

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

YEAR ENDED JUNE 30, 2009

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

YEAR ENDED JUNE 30, 2009

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Independent Auditors' Report

Board of Directors
Housing Options for the Mentally-Ill in Evanston, Inc.
Evanston, Illinois

We have audited the accompanying statement of financial position of Housing Options for the Mentally-Ill in Evanston, Inc. (a nonprofit organization) (the Organization) as of June 30, 2009 and the related statements of activities and changes in net assets, functional expenses 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. The prior year summarized comparative information has been derived from the Organization's year ended June 30, 2008 financial statements and, in our report dated December 16, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 Housing Options for the Mentally-Ill in Evanston, Inc. as of June 30, 2009 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.

November 2, 2009

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF FINANCIAL POSITION
WITH SUMMARIZED FINANCIAL INFORMATION FOR JUNE 30, 2008

June 30,	2009			2008		
	Operating	Unrestricted Board- designated (Note 9)	Total	Temporarily restricted (Note 10)	Permanently restricted (Note 11)	Total
ASSETS						
Cash and cash equivalents	\$ 238,140	\$ 50,000	\$ 288,140		\$ 2,047	\$ 290,187
Receivables:						
Illinois Department of Human Services	164,871		164,871			164,871
U.S. Department of Housing and Urban Development	24,658		24,658			24,658
Participation fees	10,499		10,499			10,499
Real estate tax refund	31,543		31,543			31,543
Other						4,335
Total receivables	231,571		231,571			231,571
Notes payable reserve (Note 8)	33,007		33,007			33,007
Prepaid expenses	9,866		9,866			9,866
Investments (Note 6)	52,866		52,866			52,866
Property and equipment, net (Notes 7 and 8)	1,982,655		1,982,655	\$ 1,463,770		3,446,425
Security deposits	11,713		11,713			11,713
Total assets	\$ 2,559,818	\$ 50,000	\$ 2,609,818	\$ 1,463,770	\$ 2,047	\$ 4,075,635
						\$ 4,097,400

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF FINANCIAL POSITION (CONTINUED)
WITH SUMMARIZED FINANCIAL INFORMATION FOR JUNE 30, 2008

	2009		2008		
	Operating	Unrestricted Board- designated (Note 9)	Temporarily restricted (Note 10)	Permanently restricted (Note 11)	Total
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	\$ 42,585	\$ 42,585		\$ 42,585	\$ 48,956
Accrued real estate taxes					32,000
Tenant deposits and custodial funds	18,105	18,105		18,105	18,442
Notes payable, less unamortized discount (Note 8)	719,922	719,922		719,922	655,851
Total liabilities	780,612	780,612		780,612	755,249
Net assets	1,779,206	\$ 50,000	\$ 1,463,770	\$ 2,047	3,242,151
Total liabilities and net assets	\$ 2,559,818	\$ 50,000	\$ 1,463,770	\$ 2,047	\$ 4,075,635
					\$ 4,097,400

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2008

	2009		2008		
	Operating	Unrestricted Board-designated (Note 9)	Temporarily restricted (Note 10)	Permanently restricted (Note 11)	Total
Revenues and other support:					
Public support:					
Grants:					
Illinois Department of Human Services	\$ 567,268	\$ 567,268		\$	\$ 632,060
U.S. Department of Housing and Urban Development	286,458	286,458			295,589
Other	73,100	73,100			55,504
Total grants	926,826	926,826			983,153
Contributions, general	74,202	74,202			75,978
Contributions, loan discount			\$ 71,370		215,497
Special events, net	36,358	36,358			48,218
Total public support	1,037,386	1,037,386	71,370		1,322,846
Other revenues:					
Participation fees	294,710	294,710			293,967
Investment	(9,526)	(9,526)		\$ 8	3,687
Miscellaneous	522	522			1,403
* Net assets released from restrictions (Note 10)	29,530	29,530	(29,530)		
Total other revenues	315,236	315,236	(29,530)	8	299,057
Total revenues and other support	1,352,622	1,352,622	41,840	8	1,621,903

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2008

	2009			2008		
	Operating	Unrestricted Board-designated (Note 9) Total	Temporarily restricted (Note 10) Total	Permanently restricted (Note 11) Total	Total	Total
Expenses:						
Program services:						
Resident services	\$ 765,560	\$ 765,560	\$ 765,560	\$ 765,560	\$ 778,917	
Building management	424,035	424,035	424,035	424,035	492,075	
Community education	73,889	73,889	73,889	73,889	85,253	
Supporting services:						
Management and general	92,110	92,110	92,110	92,110	77,466	
Fundraising	86,004	86,004	86,004	86,004	86,337	
Total expenses	1,441,598	1,441,598	1,441,598	1,441,598	1,520,048	
Increase (decrease) in net assets	(88,976)	(88,976)	\$ 41,840	\$ 8	(47,128)	101,855
Net assets, beginning of year	1,868,182	\$ 50,000	1,918,182	1,421,930	2,039	3,342,151
Net assets, end of year	\$ 1,779,206	\$ 50,000	\$ 1,829,206	\$ 1,463,770	\$ 2,047	\$ 3,295,023
						\$ 3,342,151

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF FUNCTIONAL EXPENSES
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2008

	2009		2008						
	Program Services		Supporting Services						
	Resident services	Building management	Community education	Management and general	Fundraising	Total	Total expenses		
Salaries and related expenses:									
Salaries	\$ 324,318	\$ 105,002	\$ 48,451	\$ 477,771	\$ 61,803	\$ 54,689	\$ 116,492	\$ 594,263	\$ 549,813
Employee benefits	59,633	13,358	9,135	82,126	9,539	10,119	19,658	101,784	88,834
Payroll taxes	29,878	9,574	4,441	43,893	5,305	5,017	10,322	54,215	56,906
Total salaries and related expenses	413,829	127,934	62,027	603,790	76,647	69,825	146,472	750,262	695,553
Other expenses:									
Accreditation and licensing	6,661	77	26	6,764	26	26	52	6,816	13,286
Bad debts	1,059	227	76	1,362	3,888	76	151	3,888	13,394
Bank fees	793	52,509	75	53,302	75	76	151	1,513	3,195
Building repairs and maintenance	7,539	46,375	106	53,914	105	106	211	53,302	65,608
Building utilities	1,482	318	1,192	1,906	1,193	1,192	2,385	53,914	52,263
Conferences and meetings	16,692	3,577	1,192	21,461	89	91	180	23,846	2,641
Consulting	1,267	272	91	1,630	417	417	834	1,810	972
Dues and subscriptions	5,837	1,251	417	7,505	1	1	1	8,339	7,427
Equipment lease	3,554	5,663	366	9,217	1,097	366	1,463	9,218	7,627
Furnishings	3,659	31,095	40,759	35,120	440	440	880	36,583	39,911
Insurance	40,759	40,759	440	40,759	440	440	880	40,759	41,248
Interest	6,863	1,496	440	8,799	440	440	880	9,679	409
Internet	3,611	5,411	65	9,087	152	65	217	9,304	7,009
Local transportation	34,612	7,417	2,472	44,501	2,473	2,472	4,945	49,446	6,329
Miscellaneous	8,298	1,778	593	10,669	592	593	1,185	11,854	55,050
Occupancy	9,555	2,047	682	12,284	684	682	1,366	13,650	14,706
Office supplies	2,878	720	2,878	6,476	719	7,195	7,914	14,390	7,040
Postage and shipping	12,057	2,584	861	15,502	861	861	1,722	17,224	18,862
Printing and publications	17,315	17,315	26,996	17,315	26,996	26,996	26,996	17,315	47,425
Professional fees	26,996	26,996	26,996	26,996	26,996	26,996	26,996	17,315	13,658
Psychiatrist	26,996	26,996	26,996	26,996	26,996	26,996	26,996	41,441	41,441
Real estate taxes	26,996	26,996	26,996	26,996	26,996	26,996	26,996	31,466	31,466
Resident support	26,996	26,996	26,996	26,996	26,996	26,996	26,996	26,996	26,996

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2008

	2009				2008	
	Program Services		Supporting Services		Total expenses	Total expenses
	Resident services	Building management	Community education	Management and general		
Other expenses: (continued)	\$ 158,644		\$ 158,644		\$ 158,644	\$ 168,665
Scattered site apartment rentals	7,721	\$ 1,654	\$ 551	\$ 9,926	\$ 553	\$ 1,104
Staff training	14,638	3,137	1,046	18,821	1,044	2,090
Telephone					1,046	20,911
Total other expenses	351,731	208,367	11,862	571,960	14,409	30,588
Total expenses before depreciation	765,560	336,301	73,889	1,175,750	91,056	177,060
Depreciation		87,734		87,734	1,054	1,054
Total expenses	\$ 765,560	\$ 424,035	\$ 73,889	\$ 1,263,484	\$ 92,110	\$ 178,114
					\$ 86,004	\$ 1,441,598
						\$ 1,520,048

See notes to financial statements.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

STATEMENT OF CASH FLOWS

Years ended June 30,	2009	2008
Operating activities:		
Increase (decrease) in net assets	\$ (47,128)	\$ 101,855
Adjustments to reconcile above to cash used in operating activities:		
Depreciation	88,788	92,439
Amortization of loan discount	29,530	30,503
Contributions, loan discount	(71,370)	(215,497)
Unrealized loss	20,010	11,046
(Increase) decrease in operating assets:		
Receivables	(107,161)	(80,265)
Notes payable reserve	(33,007)	
Prepaid expenses	16,654	(8,230)
Security deposits	(619)	(121)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(6,371)	(10,213)
Accrued real estate taxes	(32,000)	32,000
Tenant deposits and custodial funds	(337)	4,370
Cash used in operating activities	(143,011)	(42,113)
Investing activities:		
Purchase of investments	(1,226)	(1,413)
Purchase of property and equipment	(51,487)	(365,671)
Cash used in investing activities	(52,713)	(367,084)

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF CASH FLOWS (CONTINUED)

Years ended June 30,	2009	2008
Financing activities:		
Proceeds from notes payable	\$ 109,601	\$ 298,804
Repayments of notes payable	(3,691)	(11,360)
Cash provided by financing activities	105,910	287,444
Decrease in cash and cash equivalents	(89,814)	(121,753)
Cash and cash equivalents, beginning of year	380,001	501,754
Cash and cash equivalents, end of year	\$ 290,187	\$ 380,001
Supplemental disclosure of cash flow information:		
Interest paid	\$ 11,229	\$ 10,745

See notes to financial statements.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization and purpose

Housing Options for the Mentally-Ill in Evanston, Inc. (the Organization) is a nonprofit organization dedicated to the development of affordable housing options and psychosocial rehabilitation services for persons with or recovering from mental illnesses. The Organization serves low-income residents coping with severe and persistent mental illness in the Evanston, Illinois area. The Organization manages buildings providing both permanent and transitional housing to eligible residents and also provides community education regarding issues affecting the mentally ill.

2. Summary of significant accounting policies

The significant accounting policies of the Organization are summarized below.

Basis of accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of presentation:

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted - Unrestricted net assets are available to finance the general operations of the Organization. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates and the purposes specified in its articles of incorporation. Voluntary resolutions by the Board of Directors to designate a portion of the Organization's unrestricted net assets for specified purposes do not result in restricted funds. Since designations are voluntary and may be reversed by the Board of Directors at any time, designated net assets are included under the caption "unrestricted net assets". Board-designated net assets include assets over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Board-designated net assets represent assets to fund future property improvement (Note 9).

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Basis of presentation: (continued)

Temporarily restricted - Temporarily restricted net assets result (a) from contributions and other inflows of assets, the use of which the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by action of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

Permanently restricted - Permanently restricted net assets (generally referred to as endowment funds) are assets that have donor-imposed restrictions that stipulate that the contributed resources be maintained permanently, but permit the Organization to utilize or expend part or all of the income or other economic benefits derived from the donated assets.

Unrestricted and restricted revenue and support - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization reports donor-restricted contributions and donor-restricted investment gains and income for which restrictions are met in the same reporting period as unrestricted support.

Valuation:

During the year ended June 30, 2009, the Organization adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, expands the disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. The value of all of the Organization's assets and liabilities which are required to be carried at fair value are valued at quoted prices in active markets for identical assets and liabilities and are, therefore, considered Level 1 assets and liabilities.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Comparative financial information:

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Property and equipment and related depreciation:

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Fixed assets are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on a straight-line basis over the useful lives of the assets generally as follows:

Buildings and building improvements	40 years
Furniture, equipment and vehicles	5-10 years

Tax status:

The Organization is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. In addition, the Internal Revenue Service has determined that the Organization is not a private foundation within the meaning of Section 509(a) of the Code.

The Organization has elected to defer the implementation date for FIN 48, *Accounting for Uncertainty in Income Taxes*, to its year ending June 30, 2010, as permitted by FASB Staff Position No. FIN 48-3. The Organization periodically evaluates its related tax filing exposure related to periods open for examination and does not expect that FIN 48 will have a material effect on its financial position and results of operations when adopted.

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. Accordingly, actual results could differ from those estimates.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Cash and cash equivalents:

The Organization considers all currency on hand, demand deposits, certificates of deposit and short-term, highly liquid investments with an initial maturity of ninety days or less to be cash equivalents.

Investments:

Investments in marketable securities with readily determinable fair values are stated at fair market value. Realized and unrealized investment gains and losses and other investment income are reflected in the statement of activities as changes in unrestricted net assets.

Receivables:

Receivables are stated at unpaid balances. It is the Organization's policy to write-off uncollectible receivables when management determines the receivable will not be collected.

The Organization recognizes revenue, which has yet to be invoiced, as accrued revenue. This revenue is estimated based on a projection of activity for the period as well as the amount remaining to be invoiced on contracts with funding sources.

Functional allocation of expenses:

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

3. Cash and cash equivalents

At June 30, 2009, the Organization's cash balances are fully insured by the Federal Deposit Insurance Corporation.

4. Concentration of revenue

Approximately 60% of the Organization's total revenue for the year ended June 30, 2009 is provided from grants from the U.S. Department of Housing and Urban Development and the Illinois Department of Human Services. Additionally, approximately 75% of the Organization's receivables are from the U.S. Department of Housing and Urban Development and the Illinois Department of Human Services.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Donated services

Donated services are recognized as contributions in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. There were no recorded donated services for the year ended June 30, 2009. Volunteers provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

6. Investments

The Organization's investments consist of the following:

June 30, 2009	Cost	Market value
Mutual funds - Total Stock Market Index Fund	\$ 52,636	\$ 52,866

7. Property and equipment

The following is a summary of property and equipment:

June 30, 2009	
Land	\$ 496,684
Buildings and building improvements	3,447,895
Furniture, equipment and vehicles	159,618
	4,104,197
Less accumulated depreciation	657,772
Property and equipment, net	\$ 3,446,425

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Notes payable

The Organization's obligations under notes payable consist of the following:

	Rate	Due	Principal balance	Unamortized discount	Principal balance less unamortized discount
<p>BANK:</p> <p>1304 Kirk Street: First mortgage note, secured by underlying property. Balloon principal payment of \$172,619 on due date. Penalties for prepayment ranging from 1.00% to 5.00% are assessed based on length of time the loan is outstanding.</p>	5.50%	July 2013	\$ 184,608	N/A	\$ 184,608
<p>ILLINOIS HOUSING DEVELOPMENT AUTHORITY:</p> <p>328 Custer Ave. (Bell House): Mortgage note, due in one payment. Contains certain restrictions on the Organization as to the use of the property as well as various other requirements and may not be repaid prior to maturity without written consent of the Illinois Housing Development Authority. Discount is based on imputed interest rate of 7.47%.</p> <p>2120 Jackson Ave. (HomeFirst): Mortgage note, due in one payment. Contains certain restrictions on the Organization as to the use of the property as well as various other requirements and may not be repaid prior to maturity without written consent of the Illinois Housing Development Authority. Discount is based on imputed interest rate of 8.85%.</p> <p>419 Keeney (Claire) and 1009 Florence (Gainey): Note payable secured by a mortgage on the properties. The note cannot be repaid before maturity without written consent of the payee. Default interest at 5.00% and principal may be payable due to non-compliance with provisions of the agreements with the Illinois Housing Development Authority. Discount is based on imputed interest rate of 8.00%.</p>	0.00%	April 2023	\$ 234,000	\$ 150,473	83,527
	0.00%	April 2022	\$ 175,000	\$ 118,559	56,441
	0.00%	August 2026	\$ 210,000	\$ 156,572	53,428

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Notes payable (continued)

June 30, 2009

	Rate	Due	Principal balance	Unamortized discount	Principal balance less unamortized discount
ILLINOIS HOUSING DEVELOPMENT AUTHORITY: (CONTINUED)					
<u>§18 Crain (Rose House):</u>					
Note payable secured by a first mortgage on the property. Monthly principal payments of \$100 with balloon principal payment at maturity. The note cannot be repaid before maturity without written consent of the payee. Default interest at 5.00% and principal may be payable due to non-compliance with provisions of the agreements with the Illinois Housing Development Authority.					
	0.00%	February 2028	\$ 898,300	\$ 611,062	\$ 287,238
Discount is based on imputed interest rate of 6.24%.					
Note payable secured by second mortgage on the property. The note cannot be repaid before maturity without written consent of the payee. Default interest at 5.00% and principal may be payable due to non-compliance with provisions of the agreements with the Illinois Housing Development Authority.					
	0.00%	February 2028	175,000	120,320	54,680
Discount is based on imputed interest rate of 6.24%.					
			\$ 1,876,908	\$ 1,156,986	\$ 719,922

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Notes payable (continued)

Reserve accounts:

The 818 Crain (Rose House) loans require the Organization to fund the following reserve accounts: replacement reserve account, tax and insurance reserve account, initial operating reserve account and operating deficit reserve account. Funding of the reserve accounts totaled approximately \$33,000 for the year ended June 30, 2009. The Organization is required to fund the replacement reserve account with monthly payments of \$225. In addition, the Organization is required to make monthly payments to the tax and insurance reserve account so that funds equal to one-half of 105% of the property's real estate tax bill for the prior calendar year plus funds equal to 105% of the property's insurance bill for the prior calendar year (or such other amounts as the Illinois Housing Development Authority shall determine in its reasonable discretion) are maintained in the account on the first day of the month before each insurance bill and installment of real estate taxes are due. The initial operating reserve account and the operating deficit reserve account require no additional payments subsequent to initial funding.

Debt service to maturity on all outstanding loan obligations is as follows:

<u>Year ending June 30:</u>	<u>Principal</u>
2010	\$ 3,973
2011	4,130
2012	4,295
2013	4,469
2014	173,741
<u>Thereafter (2015 through 2028)</u>	<u>1,686,300</u>
<u>Total</u>	<u>\$ 1,876,908</u>

The Organization is in compliance with all covenants of the above loans.

The Organization has a \$200,000 line of credit as of June 30, 2009 of which \$-0- had been borrowed as of June 30, 2009. Advances on the line of credit are at prime (3.25% at June 30, 2009) and are secured by a junior mortgage and assignment of rents on the Organization's building at 1304 Kirk Street and all business assets.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Designation of unrestricted net assets

It is the policy of the Board of Directors of the Organization to review its plans for future property improvements and to designate appropriate sums of unrestricted net assets to ensure adequate financing of such improvements. As of June 30, 2009, the Board has designated \$50,000 of unrestricted net assets for future property improvements.

10. Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes or periods:

<u>June 30, 2009</u>	
Time-restricted funds:	
U.S. Department of Housing and Urban Development grant	\$ 306,784
Illinois Housing Development Authority loans - unamortized loan discount	1,156,986
<hr/>	
Total temporarily restricted net assets	\$ 1,463,770

Net assets were released from donor restrictions by incurring expenses satisfying the following restrictions specified by donors as follows:

<u>Year ended June 30, 2009</u>	
Time-restricted fund:	
Illinois Housing Development Authority loans - amortization of loan discount	\$ 29,530
<hr/>	
Total net assets released from restrictions	\$ 29,530

11. Permanently restricted net assets

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Organization's general activities.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Retirement plan

The Organization sponsors a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code for eligible employees. All employees are eligible upon hiring and are fully vested immediately. The Organization contributes 3% of gross salaries for qualified employees to the plan. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. For the year ended June 30, 2009, the Organization's contributions to the plan totaled \$17,636.

13. Leases

The Organization leases office space under a lease agreement that expires October 31, 2010. The lease requires monthly base rent payments of \$2,859 over the lease term. The Organization signed a lease agreement for additional space at the same location during the year ended June 30, 2009. The lease expires on October 31, 2013 and requires payments of monthly base rent with annual increases of 2.5% effective each November 1 during the lease term. Rent expense including utilities was \$49,446 for the year ended June 30, 2009.

Future minimum lease payments are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2010	\$ 41,020
2011	18,314
2012	7,050
2013	7,225
2014	2,428
<u>Total</u>	<u>\$ 76,037</u>

In furtherance of its mission, the Organization occupies various residential rental properties under short-term leases, which expire at various times during the year ending June 30, 2010. Depending on the Organization's needs, some of the leases may not be renewed upon expiration. The Organization's lease obligation for the year ending June 30, 2010 under these lease obligations is approximately \$160,000.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. Subsequent events

Management has reviewed and evaluated subsequent events from June 30, 2009, the financial statement date, through November 2, 2009, the date the financial statements were available to be issued. No events have occurred in this period that would be required to be recognized and/or disclosed in these financial statements as required by generally accepted accounting principles.