recorded as an asset when they are acquired.

**NOTE 5. RELATED ENTITY**

The Organization is related through common management and purpose to AREA IV DEVELOPMENT, INC. (Area IV Development), an Indiana nonprofit corporation exempt from income tax under Internal Revenue Code Section 501(c)(3). Under Area IV Development's bylaws, the Organization appoints both one-third of Area IV Development's Board of Directors and its President, who must also be the Organization's Executive Director. Area IV Development provides affordable housing projects that benefit low and moderate-income persons, older adults, disabled, and homeless persons.

At December 31, 2007 and 2006, the Organization was owed \$241,317 and \$253,152, respectively, from Area IV Development for advances made to it for real estate development costs and operating expenses. At December 31, 2007, Area IV Development has a net asset deficiency of approximately \$153,000 and a working capital deficiency of approximately \$207,000. In management's opinion, the advances are ultimately collectible because of ongoing and future expected real estate projects and additional grants; consequently, the accompanying financial statements do not include any allowance for uncollectibles for these advances. However, because management does not expect collection within the next year, the advances are classified as a long-term asset in the accompanying statements of financial position. Although management believes that the Organization will ultimately be able to collect the advances made to Area IV Development, this will be dependent on the ability of Area IV Development to complete and obtain investor financing for one or more real estate projects currently in the development stage, or to generate fees or other income from other development projects, or both, and there can be no assurance that this will occur.

For the years ended December 31, 2007 and 2006, the Organization subcontracted \$45,673 and \$38,778, respectively, of services with Area IV Development that are included in contracted services in the accompanying statements of functional expenses. At December 31, 2007, the Organization owed Area IV Development \$45,885 for these services. Included in revenues for the years ended December 31, 2007 and 2006 are \$41,889 and \$64,288, respectively, for shared personnel and administrative services with Area IV Development. At December 31, 2007 and 2006, the Organization was owed \$25,379 and \$11,013, respectively, for these services.

**NOTE 6. NOTE PAYABLE, BANK**

The note payable, bank, with a balance of none and \$199,842 at December 31, 2007 and 2006 respectively, represents borrowings on a \$250,000 bank line of credit, bearing interest at bank prime (7.25% at December 31, 2007). The line is secured by deposit accounts.

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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**NOTE 7. NET ASSETS**

Temporarily restricted net assets at December 31, 2006 were restricted for certain improvements to the Organization's offices. Net assets were released from restrictions by incurring expenses satisfying restricted purposes as follows for the years ended December 31, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Energy assistance and weatherization	\$ 49,931	\$ 37,844
Area Agency on Aging	26,502	6,758
Case management	9,128	14,415
Head Start	2,549	6,233
Housing	1,413	369
Office improvements	6,795	-
Transportation	-	1,200
<i>Total net assets released</i>	<u>\$ 96,318</u>	<u>\$ 66,819</u>

**NOTE 8. LEASE INFORMATION**

The Organization leases facilities and equipment under operating leases expiring in various years through 2010. Minimum future rental payments under non-cancelable operating leases as of December 31, 2007 for each of the next three years and in the aggregate are as follows:

2008	\$ 69,012
2009	18,929
2010	<u>3,670</u>
<i>Total minimum future rental payments</i>	<u>\$ 91,611</u>

Total rent expense was \$190,865 and \$195,489 for the years ended December 31, 2007 and 2006, respectively.

**NOTE 9. PENSION PLAN**

The Organization maintains a defined-contribution pension plan covering substantially all its employees after two years of service. For eligible employees enrolled in the plan after June 1999, the Organization contributes 3% of compensation; for eligible employees enrolled in the plan before July 1999, the Organization contributes 3% of compensation for employees earning more than \$26,000 in annual compensation and \$15 per week for employees earning less than \$26,000 in annual compensation. Pension expense was \$42,781 and \$39,450 for the years ending December 31, 2007 and 2006, respectively.

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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**NOTE 10. CONCENTRATIONS**

All of the Organization's programs and activities occur in mid-northwestern Indiana. Consequently, its sources of support and revenue may be affected by conditions in that area. Revenues from state and governmental sources were approximately 87% and 92% for the years ended December 31, 2007 and 2006, respectively. In addition, for the years ended December 31, 2007 and 2006, approximately 36% and 55%, respectively, of total revenues were received from Indiana Family and Social Services Administration; approximately 36% and 23%, respectively, of total revenues were received from Indiana Housing and Community Development Authority; and approximately 12% and 13%, respectively, of total revenues were received from U.S. Department of Health and Human Services for the Head Start program.

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and grants and fees 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. At December 31, 2007, the Organization had cash on deposit with one financial institution that exceeded the federal insurance limit by approximately \$544,000. The financial institution provided FHLMC securities as collateral to cover the uninsured balances. The Grants and fees receivable are due primarily from agencies of the State of Indiana, which represents a concentrations of credit risk.

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract or Agreement Numbers</u>	<u>Federal Expenditures</u>
<i>United States Department of Agriculture:</i>			
Passed-Through Indiana Department of Education: Child and Adult Care Food Program	10.558	(07) 1790160 & (06) 1790160	<u>\$ 68,781</u>
<i>United States Department of Housing and Urban Development:</i>			
Passed-through Indiana Housing and Community Development Authority: HOME - Investment Partnerships Program	14.239	DO-007-003, OR-006-003, & IH-006-003	170,653
Lower Income Housing Assistance Program - Section 8	14.856	SH-006-015	<u>777,871</u>
<i>Total United States Department of Housing and Urban Development</i>			<u>948,524</u>
<i>United States Department of Transportation:</i>			
Passed-through Indiana Department of Transportation: Federal Transits Formula Grants	20.507	18023180	<u>51,730</u>
<i>United States Department of Energy:</i>			
Passed-through Indiana Housing and Community Development Authority: Weatherization Assistance for Low-Income Persons	81.042	WX-006-003	<u>254,569</u>
<i>United States Department of Health and Human Services:</i>			
Head Start	93.600	05CH4045/17	1,087,386
Passed-through Vincennes University from Indiana Department of Health: Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283		3,529
Passed-through Indiana Family and Social Services Administration: Title VII - Long-Term Care Ombudsman Services	93.042	79-08-OV-1541-03 & 79-06-OV-1541-13	15,886
Title IIID - Disease Prevention and Health Promotion Aging Cluster:	93.043	79-06-OV-1541-10 & 79-08-OV-1541-9	21,272
Title IIIB - Grants for Supportive Services and Senior Centers	93.044	79-08-OV-1541-02 & 79-06-OV-1541-01	92,984
Title IIIB - Grants for Supportive Services and Senior Centers	93.044	79-06-OV-1541-04 & 79-08-OV-1541-03	276,044
Title IIIC - Nutrition Services	93.045	79-06-OV-1541-08, 79-08-OV-1541-07, 79-06-OV-1541-06 & 79-08-OV-1541-05	<u>460,451</u>
<i>Total aging cluster</i>			<u>829,479</u>
Title II and Title IV - Discretionary Projects	93.048	79-06-02-1541-02 & 79-08-02-1541-01	130,287
National Family Caregiver Support	93.052	79-06-OV-1541-12 & 79-08-OV-1541-11	113,827
Social Services Block Grant	93.667	79-06-OC-1541-02 & 79-08-OC-1541-01	307,076
Medical Assistance Program	93.778	79-06-70-1541-02 & 79-08-70-1541-01	182,734
Passed-through Indiana Housing and Community Development Authority: Low-Income Home Energy Assistance	93.568	WL-007-003-YR-1	303,546
Low-Income Home Energy Assistance	93.568	WL-007-003-YR-1	44,698
Low-Income Home Energy Assistance	93.568	LI-007-003 YR1 & LI-007-003 YR2	1,668,341
Community Services Block Grant	93.569	CD-006-003	<u>302,973</u>
<i>Total United States Department of Health and Human Services</i>			<u>5,011,034</u>
<i>United States Department of Homeland Security:</i>			
Passed-Through Emergency Food and Shelter National Board: Emergency Food and Shelter National Board Program	97.024	n/a	<u>27,551</u>
<i>Totals</i>			<u>\$ 6,362,189</u>

The accompanying notes are an integral part of this schedule.

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2007

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**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activities of AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC., 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. SUBRECIPIENTS**

The Organization provided federal awards to subrecipients under the following programs during the year ended December 31, 2007:

Title VII ó Long-Term Care Ombudsman Services, CFDA #93.042	\$ 15,886
Title IIID ó Disease Prevention and Health Promotion, CFDA #93.043	13,275
Title IIIB ó Grants for Supportive Services and Senior Centers, CFDA #93.044	155,872
Title IIIC ó Nutrition Services, CFDA #93.045	460,451
Community Services Block Grant, CFDA #93.569	<u>45,673</u>
<i>Total</i>	<u>\$ 691,157</u>



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

To the Board of Directors  
AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.  
Lafayette, Indiana

We have audited the financial statements of AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC. (the “Organization”) 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 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 an 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 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.

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 entity’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 entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 07-1 through 07-5 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 entity’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 material weaknesses. However, of the significant deficiencies described above, we consider finding 07-5 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is identified in the accompanying schedule of findings and questioned costs as finding 07-6.

The Organization's response to the findings identified in our audit is described in the accompanying auditee's response and corrective action plan. 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 management, the Board of Directors, others within the Organization, the Indiana State Board of Accounts, 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. However, this report is a matter of public record and its distribution is not limited.

*Cullen & Associates, P.C.*

September 29, 2008



**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 AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.  
Lafayette, Indiana

**Compliance**

We have audited the compliance of AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC. (the "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 December 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, *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 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, AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is identified in the accompanying schedule of findings and questioned costs as finding 07-7.

**Internal Control over Compliance**

The management of AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, 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 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.

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 the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 07-7 to be a significant deficiency.

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 entity's internal control. We do not consider the deficiency described in the accompanying schedule of questioned costs to be a material weakness.

The Organization's response to the findings identified in our audit is described in the accompanying auditee's response and corrective action plan. 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 management, the Board of Directors, others within the Organization, the Indiana State Board of Accounts, 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. However, this report is a matter of public record and its distribution is not limited.

*Cullen & Associates, P.C.*

September 29, 2008

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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**Section 1-Summary of Auditor's Results**

*Financial Statements Audit*

Type of auditor's report issued	Qualified
Internal control over financial reporting:	
Significant deficiencies identified?	Yes
Material weaknesses identified?	Yes
Noncompliance material to financial statements noted?	No

*Major Federal Awards Program Audit*

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

*Identification of Major Programs*

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.856	Lower Income Housing Assistance Program ó Section 8
93.600	Head Start
93.044 and 93.045	Aging Cluster - Title IIIB ó Grants for Supportive Services, and Title IIIC ó Nutrition Services
93.568	Low-Income Home Energy Assistance
93.569	Community Services Block Grant
93.667	Social Services Block Grant
Dollar threshold used to distinguish between type A and type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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**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 recipient's financial management system provide "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."

*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 recipient's financial management system provide "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."

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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*Effect of Condition:*

Management'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:*

The Fiscal Department paid invoices that were not approved by a program or department director prior to payment. Due to time constraints, the Accounts Payable Clerk periodically enters invoices into the accounting system without obtaining signed approval by a program or department director. Check signers later signed checks for these unauthorized invoices.

*Criteria:*

OMB Circular A-110 Subpart C Section .21(b)(3) requires that a recipient's financial management system provide "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."

*Effect of Condition:*

Check signers review invoices for propriety, but they do not have the necessary program knowledge to be the sole authorization for disbursements. Invoices paid without program or department director review are more likely to be incorrect or unallowable.

*Recommendations:*

We recommend that the program or department directors review and authorize all invoices related to their departments. Management should instruct check signers not to sign checks for unapproved invoices.

FINDING 07-4

*Statement of Condition:*

The Organization maintains a separate payroll checking account for direct deposit payroll, and the Fiscal Department did not follow control procedures for this account during the year. The Director did not open and review the bank statements for propriety, the Accountant did not reconcile the bank statements, and the Grants Manager did not use a restrictive bank stamp with an account number for deposits to the account.

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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*Criteria:*

OMB Circular A-110 Subpart C Section .21(b)(3) requires that a recipient's financial management system provide "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."

*Effect of Condition:*

Management's review of unopened bank statements, monthly bank statement reconciliations, and use of a bank stamp for deposits are important controls preventing fraud and embezzlement. The lack of controls over this account increase the risk that fraud or embezzlements would be undetected.

*Recommendations:*

We recommend that the Fiscal Department follow the same control procedures over the payroll checking account that they maintain over the general checking account.

**MATERIAL WEAKNESS**

*FINDING 07-5*

*Condition:*

As part of our audit, we proposed adjustments relating to complex accounting standards and drafted the Organization's 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 Organization's 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

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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with U.S. generally accepted accounting principles or to be able to request assistance from another accounting firm when circumstances require.

NONCOMPLIANCE

FINDING 07-6

*Statement of Condition:*

As discussed further in finding 07-7, the Organization cannot document compliance with the quality control requirement of the Low-Income Home Energy Assistance program that 20% of client files be reviewed for proper documentation.

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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**Section 3 – Findings in Major Federal Awards Program Audit**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**  
**Passed-Through Indiana Family and Social Services Administration and**  
**Indiana Housing and Community Development Authority**  
**CFDA Number 93.568**  
**Low-Income Energy Assistance**

QUESTIONED  
COSTS

FINDING 07-7

*Statement of Condition:*

There are no procedures in place to document compliance with the quality control requirement that 20% of all client files be reviewed for proper documentation, and there is no documentation that this quality review requirement was complied with.

*Criteria:*

The Energy Assistance Program requires that the contractor perform a quality control review of 20% of client files.

*Effect of Condition:*

The Organization cannot document that it complied with the quality review requirement.

*Recommendations:*

We recommend that management develop a procedure to document the quality control review of Energy Assistance Program client files.

None

*Total questioned costs*

None

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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**Financial Statement Findings**

FINDING 06-1

*Statement of Condition:*

Approximately \$187,000 of accounts payable were recorded in the incorrect period. Most of the invoices were Energy Assistance payments to utility companies.

*Recommendation:*

We recommend management review policies for recording Energy Assistance invoices and design procedures to assure the invoices are posted to the correct period.

*Current Status:*

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

FINDING 06-2

*Statement of Condition:*

General ledger balances for deferred revenue at December 31, 2006 did not reconcile to the subsidiary journal.

*Recommendation:*

We recommend the Accountant reconcile all subsidiary journals and related schedules to the general ledger each month.

*Current Status:*

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

FINDING 06-3

*Statement of Condition:*

As noted in prior years, the Organization has advanced an accumulated \$264,165 to a related entity. Although reduced from the prior year, the cumulative advances still exceed the Organization's unrestricted and total net assets. Consequently, the Organization has funded the related entity advance with grantor advance and accounts payable and accrued expenses.

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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*Recommendations:*

We recommend that the Board adopt a policy prohibiting lending funds in excess of unrestricted net assets. Further, we recommend management take steps to repay the advance as soon as possible.

*Current Status:*

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

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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**Federal Award Findings**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
**Passed-Through Indiana Family & Social Services Administration and**  
**Indiana Housing and Community Development Authority**  
**CFDA Number 14.856**  
**Lower Income Housing Assistance-Section 8**

**FINDING 06-4**

*Statement of Condition:*

As discussed in Findings 06-1 through 06-3 above, the Organization's accounts payable balance was understated by approximately \$187,000; general ledger balances of deferred revenue are not reconciled to subsidiary journals; and the Organization has made advances to a related entity that exceed the Organization's unrestricted net assets. See our recommendations above for these conditions.

*Recommendation:*

See our recommendations above for these conditions.

*Current Status:*

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

**U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES**  
**Passed-Through Indiana Family & Social Services Administration**  
**CFDA Number 93.044**  
**Titles III and IIIB – Supportive Services**

**FINDING 06-5**

*Statement of Condition:*

As discussed in Findings 06-1 through 06-3 above, the Organization's accounts payable balance was understated by approximately \$187,000; general ledger balances of deferred revenue are not reconciled to subsidiary journals; and the Organization has made advances to a related entity that exceed the Organization's unrestricted net assets. See our recommendations above for these conditions.

*Recommendation:*

See our recommendations above for these conditions.

*Current Status:*

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

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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**U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES**  
**Passed-Through Indiana Family & Social Services Administration**  
**CFDA Number 93.045**  
**Title III, Part C – Nutrition Services**

*FINDING 06-6*

*Statement of Condition:*

As discussed in Findings 06-1 through 06-3 above, the Organization's accounts payable balance was understated by approximately \$187,000; general ledger balances of deferred revenue are not reconciled to subsidiary journals; and the Organization has made advances to a related entity that exceed the Organization's unrestricted net assets. See our recommendations above for these conditions.

*Recommendation:*

See our recommendations above for these conditions.

*Current Status:*

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

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**  
**Passed-Through Indiana Family & Social Services Administration**  
**CFDA Number 93.568**  
**Energy Assistance Program**  
**Low Income Energy Assistance Program**  
**State Weatherization Efficiency Program**

*FINDING 06-7*

*Statement of Condition:*

As discussed in Findings 06-1 through 06-3 above, the Organization's accounts payable balance was understated by approximately \$187,000; general ledger balances of deferred revenue are not reconciled to subsidiary journals; and the Organization has made advances to a related entity that exceed the Organization's unrestricted net assets. See our recommendations above for these conditions.

*Recommendation:*

See our recommendations above for these conditions.

*Current Status:*

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

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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**U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES**  
**CFDA Number 93.569**  
**Community Services Block Grant**

FINDING 06-8

*Statement of Condition:*

As discussed in Findings 06-1 through 06-3 above, the Organization's accounts payable balance was understated by approximately \$187,000; general ledger balances of deferred revenue are not reconciled to subsidiary journals; and the Organization has made advances to a related entity that exceed the Organization's unrestricted net assets. See our recommendations above for these conditions.

*Recommendation:*

See our recommendations above for these conditions.

*Current Status:*

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

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**  
**CFDA Number 93.600**  
**Head Start**

FINDING 06-9

*Statement of Condition:*

As discussed in Findings 06-1 through 06-3 above, the Organization's accounts payable balance was understated by approximately \$187,000; general ledger balances of deferred revenue are not reconciled to subsidiary journals; and the Organization has made advances to a related entity that exceed the Organization's unrestricted net assets. See our recommendations above for these conditions.

*Recommendation:*

See our recommendations above for these conditions.

*Current Status:*

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

**AREA IV AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**  
**Passed-Through Indiana Family & Social Services Administration**  
**CFDA Number 93.667**  
**Social Services Block Grant**

*FINDING 06-10*

*Statement of Condition:*

As discussed in Findings 06-1 through 06-3 above, the Organization's accounts payable balance was understated by approximately \$187,000; general ledger balances of deferred revenue are not reconciled to subsidiary journals; and the Organization has made advances to a related entity that exceed the Organization's unrestricted net assets. See our recommendations above for these conditions.

*Recommendation:*

See our recommendations above for these conditions.

*Current Status:*

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



## AREA IV

AGENCY ON AGING AND COMMUNITY ACTION PROGRAMS, INC.

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Serving Benton, Carroll, Clinton, Fountain, Montgomery, Tippecanoe, Warren and White Counties

Area IV Agency on Aging and Community Action Programs, Inc. 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](mailto:RCullar@Cullar.com)

Contact Information of Auditee:

Sharon Wood  
Executive Director  
PO Box 4727  
Lafayette, IN 47903-4727  
(800) 382-7556  
[swood@areaivagency.org](mailto:swood@areaivagency.org)

Finding 07-1

Area IV Agency has already 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 Agency 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.

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660 NORTH 36TH STREET P.O. BOX 4727 LAFAYETTE, INDIANA 47903-4727  
765-447-7683 1-800-382-7556 FAX 765-447-6862



#### Finding 07-3

Area IV historically has determined that the Check Signer has the final accountability for effective control for funds, property and other assets by signing or not signing the check for operations expenses. Program or Direct vendor/client specific expenses (Energy Assistance payments, Home Health services, Home Weatherization costs, etc) will continue to be approved by the program managers/directors before being submitted to the fiscal department for payment.

Area IV Agency has now instituted a procedure whereby the Deputy Director, Aging & In-Home Services signs off on (approves for payment) aging operations invoices prior to payment of the invoices if it pertains to one of their specific programs, The Executive Director signs off on (approves for payment) the Community Action side of the Agency (which includes Head Start) operations invoices prior to payment of the invoices if it pertains to one of their specific programs. The Deputy Director, Resources & Operations signs off on (approves for payment ) general or contracted agency wide expenses such as Rents, general office supplies, leases/contracts, liability insurance, etc. Program vendor/client specific expenses (Energy Assistance payments, home health services, home weatherization costs, etc) will continue to be approved by the program managers/directors before being submitted to the fiscal department for payment.

#### Finding 07-4

The Fiscal Department will follow the same control procedures for the Payroll checking account that we maintain for the general checking account.

#### Finding 07-05

Area IV Agency, with respect to the new professional standards and new accounting rules, will undertake additional training courses on nonprofit accounting principles. Area IV Agency has a CPA on its Board of Directors and Finance Committee. The Deputy Director, Resources and Operations (fiscal director) along with additional staff have 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. Nonetheless Area IV will continue to attend such courses and include other fiscal staff in keeping with the new professional standards and the necessity of including related disclosures to the complete financial statements. Presently Area IV's accountant is in the middle of sitting for the CPA exams. Area IV agency 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.

#### Finding 07-6

Area IV Agency's Program Coordinator for the Low-Income Home Energy Assistance program became incapacitated due to a serious accident and her assistant became acting coordinator entrusted to perform this function as part of the duties. He was later released from employment for other reasons. He left no record of documentation showing compliance with the quality control requirement even though verbally stating it was being completed. See finding 07-7 for our corrective action plan procedure.

Finding 07-7

Area IV's procedure to document and ensure the quality control review of energy assistance client files is as follows:

Each application taken is entered into RIAA (the state program) and a checklist cover sheet showing a QA review as one of the potential procedures is attached. This existing checklist was part of the previous process though we now have an additional computerized procedure of recording the QA review allowing cross-checking for proof of compliance. A report from RIAA gives the # of Applications entered and a calculation for the minimum number of reviews needed. When the review is completed, the check list attached to the application is signed, the QA review action note is marked in RIAA, a QA corrective action note if necessary, and a QA re-check note if necessary. A tracking report from RIAA is created and printed showing which client files have been QA'd, which is then reviewed by the Executive Director or their designee.

A handwritten signature in black ink that reads "Sham Wood". The signature is written in a cursive, flowing style.

Executive Director,  
Area IV Agency on Aging &  
Community Action Programs, Inc.