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January 13, 2011

Board of Directors
Lincoln Hills Development Corporation
and Subsidiaries
P.O. Box 336
Tell City, IN 47586

We have reviewed the audit report prepared by McCauley, Nicolas & Company, LLC, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. 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 Lincoln Hills Development Corporation and Subsidiaries, as of December 31, 2008, 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.

STATE BOARD OF ACCOUNTS

**LINCOLN HILLS DEVELOPMENT CORPORATION
AND SUBSIDIARIES
Tell City, Indiana**

AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Lincoln Hills Development Corporation and Subsidiaries (a non-profit organization) (collectively, "the Entities") as of December 31, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Entities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Entities as of December 31, 2008, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2009, on our consideration of the Entities' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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MEMBER

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Board of Directors
Lincoln Hills Development Corporation and Subsidiaries
Page 2

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements of the Entities taken as a whole. The Recap Schedule of Functional Expenses on pages 16 through 29 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of the Entities. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
August 24, 2009

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

Tell City, Indiana

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2008

ASSETS

CURRENT ASSETS	
Cash	\$ 408,400
Cash - bond reserve fund	66,609
Accounts receivable - trade	7,654
Accounts receivable - grants	689,642
Note receivable - other, current portion	6,000
Notes receivable - related parties, current portion	37,301
Other current assets	<u>163,464</u>
TOTAL CURRENT ASSETS	<u>1,379,070</u>
PROPERTY AND EQUIPMENT	
Land and improvements	890,232
Rental units	284,387
Buildings and improvements	7,188,102
Equipment	<u>1,859,216</u>
	10,221,937
Less accumulated depreciation	<u>(6,365,615)</u>
PROPERTY AND EQUIPMENT, NET	<u>3,856,322</u>
OTHER ASSETS	
Note receivable - other, less current portion	5,500
Notes receivable - related parties, less current portion	156,506
Due from related parties	115,000
Financing cost, net	110,393
Investments - related parties	1,298,126
Other assets	<u>2,876,054</u>
TOTAL OTHER ASSETS	<u>4,561,579</u>
TOTAL ASSETS	<u>\$ 9,796,971</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 286,457
Current portion of long-term debt	44,255
Current portion of bonds payable	265,000
Accrued interest payable	8,083
Unearned revenue/grants payable	34,029
Other current liabilities	<u>612,284</u>
TOTAL CURRENT LIABILITIES	<u>1,250,108</u>
LONG-TERM LIABILITIES	
Long-term debt, less current portion	910,699
Long-term portion of bonds payable	2,615,000
Other liabilities	2,876,054
Deferred compensation	<u>48,896</u>
TOTAL LONG-TERM LIABILITIES	<u>6,450,649</u>
TOTAL LIABILITIES	7,700,757
NET ASSETS - UNRESTRICTED	<u>2,096,214</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,796,971</u>

See notes to consolidated financial statements.

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES
Tell City, Indiana

CONSOLIDATED STATEMENT OF ACTIVITIES
for the year ended December 31, 2008

REVENUES AND SUPPORT

Grant and contract revenue	\$	5,681,193
Miscellaneous revenue		2,105,332
Housing for the Elderly		1,080,100
Ohio View Apartments		72,723
Lincoln Manor Apartments		457,795
In-kind contributions		729,987
Interest and dividend income		15,652
Equity in earnings (loss) of subsidiaries		(25)
Gain on sale of property and equipment		1,500

TOTAL REVENUES AND SUPPORT

10,144,257

EXPENSES

Program A - Indiana Family and Social Services Administration		689,382
Program B - Indiana Department of Education		119,031
Program C - U.S. Department of Health and Human Services		2,574,916
Program D - Corporation for National Services		80,872
Program E - Indiana Housing and Community Development Authority		2,662,036
Program F - U.S. Department of Housing and Urban Development		23,869
Program G - Federal Emergency Management Agency		23,462
Program H - Department of Transportation		3,765
Program I - Local		2,630,952
Program J - Housing for the Elderly		830,652
Program K - Ohio View Apartments		64,923
Program L - Lincoln Manor Apartments, Inc.		437,880

TOTAL EXPENSES

10,141,740

CHANGE IN NET ASSETS

2,517

NET ASSETS, BEGINNING OF YEAR

2,093,697

NET ASSETS, END OF YEAR

\$ 2,096,214

See notes to consolidated financial statements.

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES
Tell City, Indiana

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 2,517
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	357,253
Loss from investments in related party	25
Gain on sale of property and equipment	(1,500)
(Increase) decrease in:	
Accounts receivable - trade	(4,871)
Accounts receivable - grants	(112,040)
Other current assets	35,109
(Decrease) increase in:	
Accounts payable	125,746
Accrued interest payable	(6,287)
Grants payable	(39,650)
Deferred compensation	2,841
Other current liabilities	<u>(9,842)</u>
Net cash provided by operating activities	<u>349,301</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of property and equipment	1,500
Purchase of property and equipment	(170,350)
Payments received on notes receivable - related parties	7,028
Payments received on note receivable - other	6,000
Payments made to bond reserve fund	438,368
Payments made from bond reserve fund	<u>(268,298)</u>
Net cash provided by investing activities	<u>14,248</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on long-term debt and bonds payable	<u>(515,299)</u>
Cash (used) by financing activities	<u>(515,299)</u>

Decrease in cash	(151,750)
Cash, beginning of year	<u>560,150</u>
Cash, end of year	<u>\$ 408,400</u>

SUPPLEMENTAL INFORMATION

Cash payments for:	
Interest	<u>\$ 366,534</u>

See notes to consolidated financial statements.

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The more significant accounting policies are as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of LHDC and its subsidiaries: Lincoln Manor Apartments, Inc., Cotton Mill Apartments, Inc., and Lincoln Village, Inc. Significant intercompany transactions and balances have been eliminated in consolidation. See Note 15 for additional information.

Organization and Nature of Operations

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

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

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

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

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

Basis of Accounting and Presentation

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

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Use of Estimates

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

Cash Equivalents

The Entities consider all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2008.

Accounts Receivables

The Entities utilize the allowance for bad debts method of valuing doubtful accounts receivable (trade and grant) which is based on historical experience, coupled with a review of the current status of existing receivables. Management has determined no allowance for doubtful accounts was required at December 31, 2008.

Property and Equipment

Property and equipment are capitalized and stated at cost. Property and equipment donated are recorded at fair market value at date of donation. Maintenance and repairs are charged to expense as incurred; renewals or betterments are capitalized. Gains or losses on retirement or disposition of assets are credited or charged to operations, and respective costs and accumulated depreciation are eliminated from the accounts.

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

Revenue Recognition

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

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

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Expense Allocation

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

Advertising

Advertising costs are charged to operations when incurred. Total advertising expense was approximately \$5,600 for the year ended December 31, 2008.

NOTE 2—BOND RESERVE FUND

During the year ended December 31, 2004, the Entities refinanced their mortgage payable with HUD through a bond issuance of \$4,100,000. See Note 8 for more information on the bonds payable. The Entities currently make monthly deposits of \$36,000 into a bond reserve account. The Entities make monthly interest payments and an annual principal payment from this account on behalf of the project. The bond reserve cash balance at December 31, 2008 was \$66,609.

NOTE 3—ACCOUNTS RECEIVABLE - GRANTS

Accounts receivable – grants at December 31, 2008, consist of the following:

Indiana Housing and Community Development Authority	\$ 256,201
Indiana Family and Social Services Administration	136,379
Indiana Department of Education	31,394
U.S. Department of Health and Human Services	24,832
U.S. Department of Housing and Urban Development	5,056
Local Programs	<u>235,780</u>
	<u>\$ 689,642</u>

NOTE 4—NOTE RECEIVABLE – OTHER

Note receivable – other at December 31, 2008 consists of the following:

Note receivable from Perry County, Indiana, Habitat for Humanity, Inc. with no stated interest and monthly payments of \$500, secured by a building	\$11,500
Less current portion	<u>(6,000)</u>
Note receivable – other, less current portion	<u>\$ 5,500</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 5—NOTES RECEIVABLE – RELATED PARTIES

Demand note receivable from Village Corydon I, with no stated interest rate, unsecured, maturity 90 days upon receipt of demand notice.	\$ 30,000
Note receivable from Village of Corydon II, LP, with interest at 4%, with quarterly payments of \$3,447 including principal and interest, maturing in June 2010, secured by an apartment building.	<u>163,807</u>
Total notes receivable – related parties	193,807
Less current portion	<u>(37,301)</u>
Notes receivable – related parties, less current portion	<u>\$156,506</u>

See Note 15 for related party information.

NOTE 6—OTHER ASSETS/OTHER LIABILITIES

As of December 31, 2008, LHDC has recorded an amount totaling \$2,876,054 as both "Other assets" as well as "Other liabilities" on the Consolidated Statement of Financial Position. In prior years, LHDC received various loans, convertible to grants, from the Indiana Housing Finance Authority (IHFA), the Federal Home Loan Bank (FHLB), and various financial institutions. Proceeds received were given to various related parties, who guarantee these obligations. Should LHDC and the various related and unrelated parties fulfill certain requirements and maintain the operations for a specific time period (15, 20, 30 or 40 years from the original loan date), the loans received will be forgiven.

The related obligations from the related parties will then be converted to additional investments in the various related parties. The amount provided to the unrelated party will still be due. These agreements expire at various times through 2041. See Note 15 for additional information.

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

Hartford Place – purchase at least 13 years after credit period and before 14 years; placed in service on 4/25/1996; last unit leased on 8/31/1996; notice due to purchase between 4/25/2009 through 4/24/2010.

Village of Marengo – purchase at least 13 years after credit period and before 14 years; placed in service on 7/1/1996; last unit leased on 10/11/1996; notice due to purchase between 7/1/2009 through 6/30/2010.

Village of Corydon - purchase option during the last 12 months of compliance period; placed in service on 11/25/1998, 12/4/1998, 12/10/1998, 12/21/1998, 12/23/1998, and 12/30/1998; last unit leased on 8/1/1999; notice due to purchase between 8/1/2013 through 7/31/2014.

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 6—OTHER ASSETS/OTHER LIABILITIES—Continued

Lincoln Manor of Holland - purchase during the last 12 months of compliance period; placed in service on 12/31/2000; last unit leased on 1/1/2001; notice due to purchase between 1/1/2015 through 12/31/2015.

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

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

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

NOTE 7—LONG-TERM DEBT

The following summarizes the long-term debt at December 31, 2008:

Old National Bank – 5.75%, due May 2014, monthly installments of \$915 including interest, secured by a building.	\$ 27,962
U.S. Department of Agriculture - 5%, due June 2037, monthly installments of \$1,466 including interest, secured by a building.	266,942
German American Bank – 8.00%, due June 2011, monthly installments of \$878 including interest, secured by a building.	24,104
Old National Bank – 4.50%, due February 2013, monthly installments of \$2,625 including interest, secured by a building.	258,431
Indiana Housing and Finance Authority – 4%, due June 2010, quarterly installments of \$3,447 including interest, secured by an apartment building.	163,807
Mortgage payable to USDA Rural Development, payable in monthly installments of \$752 through July 2051. The actual interest rate on the note is 6.875%, but is discounted to approximately 1% through a monthly subsidy allowance of \$791 from Rural Housing Development Corporation. The mortgage is secured by an apartment complex.	<u>213,708</u>
Total	954,954
Less current portion	<u>(44,255)</u>
Long-term debt, less current portion	<u>\$ 910,699</u>

Interest expense for the year ended December 31, 2008 was \$222,344 and is included within the various program expenses to which it relates on the Consolidated Statement of Activities.

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 7—LONG-TERM DEBT—Continued

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

2009	\$ 44,255
2010	196,325
2011	36,780
2012	29,990
2013	213,716
Thereafter	<u>433,888</u>
	<u>\$ 954,954</u>

NOTE 8—BONDS PAYABLE

During the year ended December 31, 2004, the Entities refinanced their mortgage with HUD through a bond issuance with Regions Bank. The bond issuance, totaling \$4,100,000, was used to refinance the debt of four Housing for the Elderly projects. The payoff on the mortgage payable held by the Entities with HUD was \$3,938,449. In addition, financing costs of \$161,551 were incurred. These costs are being amortized ratably over the life of the bonds. Total amortization expense was \$10,772 for the year ended December 31, 2008.

The bonds were issued April 1, 2004 and mature April 1, 2019. The Entities are required to make monthly payments of \$36,000 into a bond reserve account. The Entities make monthly disbursements for interest and an annual principal payment. See Note 2 for more information regarding bond reserves. The bonds have variable interest rates adjusted weekly. The rates, which are tied to the LIBOR rate, ranged from 2.47% to 9.29% during 2008. The bonds are secured by real estate, all fixtures and personal property located at the four Housing for the Elderly facilities, as well as all rents and leases.

The original bond issuance was divided as follows:

Marengo Housing for the Elderly	\$1,172,600
Tell City Housing for the Elderly	721,600
Milltown Housing for the Elderly	1,094,700
Crawford County Housing for the Elderly	<u>1,111,100</u>
Total bond issuance	<u>\$4,100,000</u>

Bonds payable balance at December 31, 2008 is as follows:

Balances at December 31, 2008	\$2,880,000
Less current portion	<u>(265,000)</u>
Long-term portion of bonds	<u>\$2,615,000</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 8—BONDS PAYABLE—Continued

As of December 31, 2008, the projects' bonds mature as follows:

2009	\$ 265,000
2010	265,000
2011	270,000
2012	275,000
2013	275,000
Thereafter	<u>1,530,000</u>
Total	<u>\$2,880,000</u>

NOTE 9—UNEARNED REVENUE/GRANTS PAYABLE

For grants and contracts where future use of grant funds is contingent upon approval from the funding source and the grant or contract is of a cost-reimbursement type, LHDC accounts for funds received but not yet earned and carried over from one year to the next as unearned revenue/grants payable. The total unearned revenue/grants payable at December 31, 2008 was \$34,029.

NOTE 10—DEFERRED COMPENSATION

LHDC has adopted an executive salary continuation agreement for its current Executive Director. This Agreement requires LHDC to provide future benefits to the Executive Director or his designated beneficiary beginning no later than June 1, 2012. At such time, the Executive Director will be entitled to receive either \$500 per month for the remainder of his life or a lump sum equaling ninety percent of the cash value of the life insurance policy or \$60,000, whichever is greater. At December 31, 2008, the present value of these future benefits was \$48,896. A liability has been established in the accompanying financial statements for this future obligation. A life insurance policy has been purchased by the Entities and the cash surrender value totaling \$61,488 at December 31, 2008 is included in "Other current assets" on the Consolidated Statement of Financial Position.

NOTE 11—CONTINGENT LIABILITY

During 2005, LHDC received funds from the Indiana Housing and Finance Authority totaling \$173,000. These funds were in the form of a forgivable loan. Should the Organization fulfill certain requirements and maintain the operations of an apartment complex through approximately November 2011, the loan will be forgiven. It is management's intent to comply with the provisions of this agreement. These funds were reflected as revenue and support when they were received instead of loan payable.

NOTE 12—PENSION PLAN

LHDC has a defined contribution retirement plan covering all of its employees who meet certain guidelines as to age and years of service. Under the Plan, LHDC contributes approximately 4.5 percent of the employees' wages. The amount contributed to the plan by LHDC was \$130,590 for the year ended December 31, 2008.

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 13—DONATED SERVICES/GRANT MATCHING REQUIREMENT

In the course of providing its programs, LHDC receives the services of volunteers in the community and includes the estimated fair value of these services as equal amounts of "in-kind" revenue and "in-kind" expense. The in-kind revenue is shown directly in the Consolidated Statement of Activities, whereas the in-kind expense is included within the various program expenses to which it relates.

Certain grants administered by LHDC during the year ended December 31, 2008, required LHDC to attain minimum levels of matching funds consisting of the aforementioned "in-kind" as well as actual cash contributions. All such contractual requirements pertaining to contracts ending within the year December 31, 2008 were achieved. The total amount of in-kind contributions received and expended during the year ended December 31, 2008 was approximately \$730,000.

NOTE 14—INCOME TAXES

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

LHDC's wholly owned subsidiaries, Lincoln Manor Apartments, Inc., Cotton Mill Apartments, Inc., and Lincoln Village, Inc., are organized as regular C corporations, and consequently are subject to federal, state, and local income tax on their earnings and profits. With respect to these corporations, there was no significant operating activity during the year ended December 31, 2008. Therefore, no income tax provision has been recorded in the financial statement for the year ended December 31, 2008. Additionally, there are no significant timing differences between financial statement reporting and income tax reporting. Therefore, no provision has been recorded for deferred taxes.

FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*, originally effective for fiscal years beginning after December 15, 2007, was issued to provide recognition and measurement requirements for accounting for uncertain tax positions taken on a tax return for entities, including pass-through entities such as S corporations and partnerships. FASB Staff Position ("FSP") FIN 48-3 was issued on December 30, 2008 to defer the effective date of FIN 48 until fiscal years beginning after December 15, 2008.

In accordance with FSP FIN 48-3, the Company has elected to defer the application of FIN 48. The Company has implemented a policy to evaluate all local, state, and federal income tax returns for potential uncertain tax positions taken, as defined by FIN 48, in the year in which tax returns are filed.

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 15—RELATED PARTY INFORMATION/INVESTMENTS

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

- Hartford Place Apartments, LP - LHDC is a 1% owner and general partner.
- Lincoln Manor Apartments, Inc. (Lincoln Manor) (also D.B.A. Quality Cleaning Solutions) - LHDC is a 100% sole stockholder.
- Village Apartments of Marengo, LP - Lincoln Manor is a 1% owner and general partner.
- Village Apartments of Corydon, LP - Lincoln Manor is a .0099% owner and general partner.
- Village Apartments of Corydon II, LP – Lincoln Manor is a 1% owner and general partner.
- Lincoln Manor Apartments of Holland, LP - Lincoln Manor is a .01% owner and general partner.
- Cotton Mill Apartments, Inc. – LHDC is a 100% sole stockholder.
- Cotton Mill Apartments, LP – Cotton Mill Apartments, Inc. is a .01% owner and general partner.
- Lincoln Village, Inc. – LHDC is a 52% stockholder.
- Lincoln Village, LP – Lincoln Village, Inc. is a .01% owner and general partner.
- Country Place Apartments VI, LTD – LHDC is a 5% owner and general partner.

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

LHDC has provided funds totaling \$2,876,054 to eight of the various partnerships. See Note 5 for additional information. The funds provided are summarized as follows:

Hartford Place Apartments, L.P.	\$ 108,000
Cotton Mill Apartments, L.P.	620,000
Country Place Apartments VI, LTD	192,934
Village Apartments of Marengo, L.P.	611,600
Village Apartments of Corydon, L.P.	263,520
Village Apartments of Corydon II, L.P.	330,000
Lincoln Village, L.P.	500,000
Lincoln Manor Apartments of Holland, L.P.	<u>250,000</u>
	<u>\$2,876,054</u>

Additionally, LHDC has invested funds in various partnerships which are being reported under the equity method. The net value of the investment in the Partnerships was approximately \$1,298,000 at December 31, 2008.

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 16—CONCENTRATION OF CREDIT RISK

Cash Concentration Risk

LHDC's cash held by various financial institutions at December 31, 2008 totaled approximately \$697,000. Of the total cash balance, approximately \$461,000 was covered by Federal depository insurance. LHDC had approximately \$197,000 in cash with First State Bank in excess of the FDIC of \$250,000 at December 31, 2008. However, LHDC has obtained a collateral agreement from First State Bank whereby the bank has pledged up to \$1,000,000 of bank owned securities as collateral for deposits of LHDC. This pledge by the bank has no expiration date.

Group Concentration Risk

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

NOTE 17—GUARANTEE OF INDEBTEDNESS OF RELATED PARTY

As of December 31, 2008, LHDC is contingently liable as guarantor of the indebtedness of various related parties as described in Note 15. No material loss is anticipated by reason of such guarantee.

SUPPLEMENTAL INFORMATION

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

RECAP SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCES
for the year ended December 31, 2008

	Indiana Family and Social Services Administration	Indiana Department of Education	U.S. Department of Health and Human Services	Corporation for National Services	Indiana Housing and Community Development Authority	U.S. Department of Housing and Urban Development	Federal Emergency Management Agency	Department of Transportation	Local	Housing for the Elderly	Ohio View Apartments	Lincoln Manor Apartments	Total Expenses
Salaries	\$ 430,897	\$ -	\$ 1,077,887	\$ 30,954	\$ 326,769	\$ 18,793	\$ -	\$ -	\$ 1,352,165	\$ 170,172	\$ 19,430	\$ 324,269	\$ 3,751,336
Fringe benefits	94,685	-	236,982	7,067	76,720	4,281	-	-	279,001	39,475	4,492	57,995	800,698
Space/utilities	25,610	-	108,300	4,994	47,580	-	-	-	79,211	82,104	10,811	-	358,610
Communications	17,185	-	37,127	2,922	15,069	-	-	-	14,221	4,402	670	-	91,596
Supplies	6,053	-	56,391	763	12,867	64	-	919	21,917	34,745	-	26,631	160,350
Travel	51,798	-	46,935	2,893	14,142	-	-	-	69,653	-	-	866	186,287
Insurance and bonding	1,291	-	13,611	669	10,768	-	-	-	22,140	29,183	2,456	7,613	87,731
Miscellaneous	2,919	2,811	7,533	1,516	1,685	26	-	2,766	82,566	19,124	1,567	4,150	126,663
Copying	6,746	-	33,097	1,171	7,615	-	-	-	9,704	-	-	-	58,333
Audit	3,472	-	10,423	-	7,671	-	-	-	33,558	15,412	-	-	70,536
Computer	7,399	-	29,905	1,221	15,926	-	470	-	8,214	-	-	-	63,135
Vehicle maintenance	-	-	62,652	-	1,616	-	-	-	-	-	1,538	4,234	70,040
Contractor/rehab costs	-	-	-	-	771,258	-	-	-	3,526	-	-	-	774,784
Contractual	16,609	-	8,189	1,020	124,375	-	-	-	22,698	50,131	-	3,780	226,802
Dues	-	-	1,506	-	625	-	-	-	2,589	-	-	25	4,745
Training	4,948	-	5,868	-	3,936	705	-	80	2,481	-	330	-	18,348
Equipment and maintenance	4,002	-	-	-	15,000	-	-	-	30,397	17,697	-	-	67,096
Energy assistance	-	-	-	-	919,818	-	2,512	-	-	-	-	-	922,330
Conservation act	-	-	-	-	1,359	-	-	-	-	-	-	-	1,359
Support services	14,933	-	-	-	-	-	1,125	-	16,839	-	-	-	32,897
Printing and advertising	-	-	4,012	-	-	-	-	-	1,637	2,561	228	999	9,437
Fees	300	-	-	-	265	-	-	-	-	57,731	-	75	58,371
Medical/dental	535	-	9,661	-	-	-	-	-	604	-	-	40	10,840
Maintenance	-	-	-	-	-	-	-	-	47,994	45,599	8,232	4,505	106,330
Direct service/screen	-	-	29,958	-	-	-	-	-	-	-	-	-	29,958
Food	-	116,220	5,407	-	-	-	17,255	-	1,249	-	-	-	140,131
Business and building repair	-	-	101,175	-	-	-	-	-	65,379	-	-	-	166,554
Recognition	-	-	-	1,296	-	-	-	-	-	-	-	-	1,296
Legal	-	-	-	-	225	-	-	-	2,674	-	-	-	2,899
Interest	-	-	-	-	-	-	2,100	-	222,344	135,803	5,316	2,108	367,671
Taxes and licenses	-	-	-	-	-	-	-	-	-	-	-	590	590
Depreciation	-	-	-	-	-	-	-	-	220,887	126,513	9,853	-	357,253
Housing assistance	-	-	-	-	286,747	-	-	-	-	-	-	-	286,747
In-kind/match	-	-	688,297	24,386	-	-	-	-	17,304	-	-	-	729,987
Total	\$ 689,382	\$ 119,031	\$ 2,574,916	\$ 80,872	\$ 2,662,036	\$ 23,869	\$ 23,462	\$ 3,765	\$ 2,630,952	\$ 830,652	\$ 64,923	\$ 437,880	\$ 10,141,740

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCES
for the year ended December 31, 2008

INDIANA FAMILY AND SOCIAL SERVICES ADMINISTRATION

	Youth Service Bureau 7/1/2007 - 6/30/2008	Youth Service Bureau 7/1/2008 - 6/30/2009	Healthy Families 9/1/2007 - 8/31/2008	Healthy Families 9/1/2008 - 8/31/2009	FP Child Welfare 7/1/2006 - 12/31/2008	Totals
Salaries	\$ 17,039	\$ 9,200	\$ 109,465	\$ 51,117	\$ 244,076	\$ 430,897
Fringe benefits	4,223	2,021	25,499	11,214	51,728	94,685
Space/utilities	2,121	1,818	6,846	2,604	12,221	25,610
Communications	456	587	5,015	2,707	8,420	17,185
Supplies	21	44	3,580	896	1,512	6,053
Travel	1,250	273	8,757	3,744	37,774	51,798
Insurance and bonding	-	27	132	136	996	1,291
Miscellaneous	-	707	-	822	1,390	2,919
Copying	204	122	1,916	850	3,654	6,746
Audit	194	-	1,071	-	2,207	3,472
Computer	586	355	2,090	718	3,650	7,399
Contractual	-	-	1,965	105	14,539	16,609
Training	100	-	2,751	296	1,801	4,948
Equipment and maintenance	-	-	3,689	-	313	4,002
Support services	-	-	-	-	14,933	14,933
Fees	-	-	300	-	-	300
Medical/dental	-	-	-	-	535	535
Total	<u>\$ 26,194</u>	<u>\$ 15,154</u>	<u>\$ 173,076</u>	<u>\$ 75,209</u>	<u>\$ 399,749</u>	<u>\$ 689,382</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES
SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008

INDIANA DEPARTMENT OF EDUCATION

	Headstart PA22 8/1/2007 - 7/31/2008	Headstart PA22 8/1/2008 - 7/31/2009	Totals
Food	\$ 52,454	\$ 63,766	\$ 116,220
Miscellaneous	<u>2,811</u>	<u>-</u>	<u>2,811</u>
 Total	 <u>\$ 55,265</u>	 <u>\$ 63,766</u>	 <u>\$ 119,031</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES
SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

	Headstart PA22 8/1/2007 - 7/31/2008	Headstart PA22 8/1/2008 - 7/31/2009	Headstart PA20 8/1/2007 - 7/31/2008	Headstart PA20 8/1/2008 - 7/31/2009	Totals
Salaries	\$ 555,612	\$ 522,275	\$ -	\$ -	\$ 1,077,887
Fringe benefits	130,537	106,445	-	-	236,982
Space/utilities	48,265	60,035	-	-	108,300
Communications	22,094	15,033	-	-	37,127
Supplies	17,031	39,360	-	-	56,391
Travel	9,819	26,306	6,804	4,006	46,935
Insurance and bonding	1,334	12,277	-	-	13,611
Miscellaneous	20	7,513	-	-	7,533
Copying	14,353	18,744	-	-	33,097
Audit	10,423	-	-	-	10,423
Computer	20,750	9,155	-	-	29,905
Vehicle maintenance	37,923	24,729	-	-	62,652
Contractual	3,377	4,812	-	-	8,189
Dues	418	1,088	-	-	1,506
Training	5,598	270	-	-	5,868
Printing and advertising	3,217	795	-	-	4,012
Medical/dental	3,294	6,367	-	-	9,661
Direct service/screen	4,536	6,785	9,378	9,259	29,958
Food	2,115	3,292	-	-	5,407
Business and building repair	62,992	38,183	-	-	101,175
Inkind/match	259,326	428,971	-	-	688,297
Total	\$ 1,213,034	\$ 1,332,435	\$ 16,182	\$ 13,265	\$ 2,574,916

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008

CORPORATION FOR NATIONAL SERVICES

Salaries	\$	30,954
Fringe benefits		7,067
Space/utilities		4,994
Communications		2,922
Supplies		763
Travel		2,893
Insurance and bonding		669
Miscellaneous		1,516
Copying		1,171
Computer		1,221
Contractual		1,020
Recognition		1,296
In-kind/match		<u>24,386</u>
Total	\$	<u><u>80,872</u></u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

**SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008**

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

	CSBG 1/1/2008 - 12/31/2008	LIHEAP 10/1/2007 - 9/30/2008	SWEEP 10/1/2007 - 9/30/2008	LIHEAP 10/1/2008 - 9/30/2009	SWEEP Weatherization 10/1/2008 - 9/30/2009	Section 8 Housing Choice Vouchers 7/1/2007 - 6/30/2008	Section 8 Housing Choice Vouchers 7/1/2008 - 6/30/2009	CHDO Works 3/1/2007 - 3/31/2009	Owner Occupied Rehab 10/1/2007 9/30/2009
Salaries	\$ 78,699	\$ 23,401	\$ 8,944	\$ 5,744	\$ 2,484	\$ 7,168	\$ 16,097	\$ 10,157	\$ 7,413
Fringe benefits	18,204	5,805	2,308	1,310	567	1,640	3,531	2,347	1,786
Space/utilities	32,081	2,755	210	453	-	1,172	1,758	-	293
Communications	3,822	1,511	318	658	6	974	830	12	104
Supplies	3,032	5,887	9	270	-	380	392	-	97
Travel	5,978	2,985	552	116	-	113	-	-	289
Insurance and bonding	154	96	14	1,000	500	123	109	18	-
Legal	-	-	-	-	-	-	-	-	225
Miscellaneous	236	-	-	84	35	-	163	-	-
Copying	1,262	541	40	52	41	328	611	97	372
Audit	748	-	893	-	-	933	-	-	-
Computer	1,847	1,580	326	437	115	-	-	289	272
Vehicle maintenance	-	991	-	-	-	-	-	-	-
Contractor/rehab costs	-	49,741	12,236	557	559	-	-	-	52,704
Contractual	-	-	-	-	-	-	-	-	-
Training	-	-	-	-	-	-	-	3,936	-
Dues	625	-	-	-	-	-	-	-	-
Equipment maintenance	-	-	-	-	-	-	-	15,000	-
Housing assistance	-	-	-	-	-	144,547	142,200	-	-
Fees	-	-	-	-	-	-	-	-	265
Energy assistance	-	-	-	-	-	-	-	-	-
Conservation Act	-	-	-	-	-	-	-	-	-
Total	\$ 146,688	\$ 95,293	\$ 25,850	\$ 10,681	\$ 4,307	\$ 157,378	\$ 165,691	\$ 31,856	\$ 63,820

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

**SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008**

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY—Continued

	EAP 10/1/2007 - 9/30/2008	EAP 10/1/2008 - 9/30/2009	EAP Leveraging 10/01/2007 - 9/30/2008	DOE WX-007-016 4/1/2007 - 3/31/2008	DOE WX-008-016 7/1/2008 - 3/31/2009	Crawford Housing Rehab 2009- 2010	Marengo Housing Rehab 3/13/2007 - 3/31/2009	IDA Admin 2007- 2008	IDA Admin 2008- 2009	Totals
Salaries	\$ 56,574	\$ 38,637	\$ -	\$ 5,429	\$ 30,653	\$ 7,258	\$ 11,964	\$ 10,257	\$ 5,890	\$ 326,769
Fringe benefits	14,093	8,489	-	1,450	6,997	1,606	2,727	2,570	1,290	76,720
Space/utilities	3,375	1,125	-	574	3,784	-	-	-	-	47,580
Communications	2,284	1,931	-	243	1,158	250	452	249	267	15,069
Supplies	867	1,000	-	9	741	42	87	10	44	12,867
Travel	592	538	-	627	2,217	-	-	90	45	14,142
Insurance and bonding	368	769	-	55	3,782	3,407	373	-	-	10,768
Legal	-	-	-	-	-	-	-	-	-	225
Miscellaneous	-	497	-	-	468	106	-	-	96	1,685
Copying	1,080	1,973	-	50	298	409	155	173	133	7,615
Audit	2,979	-	-	493	-	-	1,625	-	-	7,671
Computer	4,782	3,630	-	107	1,386	272	776	107	-	15,926
Vehicle maintenance	-	-	-	56	569	-	-	-	-	1,616
Contractor/rehab costs	-	-	-	35,995	17,510	208,204	393,752	-	-	771,258
Contractual	-	-	-	-	-	39,375	85,000	-	-	124,375
Training	-	-	-	-	-	-	-	-	-	3,936
Dues	-	-	-	-	-	-	-	-	-	625
Equipment maintenance	-	-	-	-	-	-	-	-	-	15,000
Housing assistance	-	-	-	-	-	-	-	-	-	286,747
Fees	-	-	-	-	-	-	-	-	-	265
Energy assistance	295,319	624,299	200	-	-	-	-	-	-	919,818
Conservation act	1,359	-	-	-	-	-	-	-	-	1,359
Total	\$ 383,672	\$ 682,888	\$ 200	\$ 45,088	\$ 69,563	\$ 260,929	\$ 496,911	\$ 13,456	\$ 7,765	\$ 2,662,036

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES
SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Salaries	\$	18,793
Fringe benefits		4,281
Supplies		64
Miscellaneous		26
Training		705
		<hr/>
Total	\$	<u><u>23,869</u></u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

**SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008**

FEDERAL EMERGENCY MANAGEMENT AGENCY

	<u>Crawford County</u>	<u>Spencer County</u>	<u>Perry County</u>	<u>Totals</u>
Administration	\$ 164	\$ 155	\$ 151	\$ 470
Food	4,000	7,218	6,037	17,255
Rent/mortgage assistance	1,500	-	600	2,100
Utility assistance	2,512	-	-	2,512
Emergency shelter	-	375	750	1,125
Total	<u>\$ 8,176</u>	<u>\$ 7,748</u>	<u>\$ 7,538</u>	<u>\$ 23,462</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

**SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008**

DEPARTMENT OF TRANSPORTATION

	Safe Kids 1/1/2008 <u>12/31/2008</u>	IU Permanent Fitting Station 1/1/2008 - <u>9/30/2008</u>	IU Permanent Fitting Station 9/7/2006 - <u>9/30/2007</u>	<u>Totals</u>
Supplies	\$ -	\$ 619	\$ 300	\$ 919
Miscellaneous	2,766	-	-	2,766
Training	<u>-</u>	<u>80</u>	<u>-</u>	<u>80</u>
	<u>\$ 2,766</u>	<u>\$ 699</u>	<u>\$ 300</u>	<u>\$ 3,765</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008

LOCAL

Salaries	\$	1,352,165
Fringe benefits		279,001
Space/utilities		79,211
Communications		14,221
Supplies		21,917
Travel		69,653
Insurance and bonding		22,140
Miscellaneous		82,566
Copying		9,704
Audit		33,558
Computer		8,214
Contractor/rehab costs		3,526
Contractual		22,698
Dues		2,589
Training		2,481
Equipment and maintenance		30,397
Support services		16,839
Printing and advertising		1,637
Medical/dental		604
Maintenance		47,994
Food		1,249
Business and building repair		65,379
Legal		2,674
Interest		222,344
Depreciation		220,887
In-kind/match		17,304
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	\$	2,630,952
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LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

**SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008**

HOUSING FOR THE ELDERLY

Salaries	\$	170,172
Fringe benefits		39,475
Space/utilities		82,104
Communications		4,402
Supplies		34,745
Insurance and bonding		29,183
Miscellaneous		19,124
Audit		15,412
Contractual		50,131
Equipment and maintenance		17,697
Printing and advertising		2,561
Fees		57,731
Maintenance		45,599
Interest		135,803
Depreciation		126,513
		<hr/>
	\$	830,652
		<hr/> <hr/>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES
SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008

OHIO VIEW APARTMENTS

Salaries	\$ 19,430
Fringe benefits	4,492
Space/utilities	10,811
Communications	670
Insurance and bonding	2,456
Miscellaneous	1,567
Vehicle maintenance	1,538
Training	330
Printing and advertising	228
Maintenance	8,232
Interest	5,316
Depreciation	9,853
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	\$ 64,923
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LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES
SCHEDULE OF FUNCTIONAL EXPENSES BY FUNDING SOURCE
for the year ended December 31, 2008

LINCOLN MANOR APARTMENTS

Salaries	\$ 324,269
Fringe benefits	57,995
Supplies	26,631
Travel	866
Insurance and bonding	7,613
Miscellaneous	4,150
Vehicle maintenance	4,234
Contractual	3,780
Maintenance	4,505
Fees	75
Dues	25
Printing and advertising	999
Medical/dental	40
Interest	2,108
Taxes and licenses	590
	<hr/>
	<u>\$ 437,880</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended December 31, 2008**

<u>Federal Grantor/Pass Through Grantor/Project Title/Grant</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>Passed Through the Indiana Family & Social Services</u>		
FP Child Welfare (Region)	93.645	\$ 173,456
FP Child Welfare (Independent Living)	93.674	226,293
Healthy Families	93.558	75,209
Healthy Families	93.558	<u>173,076</u>
Total Passed Through Indiana Family and Social Services		<u>648,034</u>
<u>Directly Received from Federal Emergency Management Agency</u>		
Emergency Food & Shelter Spencer	97.024	7,748
Emergency Food & Shelter Perry	97.024	7,538
Emergency Food & Shelter Crawford	97.024	<u>8,176</u>
Total Directly Received from Federal Emergency Management Agency		<u>23,462</u>
<u>Passed Through Indiana University</u>		
Safe Kids	20.600	2,766
IU Permanent Fitting Station	20.600	300
IU Permanent Fitting Station	20.600	<u>699</u>
Total Passed Through Indiana University		<u>3,765</u>
<u>Directly Received from the Department of Health & Human Resources</u>		
Head Start PA22	93.600	1,332,435
Head Start PA22	93.600	1,213,034
Head Start PA 20	93.600	13,265
Head Start PA 20	93.600	<u>16,182</u>
Total Directly Received from the Department of Health & Human Resources		<u>2,574,916</u>
<u>Passed Through the Indiana Department of Education</u>		
Head Start Food Program	10.558	63,766
Head Start Food Program	10.558	<u>55,265</u>
Total Passed Through the Indiana Department of Education		<u>119,031</u>

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—Continued
for the year ended December 31, 2008**

Directly Received from Corporation for National Services

Retired Senior Volunteer Program	94.002	<u>80,872</u>
Total Directly Received from Corporation for National Services		<u>80,872</u>

Passed Through the Indiana Housing & Community Development Authority

CHDO Works	14.239	31,856
Marengo Housing Rehab	14.239	496,911
Crawford Co Housing Rehab	14.239	260,929
Section 8 Housing Choice Voucher	14.871	165,691
Section 8 Housing Choice Voucher	14.871	157,378
CSBG	93.569	146,688
LIHEAP	93.568	95,293
LIHEAP	93.568	10,681
SWEEP	93.568	25,850
SWEEP	93.568	4,307
EAP	93.568	383,672
EAP	93.568	682,888
EAP Leveraging	93.568	200
DOE	81.042	45,088
DOE	81.042	<u>69,563</u>
Total Passed Through the Indiana Housing & Community Development Authority		<u>2,576,995</u>

Directly Received from the Housing & Urban Development

Tenant Assistance (Section 8) - Tell City	14.182	133,405
Tenant Assistance (Section 8) - English	14.182	257,952
Tenant Assistance (Section 8) - Marengo	14.182	214,512
Tenant Assistance (Section 8) - Milltown	14.182	225,857
Housing Counseling	14.169	5,055
Housing Counseling	14.169	<u>18,814</u>
Total Directly Received from the Housing & Urban Development		<u>855,595</u>

Total	<u><u>\$6,882,670</u></u>
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Basis of Presentation

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



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

Board of Directors
Lincoln Hills Development Corporation
Tell City, Indiana

We have audited the financial statements of Lincoln Hills Development Corporation and Subsidiaries (the Entities) (a nonprofit organization) as of and for the year ended December 31, 2008, and have issued our report thereon dated August 24, 2009. 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 Entities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entities' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the Entities' financial statements that is more than inconsequential will not be prevented or detected by the Entities' internal control.

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

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

Compliance and Other Matters

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

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

McCauley, Nicolas & Company, LLC

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
August 24, 2009



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

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

Compliance

We have audited the compliance of Lincoln Hills Development Corporation and Subsidiaries (the Entities) (a nonprofit 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, 2008. The Entities' major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Entities' management. Our responsibility is to express an opinion on the Entities' compliance based on our audit.

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

In our opinion, the Entities complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

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

Jeffersonville, Indiana
August 24, 2009

LINCOLN HILLS DEVELOPMENT CORPORATION AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended December 31, 2008

A. SUMMARY OF AUDIT RESULTS

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

<u>Program</u>	<u>CFDA #</u>
HOME Investment Partnership Program	14.239
Section 8 Housing Choice Vouchers	14.871
Family Prevention Child Welfare	93.674
Tenant Assistance (Section 8)	14.182

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

B. FINDINGS—FINANCIAL STATEMENTS AUDIT

None

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

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

LINCOLN HILLS DEVELOPMENT CORPORATION
Tell City, Indiana

EXIT CONFERENCE

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

Representatives of the Entities:

Larry Kleeman, Executive Director

Debbie Katterhenry, Fiscal Director

Natalie Polk, Accountant

Shannon Sprinkle, Accountant

Representatives of McCauley, Nicolas & Company, LLC:

John C. Pieper, Member

Karen Basham, Manager

The following matters were discussed at the exit conference:

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