

EVANSVILLE BROWNFIELDS CORPORATION

EVANSVILLE, INDIANA

FINANCIAL STATEMENTS

December 31, 2010



EVANSVILLE BROWNFIELDS CORPORATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Evansville Brownfields Corporation
1 N.W. Martin Luther King Jr. Blvd.
Evansville, Indiana 47708

We have audited the accompanying statement of financial position of Evansville Brownfields Corporation (a nonprofit organization) as of December 31, 2010, and the related statements of activities and cash flows for the year 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 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 1 to the financial statements, the methods used to value purchased and donated property inventory is not in accordance with accounting principles generally accepted in the United States of America. The effects of this departure from U.S. generally accepted accounting principles is not reasonably determinable.


Board of Directors
Evansville Brownfields Corporation

In our opinion, except for the effects of not adjusting property values to fair value as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Evansville Brownfields Corporation as of December 31, 2010, and the changes in its net assets and its 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 9, 2011, on our consideration of Evansville Brownfields Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purpose 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 as a whole.

August 9, 2011
Evansville, Indiana


Kemper CPA Group, LLP
Certified Public Accountants and Consultants

EVANSVILLE BROWNFIELDS CORPORATION

STATEMENT OF FINANCIAL POSITION

| ASSETS | <u>December 31, 2010</u> |
|---------------------------------------------------|---------------------------------|
| Current Assets | |
| Cash | \$ 125,631 |
| Property inventory | <u>1,690,680</u> |
| Total Current Assets | 1,816,311 |
| Other assets - intangibles | 558 |
| | <u><u>\$1,816,869</u></u> |
| LIABILITIES AND NET ASSETS | |
| Current Liabilities | |
| Due to the City of Evansville | \$ 59,105 |
| Department of Metropolitan Development seed money | <u>2,500</u> |
| Total Current Liabilities | 61,605 |
| Net Assets | |
| Unrestricted | 1,755,264 |
| | <u><u>\$1,816,869</u></u> |

See accompanying notes.

EVANSVILLE BROWNFIELDS CORPORATION

STATEMENT OF ACTIVITIES

| | Year Ended <u>December 31, 2010</u> |
|---------------------------------------------------------------------|------------------------------------------------------|
| Unrestricted Revenues | |
| Government grants | \$ 203,260 |
| Other grants | 57,936 |
| In-kind Donation | <u>225,807</u> |
| Total Unrestricted Revenues | <u>487,003</u> |
| Expenses | |
| Legal expense | 36 |
| Audit fees | 13,950 |
| Utilities | 1,284 |
| Other contractual services | 93,676 |
| Insurance | 1,136 |
| Donations of properties | 74,847 |
| Costs of properties redeemed | 2,700 |
| Title fees | 4,880 |
| Property taxes | 42,653 |
| Demolition costs | 122,724 |
| Bad debt expense | 5,265 |
| Wire transfer fees | <u>135</u> |
| Total Expenses | <u>363,286</u> |
| EXCESS OF REVENUES OVER EXPENSES | 123,717 |
| Loss on Disposal of Properties | 19,381 |
| INCREASE IN UNRESTRICTED NET ASSETS | 104,336 |
| Unrestricted Net Assets at Beginning of Year (Restated, see Note 4) | 1,650,928 |
| UNRESTRICTED NET ASSETS AT END OF YEAR | <u><u>\$1,755,264</u></u> |

See accompanying notes.

EVANSVILLE BROWNFIELDS CORPORATION

STATEMENT OF CASH FLOWS

| | <u>Year Ended</u> <u>December 31, 2010</u> |
|---------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Increase in unrestricted net assets | \$104,336 |
| Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities: | |
| Loss on disposal of properties | 19,381 |
| (Increase) decrease in: | |
| Accounts receivable | 5,265 |
| Property inventory | (60,040) |
| Increase (decrease) in: | |
| Due to City of Evansville | (5,587) |
| Accounts payable | <u>(4,250)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 59,105 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 66,526 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>\$125,631</u></u> |

See accompanying notes.

EVANSVILLE BROWNFIELDS CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

Note 1 – Summary of Significant Accounting Policies

Nature of Activities

The Organization was formed to assist government agencies in promoting the economic development of economically distressed real estate in the City of Evansville. Evansville Brownfields Corporation's primary purpose is to acquire "brownfield" properties and/or other distressed real estate, to improve or remediate the real estate and thereafter retain or donate the real estate in order to benefit the City of Evansville and its economic development. Properties are donated to two local not-for-profit organizations to help provide housing for low income families.

The Organization receives its primary support from the federal grants which pass through the City of Evansville. In some instances, the City of Evansville funds the operations of Evansville Brownfields Corporation on a reimbursement basis, and in other instances, the City of Evansville is billed directly by, and makes payments directly to, vendors for goods and services relating to the operations of Evansville Brownfields Corporation.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting which follows generally accepted accounting principles.

Basis of Presentation

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.

Federal Income Tax Status

The Organization is exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization other than a private foundation under Section 509 (a)(2).

EVANSVILLE BROWNFIELDS CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

Note 1 – Summary of Significant Accounting Policies (Concluded)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Property Inventory

Property inventory consists of properties purchased with federal grant funds. Federal regulations require that the properties purchased with these grant funds be in distressed areas of Evansville, Indiana. The properties are held until sold or donated to charitable organizations. The purpose of acquiring the properties is to beautify the City of Evansville.

Generally accepted accounting principles requires inventory to be carried at lower of cost or market. Cost includes all direct and indirect costs incurred to bring inventories to their existing condition and location.

Purchased properties are carried at acquisition cost in the statement of financial position. The cost to demolish and remove homes from purchased properties are expensed as incurred. Properties donated to the Organization that will have costs to demolish and remove buildings in excess of the fair value of the donated property are considered to have no value to the Organization and therefore no donation revenue is recognized. Subsequent costs to demolish and remove the homes from donated properties are expensed when incurred. Generally accepted accounting principles requires demolition and removal costs to be included in inventory. In addition, generally accepted accounting principles requires inventory carrying costs be reduced to market value when a loss of usefulness or a reduction in selling price reduces recoverable value below cost. The accounting policies of the Organization depart from generally accepted accounting principles because purchased properties are carried at original acquisition cost, demolition and removal costs are expensed as incurred and no evaluation of properties is performed to determine if a lower of cost or market valuation adjustment is needed.

EVANSVILLE BROWNFIELDS CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

Note 2 – Income Taxes

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization files income tax returns in the U.S. federal jurisdiction and the state of Indiana. The Organization is no longer subject to the U.S. federal and state income tax examinations by tax authorities for years before 2007.

Note 3 – Subsequent Event

The Organization has evaluated subsequent events through August 9, 2011, the date which the financial statements were available to be issued.

Note 4 – Prior Period Adjustment

In the financial statements for the year ended December 31, 2009, an error was made in reporting demolition costs as an addition to the value of properties on hand. Because demolition costs do not increase the value or lives of the properties, they should be expensed as incurred.

The error noted above has been corrected and has the following effect on the beginning unrestricted net assets:

| | |
|-----------------------------------------------------------------|----------------------------|
| Unrestricted Net Assets, January 1, 2010 | \$ 1,849,106 |
| Correct the effect of the incorrectly reported demo costs | <u>(198,178)</u> |
| Beginning Unrestricted Net Assets, January 1, 2010, Restated | <u><u>\$ 1,650,928</u></u> |

----- **ADDITIONAL INFORMATION** -----



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
Evansville Brownfields Corporation
1 N.W. Martin Luther King Jr. Blvd.
Evansville, Indiana 47708

We have audited the financial statements of Evansville Brownfields Corporation as of and for the year ended December 31, 2010, and have issued our report thereon dated August 9, 2011. 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 Evansville Brownfields Corporation's 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 Evansville Brownfields Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Evansville Brownfields Corporation'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.

Board of Directors
Evansville Brownfields Corporation

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 a 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. A *significant deficiency* is a deficiency, or a 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 deficiencies described in the accompanying schedule of findings and questioned costs as 10-1, 10-2, 10-3, 10-4, and 10-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Evansville Brownfields Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 10-6.

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.

August 9, 2011
Evansville, Indiana


Kemper CPA Group, LLP
Certified Public Accountants and Consultants



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

Board of Directors
Evansville Brownfields Corporation
1 N.W. Martin Luther King Jr. Blvd.
Evansville, Indiana 47708

Compliance

We have audited Evansville Brownfields Corporation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Evansville Brownfields Corporation's major federal programs for the year ended December 31, 2010. Evansville Brownfields Corporation'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 of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Evansville Brownfields Corporation's management. Our responsibility is to express an opinion on Evansville Brownfields Corporation's compliance based on our audit.

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

Board of Directors
Evansville Brownfields Corporation

As described in item 10-6 in the accompanying schedule of findings and questioned costs, Evansville Brownfields Corporation did not comply with requirements regarding real property acquisition that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in our opinion, for Evansville Brownfields Corporation to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Evansville Brownfields Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Evansville Brownfields Corporation 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 Evansville Brownfields Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 Evansville Brownfields Corporation's internal control over compliance.

Our consideration of integral control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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 over compliance* is a deficiency, or combination of

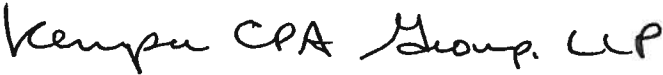
Board of Directors
Evansville Brownfields Corporation

deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a 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 in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-4 to be a material weakness.

Evansville Brownfields Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Evansville Brownfields Corporation's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.

August 9, 2011
Evansville, Indiana


Certified Public Accountants and Consultants

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | |
|------------------------------------------------------------------------------------------|------------|
| Type of auditor’s report issued: | Qualified |
| Internal control over financial reporting: | |
| • Material weaknesses identified? | Yes |
| • Significant deficiencies identified that are not considered to be material weaknesses? | None Noted |
| • Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| 1) Internal control over major program: | |
| a) Material weaknesses identified? | Yes |
| b) Significant deficiencies identified that are not considered to be material weaknesses? | None Noted |
| 2) Type of auditor’s report issued on compliance for major programs: | Qualified |
| 3) Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | Yes |
| 4) Identification of major programs: | |
| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
| 14.218 | Community Development Block Grant program for Entitlement Communities - Cluster |
| 5) Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6) Auditee qualified as a low-risk auditee? | No |

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 10-1– Controls Over Financial Statement Preparation

Criteria/Specific Requirement:

Evansville Brownfields Corporation is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Organization's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Financial Accounting Standards Board (FASB).

Condition:

The Organization does not have the ability to prepare the financial statements and required footnote disclosures that are required by GAAP. Numerous journal entries were required to adjust internal financial information to GAAP.

Effect:

Management or employees in the normal course of performing their assigned functions may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Cause:

The one individual overseeing operations has no accounting background and lacks appropriate training necessary to prepare financial statements and required disclosure footnotes in accordance with generally accepted accounting principles.

Recommendation:

As part of its internal control over the preparation of its financial statements, including disclosures, Evansville Brownfields Corporation should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, FASB pronouncements, and knowledge of Evansville Brownfields Corporation's activities and operations.

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 10-1– Controls Over Financial Statement Preparation (Concluded)

Management Response:

It is not financially feasible for the Evansville Brownfields Corporation (EBC) to hire and/or train personnel to perform financial functions for the entity as cited. Nor is it financially feasible for the EBC to purchase additional software to perform financial recordkeeping. The EBC relies on City personnel for assistance with financial recordkeeping.

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 10-2– Inadequate Internal Controls Over Financial Reporting

Criteria/Specific Requirement:

Evansville Brownfields Corporation is required to maintain a system of controls over the financial reporting process to be able to record, process, and report financial data reliably in accordance with generally accepted accounting principles (GAAP).

Condition:

Internal interim financial statements are not prepared, therefore, the Board does not review financial information at Board meetings.

Effect:

Management or employees in the normal course of performing their assigned functions may not prevent or detect financial misstatements or possible fraudulent activity in a timely manner. In addition, noncompliance with laws and regulations may go undetected.

Cause:

Due to having only one person to oversee operations, the Organization does not have the time or expertise to prepare monthly financial statements.

Recommendation:

As part of the monthly accounting to the board, personnel should provide a financial statement showing monthly and year-to-date revenues. This will allow the board to know how much grant funding is available to purchase additional properties. The board should review the information for reasonableness as well as review in detail amounts spent to purchase properties.

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 10-2– Inadequate Internal Controls Over Financial Reporting (Concluded)

Management Response:

Beginning January 2010, City/DMD financial staff began maintaining a ledger of all transactions through the EBC checking account. That ledger would be the only financial reporting available to present to the EBC board of directors. Although the board may consider reviewing the transaction ledger at each meeting in the future, they do not meet on a monthly basis.

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 10-3– Inadequate Internal Controls Over Cash Receipts and Disbursements

Criteria/Specific Requirement:

Evansville Brownfields Corporation is required to maintain a system of controls over the financial reporting process to be able to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles (GAAP).

Condition:

Evansville Brownfields Corporation does not have sufficient internal controls over the financial reporting process. We noted the following deficiencies in internal control:

- 1) Lack of segregation of duties for cash receipts and preparing deposits.
- 2) Lack of proper controls over cash disbursements. During our testing of cash disbursements we found one item which was paid after year end. However, this item was not recorded as accounts payable.
- 3) There is no verifiable approval of invoices.

Effect:

Management or employees in the normal course of performing their assigned functions may not prevent or detect financial misstatements or possible fraudulent activity in a timely manner. Evansville Brownfields Corporation also may not be in compliance with laws, regulations, and contract provisions.

Cause:

Evansville Brownfields Corporation did not consistently implement internal controls. Because there is only one person overseeing operations, it is very difficult to segregate all duties.

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 10-3– Inadequate Internal Controls Over Cash Receipts and Disbursements (Concluded)

Recommendation:

The bank statements should be received and reviewed by an independent person prior to being provided to the coordinator each month for reconciliation. The coordinator should not be an authorized check signer and should not have access to transfer funds from the checking account. All invoices should be approved by someone independent of the cash disbursement process.

Management Response:

- 1) Cash receipts are logged into the City log at the DMD front desk for tracking purposes. Regarding preparation of deposits, although the coordinator prepares the deposit, all checks are endorsed by the DMD finance officer
- 2) In the future management will prepare a list of payables and receivables at year end.
- 3) The EBC records invoices in a paid checkbook system rather than with a trial balance. In the future, all invoices will be dated and initialed by the board member that reviews the invoice prior to payment as well as the board member that signs the check for payment.

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 10-4– Inadequate Internal Controls Over Compliance

Criteria/Specific Requirement:

Evansville Brownfields Corporation is required to maintain a system of controls over compliance to be able to record, process, and report financial data reliably in accordance with generally accepted accounting principles (GAAP) and to comply with grant requirements.

Condition:

Evansville Brownfields Corporation does not have sufficient internal controls over compliance with grant terms. We noted the following deficiencies in internal control:

1. Staff does not have a list of grant's allowable costs available to determine that expenditures are being made for items deemed allowable by the grant.
2. During our testing of disbursement cutoff, we found one instance in which Evansville Brownfields Corporation paid for the purchase of several properties on behalf of the Department of Metropolitan Development (DMD). This transaction was never intended for Evansville Brownfields Corporation to own the properties, rather it was to essentially loan funds to the DMD for the purchase. This transaction was never approved by the Board of Directors.

Effect:

Evansville Brownfields Corporation may not be in compliance with laws, regulations, and contract provisions.

Cause:

Due to having only one person to oversee operations, Organization personnel has not been properly trained on the compliance requirements for the grants received.

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (Concluded)

Finding No. 10-4– Inadequate Internal Controls Over Compliance (Concluded)

Recommendation:

Organization personnel should be required to attend training regarding the applicable compliance requirements associated with the grant funding received. Management should carefully review each grant agreement and the related OMB cost circulars to ensure the Organization is spending and recording grant funds in accordance with all compliance requirements. Management should provide those charged with governance a summary of grant performance on a monthly basis. Grant funding should only be used for the purpose specified in the grant agreement. These funds should never be used for or on behalf of others for any purpose.

Management Response:

1. Staff does not have a list of allowable expenses but this will be obtained from the DMD community development staff member who will be monitoring EBC.
2. Compliance with grant performance will be performed with regular monitoring by DMD community development staff. Although, due to staffing limitations monthly monitoring and reporting will be impossible.

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS (Concluded)

Finding No. 10-5– Departure from Generally Accepted Accounting Principle

Criteria/Specific Requirement:

Evansville Brownfields Corporation is required to maintain accounting records necessary to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Condition:

Evansville Brownfields Corporation purchases distressed real estate in order to help beautify the City of Evansville. These properties are carried at cost which does not conform with accounting principles generally accepted in the United States.

Effect:

Generally accepted accounting principles requires inventory to be carried at lower of cost or market. The methods used to value purchased and donated property inventory is not in accordance with accounting principles generally accepted in the United States of America. The effects of this departure from U.S. generally accepted accounting principles is not reasonably determinable.

Cause:

Evansville Brownfields Corporation carries all properties at cost and does not adjust the value if structures on the property are demolished.

Recommendation:

All properties should have a proper appraisal at the time of purchase. Subsequently, if structures on the property are demolished, Evansville Brownfields Corporation should adjust the value of the property to the fair value of the remaining land.

Management Response:

As a general practice to conserve funds, the EBC does not conduct appraisals on properties purchased at tax sale or when the owner has a willingness to sell for a price well below assessed value. The same philosophy to save money is implemented when considering ordering appraisals simply to adjust the property value when the property will likely eventually be sold for well below the fair market value.

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

Finding No. 10-6 – Appraisal Process for Purchase of Properties

Federal Program Name: Community Development Block Grant program for Entitlement Communities
Project No.: 064-825-431050003
CFDA No.: 14.218
Passed Through: City of Evansville
Federal Agency: U.S. Department of Housing and Urban Development

Criteria/Specific Requirement:

Federal regulations require that a certified appraisal be completed on any property that will be purchased with Community Development Block Grant funds.

Condition:

During our compliance testing of this specific federal program, we found two disbursements of five tested did not have a certified appraisal prior to the purchase of the property as required by the grant agreement.

Questioned Costs:

\$32,042

Context:

We tested the Community Development Block Grant program for Entitlement Communities during the year ended December 31, 2010.

Effect:

Evansville Brownfields Corporation is not in compliance with the requirements of this federal program.

Cause:

Evansville Brownfields Corporation management uses the county assessor's valuation of the property because they do not believe expending the additional funds for the appraisal is an economically beneficial use of the federal funds.

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2010

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Concluded):

Finding No. 10-6 – Appraisal Process for Purchase of Properties (Concluded)

Recommendation:

Evansville Brownfields Corporation should obtain certified appraisals on all properties before they are purchased since this is required by the grant.

Management's Response:

In the past EBC management has not obtained appraisals for properties before purchasing if it was obvious by comparing current assessed value that the asking price was substantially below market rate or the anticipated appraised value. This practice was a cost saving measure to acquire properties not to circumvent Community Development Block Grant (CDBG) regulation. If it is deemed a necessity per CDBG requirements the EBC will require appraisals for purchases for which CDBG funds will be utilized.

EVANSVILLE BROWNFIELDS CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 31, 2010

| <u>Finding No.</u> | <u>Condition</u> | <u>Current Status</u> |
|---------------------------|-------------------------------------------------------------------|------------------------------|
| 09-1 | Controls over Financial Statement Preparation | Repeated as 10-1 |
| 09-2 | Inadequate Internal Controls over Financial Reporting | Repeated as 10-2 |
| 09-3 | Inadequate Internal Controls over Cash Receipts and Disbursements | Repeated as 10-3 |
| 09-4 | Appraisal Process for Purchase of Properties | Repeated as 10-5 |

EVANSVILLE BROWNFIELDS CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2010

| <u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass- Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|---------------------------------------------------------------------------|------------------------------------|----------------------------------------------------------------|---------------------------------|
| CDBG - Entitlement Grants Cluster-Cluster | | | |
| Department of Housing and Urban Development | | | |
| Pass-Through Programs From | | | |
| City of Evansville-Community Development | | | |
| Block Grant | | | |
| City of Evansville-CDGB | 14.218 | 064-825-431050003 | \$ 86,850 |
| City of Evansville-NSP | 14.218 | 065-111-4390500 | <u>74,988</u> |
| Total Community Development Block Grant Cluster | | | <u>161,838</u> |
| Total Department of Housing and Urban Development | | | <u>161,838</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u><u>\$161,838</u></u> |

EVANSVILLE BROWNFIELDS CORPORATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2010

Note 1 - Reporting Entity Basis of Presentation And Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Evansville Brownfields Corporation. 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 on this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipients

None

Note 3 - Description of Major Federal Program

Community Development Block Grant program for Entitlement Communities - Cluster - This program provides federal monies to develop viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income.

Note 4 - Non-Cash Assistance

None

Note 5 - Amount of Insurance

None

Note 6 - Loans or Loan Guarantees Outstanding

None