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November 13, 2013

Board of Directors
Hope of Evansville, Inc.
608 Cherry Street
Evansville, IN 47713-1521

We have reviewed the audit report prepared by Timothy J. Otte, CPA, PC, Independent Public Accountant, for the period October 1, 2010 to September 30, 2011. 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 Hope of Evansville, Inc., as of September 30, 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. The Schedule of Findings and Questioned Costs included a Financial Statement Finding and a Major Federal Program Finding relating to material weakness in internal control due to lack of segregation of duties.

STATE BOARD OF ACCOUNTS

HOPE OF EVANSVILLE, INC.
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 and 2010

HOPE OF EVANSVILLE, INC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
HOPE of Evansville, Inc.
Evansville, IN 47713

We have audited the accompanying statements of financial position of HOPE of Evansville, Inc. Inc. (a nonprofit organization) as of September 30, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HOPE of Evansville, Inc. as of September 30, 2011 and 2010, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2012, on our consideration of HOPE of Evansville, Inc.'s internal control over financial reporting and 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 the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Timothy J. Otte, C.P.A., P.C.



Newburgh, IN

March 7, 2012

HOPE OF EVANSVILLE, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and Cash Equivalents	\$ 639,005	\$ 619,557
Certificates of Deposit	46,153	46,041
Grants Receivables	13,978	17,163
Homes in Process	1,578,403	1,395,933
Total Current Assets	<u>2,277,539</u>	<u>2,078,694</u>
Property and Equipment		
Office Equipment	22,970	24,245
Less Accumulated Depreciation	<u>(11,964)</u>	<u>(17,761)</u>
Total Property and Equipment	<u>11,006</u>	<u>6,483</u>
Long-Term Assets		
Notes Receivable- Debtors	4,108	5,398
Less: Allowance for Loan Losses	<u>(4,108)</u>	<u>(5,398)</u>
	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 2,288,545</u>	<u>\$2,085,177</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
DMD-CDBG Loans	\$ 225	\$ 150
Line of Credit- DMD	35,000	35,000
Overcharges	50	50
Mortgage Release Escrow	2,986	2,974
Total Current Liabilities	<u>38,261</u>	<u>38,174</u>
Long-Term Liabilities		
Notes Payable- INTR	<u>543,332</u>	<u>633,888</u>
Net Assets- unrestricted	<u>1,706,952</u>	<u>1,413,116</u>
Total Liabilities and Net Assets	<u>\$ 2,288,545</u>	<u>\$2,085,177</u>

See notes to financial statements

HOPE OF EVANSVILLE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Support and Revenue		
Grants	\$ 724,377	\$ 1,538,648
Home Sales	279,900	260,000
Development Subsidies	45,000	90,000
Client Fees	7,985	8,550
Lien Release Fees	35	2,249
Seller Processing Fees	34,010	51,390
Contributions	8,360	11,000
Interest Income	3,010	4,107
Other	3,087	1,164
Total Support and Revenue	<u>1,105,764</u>	<u>1,967,108</u>
Expenses		
Classes- Living the dream	1,458	1,580
Contracted Services	1,307	1,749
Depreciation	2,512	2,363
Down Payment Assistance	112,491	255,667
Home Sales Expenditures	425,724	382,731
IFPN Contractor Payments	27,242	31,128
Insurance	8,029	6,090
Miscellaneous	3,224	857
Office Expenses	5,685	7,894
Professional Fees	8,303	6,575
Rent	16,099	7,800
Retirement	3,980	3,542
Telephone	2,979	2,618
Travel/Training	3,053	2,289
Undeveloped Home Expenses	11,066	-
Wages & Taxes	178,775	204,348
Total Expenses	<u>811,928</u>	<u>917,231</u>
Change in Net Assets- Unrestricted	293,836	1,049,877
Net Assets, beginning of year	1,413,116	363,239
Net Assets, end of year	<u><u>\$ 1,706,952</u></u>	<u><u>\$ 1,413,116</u></u>

See notes to financial statements

HOPE OF EVANSVILLE, INC.
STATEMENTS OF CASH FLOWS
SEPTEMBER 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 293,836	\$ 1,049,877
Adjustments to Reconcile Increase (Decrease) in Net Assets to net cash provided by operating activities:		
Depreciation/Amortization	2,512	2,363
(Increase) Decrease in Operating Assets:		
Grants Receivables	3,184	75,147
Certificates of Deposits	(112)	(288)
Home in Process	(182,469)	(1,132,736)
Increase (Decrease) in Operating Liabilities:		
(Gain) or Loss on Disposition of Assets	-	7
Accrued Expenses	88	626
Net Cash Provided by Operating Activities	117,039	(5,004)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(7,035)	(3,808)
Net Cash Provided (Used) by Investing Activities	(7,035)	(3,808)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments Received from FDP Loan	-	(837,650)
Payments on INTR Loan	(45,000)	(91,112)
Proceeds from INTR Loan	-	494,860
Development Subsidies- INTR Loan	(45,556)	(90,000)
Net Cash Provided (Used) by Financing Activities	(90,556)	(523,902)
Net Increase (Decrease) in Cash	19,448	(532,714)
Cash- beginning of year	619,557	1,152,271
Cash- end of year	\$ 639,005	\$ 619,557

See notes to financial statements

HOPE OF EVANSVILLE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 and 2010

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mission

The Organization provides counseling and assistance with housing needs for clients located in the Evansville and Southwestern Indiana area under the guidelines established by the Housing and Urban Development provisions.

Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis, where revenues are recognized when earned and expenditures are recognized when incurred.

Tax Status

The Organization is exempt from income tax under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made. The Organization is not classified as a private foundation. The Organization's Federal Exempt from Income Tax Returns (Form 990) is subject to examination by the IRS, generally for three years after they were filed.

Financial Statement Presentation

Financial statement presentation follows the U.S. generally accepted accounting principles promulgated by the FASB *Accounting Standards Codification*. Under those principles, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Property and Equipment

Property and equipment are valued at cost. The Organization follows the practice of capitalizing all expenditures for equipment in excess of \$500. Depreciation is computed on the straight-line method. Maintenance and repairs are charged to operations when incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

HOPE OF EVANSVILLE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 and 2010

Notes Receivable- Debtors

Notes receivable consists of secured and unsecured loans with debtors that are located in the tri-state area. Provision for credit losses on notes receivable is made in amounts required to maintain an adequate allowance to cover anticipated losses. The accounts are charged against the allowance when they are determined to be uncollectible. During the years ended September 30, 2011 and 2010, the Organization received \$1,290 and \$595 of principal payments, respectively. No current portion of notes receivable was made during the years because of uncertainty of collection.

Fair Value Measurement

FASB ASC 820, *Fair Value Measurements*, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value. FASB ASC 820 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various other accounting pronouncements.

Assets and liabilities measured at fair value are recorded in accordance with FASB ASC 820, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC 820 establishes a three tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs- Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2 Inputs- Inputs other than quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs- Unobservable inputs in which there is little or no market data, which requires management to develop their assumptions.

NOTE 2- CONCENTRATIONS

For the years ended September 30, 2011 and 2010, the Organization received 40% and 43% of its support from one grant source, respectively.

NOTE 3- DEPOSITS HELD IN A FINANCIAL INSTITUTION

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents. At times, such cash and cash equivalents in banks are in excess of the FDIC insurance limit. Credit risk with respect to cash and cash equivalents is minimized by using high-credit quality financial institutions.

**HOPE OF EVANSVILLE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 and 2010**

NOTE 4- OPERATING LEASES

On September 15, 2010, the Organization moved to a new location and entered into a lease agreement for its office space expiring in September of 2013 requiring monthly payments of \$1,304.

Future minimum annual lease payments under this lease are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$15,642
2013	10,428

Rent paid for the years ended September 30, 2011 and 2010 were \$14,989 and \$7,800, respectively.

NOTE 5- LINE OF CREDIT

A \$35,000 unsecured revolving line of credit with a The City of Evansville, of which \$35,000 was used at September 30, 2010. The loan is non-interest bearing and is to be utilized with the Down Payment Assistance Program.

In addition, the Organization had a \$25,000 line of credit with a local bank, of which \$25,000 was unused at September 30, 2010. Interest was payable monthly and carried a variable interest rate equal to the bank's prime rate with an initial rate of 7.0%. The credit line was unsecured. The line of credit was not renewed when it matured in November of 2011.

NOTE 6- RETIREMENT PLAN

The Organization has established a (SIMPLE IRA) retirement plan. Under the plan, employees may contribute up to \$10,500 (\$14,000 for employees who will be at least fifty by the end of the year) of their pre-tax compensation and the Organization will match up to 3% of each participating employee's pretax contribution. Plan expenses incurred for the years ended September 30, 2011 and 2010 were \$3,980 and \$3,542, respectively.

NOTE 7- INTR LOAN PROGRAM

The Organization is the fiscal agent for the Improving Neighborhoods Through Revitalization (INTR) loan program. \$1 million in funds have been provided and was utilized for the construction of fourteen new homes in a designated low-income area in downtown Evansville. Proceeds from sales of homes must be maintained in a separate bank account to be used for future construction projects. The Indiana Housing and Community Development Authority (IHCDA) are providing subsidies of up to \$45,000 for construction costs of each new home.

**HOPE OF EVANSVILLE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 and 2010**

NOTE 7- INTR LOAN PROGRAM- Continued

At September 30, 2010, the balance obligated to the IHCDCA was \$633,888 less the development subsidies for the remaining seven unsold properties of \$315,000 which equals \$318,888. During the year, \$91,112 was paid back to the IHCDCA from the sale of two properties.

At September 30, 2011, the balance obligated to the IHCDCA was \$543,332 less the development subsidies for the remaining six unsold properties of \$270,000 which equals \$273,332. During the year, \$45,556 was paid back to the IHCDCA from the sale of one property.

NOTE 8- COMMITMENTS AND CONTINGENCIES

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursements under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. Grant funds related to economic development totaled \$62,106 and \$63,486 for the years ended September 30, 2011 and 2010, respectively. This could potentially be required to be paid back to the City of Evansville if the Organization is not going to make future loans or collect on the active loans. In addition, any interest earned is required to be paid back to the City of Evansville (DMD). At September 30, 2011 and 2010, the balance owed was \$225 and \$150, respectively.

On February 24, 2011, HOPE of Evansville, Inc. (HOPE) was awarded tax credits valued at \$1,012,031 annually for a ten year period from the Indiana Housing and Community Development Authority to construct 40 single-family homes on the south side of Evansville in addition to the renovation of an existing building for a leasing office. The homes will be operated on a lease-to-purchase basis for income-eligible households, however the lease period must be maintained for 15 years from the date of completion to comply with tax credit regulations. HOPE entered into a formal partnership arrangement with the NRP Group LLC, a for-profit developer from Cleveland, Ohio, to apply for the credits, construct the units, and manage the properties once completed.

The anticipated budget for the project is approximately \$9.5 million, with \$8.98 million provided by private investor equity in return for the tax credits. \$200,000 will come from federal HOME and City of Evansville grant funds, and permanent debt will consist of about \$421,000. A developer's fee of \$675,000 will be shared between NRP (70%) and HOPE (30%) to be paid in stages during the course of the project's completion.

The City of Evansville has endorsed this project and is supporting it with vacant lots and the leasing building to be sold at below market value, waived building permit fees, and infrastructure improvements. HOPE has created two new legal entities including, a wholly-owned for-profit subsidiary, Hope Homes of Evansville LLC, and Homes of Evansville LLC, and for-profit partnership consisting of Hope Homes of Evansville and the investor, which will own the properties during the lease period.

HOPE OF EVANSVILLE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 and 2010

NOTE 9- SUBSEQUENT EVENTS

The Organization has evaluated subsequent events and transactions through March 7, 2012, the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTARY INFORMATION

**HOPE OF EVANSVILLE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Grant Award	Federal Expenditures
U.S. Department of Housing and Urban Development	14.169	HC10-0421-142	\$ 44,340	\$ 44,340
<i>Pass-through from the Department of Metropolitan Development of the City of Evansville:</i>				
Home Investment Partnerships Program- 2010 Down Payment Assistance	14.218	M-10-MC-18-0201	150,000	112,491
CDBG- Housing Counseling Services 2010	14.218	B-10-MC-18-0002	9,957	4,138
CDBG- Housing Counseling Services 2011	14.218	B-11-MC-18-0002	9,950	6,637
"ARRA"- Neighborhood Stabilization Program	14.256	B-08-MN-18-0003	447,050	442,039
<i>Pass-through from the IHCDA-Indiana Foreclosure Prevention Network (IFPN)</i>				
IFPN-2010	21.000	A161-10-IFPN-112	105,000	74,160
IFPN-2011	21.000	SF-11-022IFPN	88,422	16,740
			\$ 854,719	\$ 700,545

NOTE A- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of HOPE of Evansville, Inc. under programs of the federal government for the year ended September 30, 2011. 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*. Because the Schedule presents only a selected portion of the operations of Hope of Evansville, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of HOPE of Evansville, Inc.

NOTE B- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**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
HOPE of Evansville, Inc.

We have audited the financial statements of HOPE of Evansville, Inc. as of and for the year ended September 30, 2011, and have issued our report thereon dated March 7, 2012. 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 HOPE of Evansville, Inc.'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 HOPE of Evansville, Inc.'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiency as described in the accompanying schedule of findings and questioned costs as item B1 to be a material weakness.


A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item B1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HOPE of Evansville, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 Standard*.

This report is intended solely for the information and use of the board of directors and management of HOPE of Evansville, Inc. 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.

Timothy J. Otte, C.P.A., P.C.



Newburgh, IN

March 7, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
HOPE of Evansville, Inc.

Compliance

We have audited HOPE of Evansville, Inc.'s compliance 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 its major federal program for the year ended September 30, 2011. HOPE of Evansville, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements is the responsibility of HOPE of Evansville, Inc.'s management. Our responsibility is to express an opinion on HOPE of Evansville, Inc.'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 identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about HOPE of Evansville, Inc.'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 of HOPE of Evansville, Inc.'s compliance with those requirements.

In our opinion, HOPE of Evansville, Inc. complied, in all material respects, with the compliance requirements referred to above that are applicable to its major federal program identified in the accompanying schedule of findings and questioned costs for the year ended September 30, 2011.

Internal Control Over Compliance

The management of HOPE of Evansville, Inc. is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered HOPE of Evansville, Inc.'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HOPE of Evansville, Inc's internal control over compliance

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in internal control over compliance and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a remote possibility that material noncompliance with a type of compliance of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and question costs as items B1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and question costs as item B1 to be a significant deficiency.

This report is intended for the information of the board of directors and management of HOPE of Evansville, Inc. and federal awarding agencies and pass-through entities and is intended to be and should not be used by anyone else other than the specified parties.

Timothy J. Otte, C.P.A., P.C.



Newburgh, IN
March 7, 2012

HOPE OF EVANSVILLE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of HOPE of Evansville, Inc.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance *Government Auditing Standards*. The deficiency is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of HOPE of Evansville, Inc. were disclosed during the audit.
4. One significant deficiency is disclosed during the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to each Major program and Internal Control Over Compliance Required By OMB Circular A-133. The deficiency is reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for HOPE of Evansville, Inc. expresses an unqualified opinion on the major federal program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program under CFDA #14.256 consists of:

"ARRA"- Neighborhood Stabilization Program
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. HOPE of Evansville, Inc. was not determined to be a low risk auditee.

B. FINDINGS- FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

B1. *Condition:* The size of the organization precludes the implementation of an effective internal control system due to the lack of segregation of duties.

Criteria: Segregation of duties is a vital part of an effective internal control structure.

Effect of condition: The internal control system is weak.

Cause of condition: The small size of the organization.

Recommendation: Establish compensating controls and/or separation of accounting functions.

**C. FINDINGS AND QUESTIONED COSTS- MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

C1. The findings from the financial statements audit listed in section B of this report also are considered findings related to the audit of the major federal award program.

HOPE OF EVANSVILLE, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2011

FINDING B1

Condition: The size of the organization precludes the implementation of an effective internal control system due to the lack of segregation of duties.

Recommendation: Continued involvement of the board of directors in reviewing records.

Current Status: Options are being explored to minimize the risk

FINDING B2

Condition: The size of the organization precludes the implementation of an effective internal control system due to the absence of controls over the preparation of financial statements and disclosures.

Recommendation: Continued involvement of the board of directors in reviewing records.

Current Status: The finding does not warrant further action. The board of directors for the 2010-2011 fiscal year includes a certified public accountant.

**HOPE OF EVANSVILLE, INC.
401 SE 6TH ST. SUITE 206
EVANSVILLE, IN 47713**

Timothy J. Otte, C.P.A., P.C.
P.O. Box 308
Newburgh, IN 47629

To whom it may concern:

Re: Corrective actions pursuant to fiscal year 2010/2011 audit

Findings: B1 (Page 17 of the report) Corrective Action

We are in the process of exploring options to minimize the risk which may include establishing compensating controls and/or separation of accounting functions.

Sincerely,

Thomas Coe- Executive Director
HOPE of Evansville, Inc.