



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B34626

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

June 24, 2009

Board of Directors
Housing Opportunities, Inc.
2801 Evans Ave.
Valparaiso, IN 46384

We have reviewed the audit report prepared by Crowe Chizek and Company, LLC, Independent Public Accountants, for the period July 1, 2006 to June 30, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Housing Opportunities, Inc., as of June 30, 2007, 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. Pages 22 through 24 contain three current audit findings.

STATE BOARD OF ACCOUNTS

HOUSING OPPORTUNITIES, INC.

FINANCIAL STATEMENTS

June 30, 2007 and 2006

HOUSING OPPORTUNITIES, INC.
Valparaiso, Indiana

FINANCIAL STATEMENTS
June 30, 2007 and 2006

CONTENTS

REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION.....	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENTS OF FUNCTIONAL EXPENSES.....	5
STATEMENTS OF CASH FLOWS.....	7
NOTES TO FINANCIAL STATEMENTS.....	8
SUPPLEMENTARY INFORMATION	
SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS.....	15
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	17
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	19
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	21
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS.....	25



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Housing Opportunities, Inc.
Valparaiso, Indiana

We have audited the accompanying statements of financial position of Housing Opportunities, Inc. as of June 30, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of Housing Opportunities, Inc. 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 Housing Opportunities, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, the Organization reclassified \$865,386 of unrestricted net assets to temporarily restricted net assets at July 1, 2005.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 28, 2008, on our considerations of the Organization's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. 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 compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering 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 required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements taken as a whole.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

South Bend, Indiana
February 28, 2008

HOUSING OPPORTUNITIES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	<u>2007</u>	(Restated) <u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 19,930	\$ 52,589
Accounts receivable	7,254	3,885
Grants receivable	229,407	91,548
Developer fee receivable	5,200	18,200
Property deposits	35,250	34,210
Projects in progress	38,621	273,358
Property and equipment (net)	<u>2,538,417</u>	<u>2,206,960</u>
Total assets	<u>\$ 2,874,079</u>	<u>\$ 2,680,750</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Construction loan payable	\$ 38,621	\$ 242,876
Accounts payable	30,616	23,458
Current maturities of long-term debt	2,724	2,547
Deposits	6,641	6,712
Due to related party	<u>550,757</u>	<u>375,659</u>
Total current liabilities	<u>629,359</u>	<u>651,252</u>
Long-term debt	<u>229,119</u>	<u>231,842</u>
Total liabilities	858,478	883,094
Net assets		
Unrestricted	319,379	633,593
Temporarily restricted	<u>1,696,222</u>	<u>1,164,063</u>
Total net assets	<u>2,015,601</u>	<u>1,797,656</u>
Total liabilities and net assets	<u>\$ 2,874,079</u>	<u>\$ 2,680,750</u>

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES, INC.
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2007 and 2006

	(Restated)					
	Unrestricted	Temporarily Restricted	2007 Total	Unrestricted	Temporarily Restricted	2006 Total
Revenues, gains and other support						
Government grants	\$ 456,582	\$ 667,989	\$ 1,124,571	\$ 897,570	\$ 410,000	\$ 1,307,570
Private grants	5,256	-	5,256	7,000	-	7,000
Contributions	30,301	-	30,301	50,074	-	50,074
Program services	122,447	-	122,447	73,330	-	73,330
Miscellaneous	16,775	-	16,775	7,280	-	7,280
Total revenues, gains and other support	<u>631,361</u>	<u>667,989</u>	<u>1,299,350</u>	<u>1,035,254</u>	<u>410,000</u>	<u>1,445,254</u>
Net assets released from restrictions	135,830	(135,830)	-	111,323	(111,323)	-
Expenses						
Program	920,441	-	920,441	637,463	-	637,463
Administrative	160,184	-	160,184	172,632	-	172,632
Fundraising	780	-	780	3,668	-	3,668
Total expenses	<u>1,081,405</u>	<u>-</u>	<u>1,081,405</u>	<u>813,763</u>	<u>-</u>	<u>813,763</u>
Increase (decrease) in net assets	(314,214)	532,159	217,945	332,814	298,677	631,491
Net assets, beginning of year, as previously reported	633,593	1,164,063	1,797,656	1,166,165	-	1,166,165
Correction of error in prior period	-	-	-	(865,386)	865,386	-
Net assets, beginning of year - as restated	<u>633,593</u>	<u>1,164,063</u>	<u>1,797,656</u>	<u>300,779</u>	<u>865,386</u>	<u>1,166,165</u>
Net assets, end of year	<u>\$ 319,379</u>	<u>\$ 1,696,222</u>	<u>\$ 2,015,601</u>	<u>\$ 633,593</u>	<u>\$ 1,164,063</u>	<u>\$ 1,797,656</u>

See accompanying notes to financial statements.

HOUSING OPPOR
STATEMENT OF FUNC
For the year ende

	<u>IDA</u>	<u>Home Ownership</u>	<u>Client Special Events</u>	<u>McCord</u>	<u>Creekview</u>	<u>T</u>
Contract labor	\$ 3,387	\$ 38,685	\$ -	\$ 35,205	\$ 40,895	\$
Client services	-	-	-	1,196	1,896	
Professional fees	277	1,302	-	2,201	2,840	
Meals and lodging	-	595	-	12	12	
Postage	128	1,015	167	143	63	
Office supplies	79	872	1,294	133	133	
Rent	-	1,891	-	1,170	1,170	
Down payment assistance	-	-	-	-	-	
Closing costs	-	-	-	-	-	
Moving expense	-	-	-	1,610	2,195	
New construction survey	-	-	-	-	-	
Development subsidy	-	-	-	302	90	
Deed restriction	-	2	-	-	-	
Appraisals	-	-	-	-	-	
Telephone	-	621	-	289	298	
Utilities	-	-	-	17,416	18,515	
Insurance	-	-	-	1,406	1,287	
Interest	-	-	-	-	-	
Building maintenance and repair	-	-	-	13,749	15,273	
Equipment maintenance and repair	-	-	-	-	557	
Printing	15	10,608	5	114	114	
Transportation	227	1,337	22	225	1,007	
Registration fees	-	-	-	-	-	
Member dues	-	-	-	20	-	
Miscellaneous	141	6,378	560	667	1,114	
	<u>4,254</u>	<u>63,306</u>	<u>2,048</u>	<u>75,858</u>	<u>87,459</u>	
Depreciation expense	-	-	-	22,526	32,222	
Total expenses	<u>\$ 4,254</u>	<u>\$ 63,306</u>	<u>\$ 2,048</u>	<u>\$ 98,384</u>	<u>\$ 119,681</u>	<u>\$</u>

See accompanying notes

TUNITIES, INC.
 TIONAL EXPENSES
 d June 30, 2007

<u>lip</u>	<u>New Permanent Housing</u>	<u>Low Income Rental</u>	<u>New Construction</u>	<u>Total Program</u>	<u>Administration</u>	<u>Fund- raising</u>	<u>Total</u>
39,616 \$	59,124 \$	3,835 \$	9,565 \$	230,312 \$	68,552 \$	679 \$	299,543
84	285	-	-	3,461	90	-	3,551
2,695	4,833	960	3,801	18,909	35,816	-	54,725
-	27	-	-	646	725	-	1,371
95	369	86	176	2,242	1,033	10	3,285
133	138	48	46	2,876	7,402	-	10,278
1,170	1,170	-	-	6,571	4,231	-	10,802
-	-	-	143,427	143,427	-	-	143,427
-	-	-	19,205	19,205	-	-	19,205
1,000	6,117	550	-	11,472	-	-	11,472
-	-	-	530	530	-	-	530
150	1,959	-	59,527	62,028	572	-	62,600
-	40	-	-	42	-	-	42
-	1,380	-	2,300	3,680	-	-	3,680
256	300	31	274	2,069	705	-	2,774
15,810	25,119	8,198	-	85,058	-	-	85,058
1,525	1,116	1,422	1,500	8,256	-	-	8,256
-	8,695	14,634	13,360	36,689	34,257	-	70,946
9,531	49,190	11,586	1,898	101,227	37	-	101,264
-	407	-	-	964	368	-	1,332
114	147	147	157	11,421	2,466	91	13,978
956	2,087	42	237	6,140	1,012	-	7,152
24	142	-	-	166	565	-	731
-	-	-	-	20	500	-	520
509	8,043	20	172	17,604	1,161	-	18,765
73,668	170,688	41,559	256,175	775,015	159,492	780	935,287
32,142	39,677	18,859	-	145,426	692	-	146,118
<u>05,810</u> \$	<u>210,365</u> \$	<u>60,418</u> \$	<u>256,175</u> \$	<u>920,441</u> \$	<u>160,184</u> \$	<u>780</u> \$	<u>1,081,405</u> \$

to financial statements.

HOUSING OPPOR
STATEMENT OF FUN
For the year end

	<u>IDA</u>	<u>Home Ownership</u>	<u>Client Special Events</u>	<u>McCord</u>	<u>Creekview</u>	<u>T</u>
Contract labor	\$ 1,992	\$ 31,132	\$ -	\$ 37,182	\$ 40,065	\$
Client services	-	-	50	1,189	667	
Professional fees	107	2,025	-	1,338	1,920	
Meals and lodging	-	-	-	2	54	
Postage	76	1,398	117	83	51	
Office supplies	21	1,095	782	59	187	
Rent	-	473	-	1,346	1,345	
Down payment assistance	-	10,500	-	-	-	
Closing costs	-	-	-	-	-	
Moving expense	-	-	-	98	15	
New construction survey	-	-	-	-	-	
Development subsidy	-	-	-	250	120	
Deed restriction	-	78	-	-	-	
Appraisals	-	-	-	-	-	
Telephone	-	383	-	367	437	
Utilities	-	-	-	15,236	17,920	
Insurance	-	-	-	1,946	1,671	
Interest	-	-	-	-	-	
Building maintenance and repair	-	-	-	11,760	14,712	
Equipment maintenance and repair	-	650	-	-	-	
Printing	-	11,038	-	-	-	
Transportation	389	1,364	1	318	1,093	
Bad debt	-	-	-	-	392	
Registration fees	-	-	-	-	-	
Member dues	-	80	-	-	-	
Miscellaneous	-	<u>3,086</u>	<u>1,580</u>	<u>243</u>	<u>809</u>	
	<u>2,585</u>	<u>63,302</u>	<u>2,530</u>	<u>71,417</u>	<u>81,458</u>	
Depreciation expense	-	-	-	<u>22,508</u>	<u>32,221</u>	
Total expenses	<u>\$ 2,585</u>	<u>\$ 63,302</u>	<u>\$ 2,530</u>	<u>\$ 93,925</u>	<u>\$ 113,679</u>	<u>\$</u>

See accompanying notes

OPPORTUNITIES, INC.
 ADDITIONAL EXPENSES
 as of June 30, 2006

<u>Exp</u>	<u>New Permanent Housing</u>	<u>Low Income Rental</u>	<u>New Construction</u>	<u>Total Program</u>	<u>Administration</u>	<u>Fund-raising</u>	<u>Total</u>
46,052 \$	29,406 \$	1,904 \$	12,164 \$	199,897 \$	104,181 \$	3,410 \$	307,488
660	65	-	-	2,631	-	-	2,631
1,537	840	-	4,467	12,234	22,249	-	34,483
9	-	-	-	65	1,533	-	1,598
60	244	100	139	2,268	1,112	43	3,423
213	781	-	172	3,310	6,451	68	9,829
1,346	1,112	-	-	5,622	4,942	-	10,564
-	-	-	64,795	75,295	-	-	75,295
-	-	-	15,425	15,425	-	-	15,425
195	7,995	-	-	8,303	-	-	8,303
-	160	-	1,844	2,004	-	-	2,004
120	-	-	2,215	2,705	370	-	3,075
-	47	-	91	216	-	-	216
-	850	-	1,985	2,835	-	-	2,835
436	261	-	151	2,035	762	-	2,797
15,336	9,550	2,328	-	60,370	-	-	60,370
1,910	581	390	3,000	9,498	-	-	9,498
-	7,424	4,012	5,964	17,400	21,287	-	38,687
17,062	22,481	8,021	800	74,836	27	-	74,863
-	64	390	-	1,104	340	-	1,444
-	-	-	273	11,311	2,798	-	14,109
1,475	1,085	49	618	6,392	2,657	147	9,196
-	-	-	-	392	-	-	392
96	90	-	-	186	1,162	-	1,348
-	-	-	80	160	770	-	930
301	3,095	185	2,026	11,325	1,168	-	12,493
86,808	86,131	17,379	116,209	527,819	171,809	3,668	703,296
32,145	13,714	9,056	-	109,644	823	-	110,467
<u>118,953 \$</u>	<u>99,845 \$</u>	<u>26,435 \$</u>	<u>116,209 \$</u>	<u>637,463 \$</u>	<u>172,632 \$</u>	<u>3,668 \$</u>	<u>813,763 \$</u>

to financial statements.

HOUSING OPPORTUNITIES, INC.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2007 and 2006

	<u>2007</u>	(Restated) <u>2006</u>
Cash flows from operating activities		
Change in net assets	\$ 217,945	\$ 631,491
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	146,118	110,467
Bad debts	-	392
Change in assets and liabilities		
Accounts receivable	(3,369)	(3,458)
Grants receivable	(137,859)	(38,633)
Developer fee receivable	13,000	(18,200)
Property deposits	(1,040)	(3,110)
Accounts payable	7,158	4,766
Accrued expenses	-	16,136
Deposits	(71)	4,600
Projects in process	<u>234,737</u>	<u>(272,248)</u>
Net cash provided from operating activities	<u>476,619</u>	<u>432,203</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(477,575)</u>	<u>(1,035,842)</u>
Net cash from investing activities	<u>(477,575)</u>	<u>(1,035,842)</u>
Cash flows from financing activities		
Due to related party	175,098	136,295
Proceeds from (payments on) borrowings	<u>(206,801)</u>	<u>477,266</u>
Net cash from financing activities	<u>(31,703)</u>	<u>613,561</u>
Net change in cash and cash equivalents	(32,659)	9,922
Cash and cash equivalents, beginning of year	<u>52,589</u>	<u>42,667</u>
Cash and cash equivalents, end of year	<u>\$ 19,930</u>	<u>\$ 52,589</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	<u>\$ 31,799</u>	<u>\$ 17,400</u>

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: Housing Opportunities, Inc. was formed in fiscal year 2000 as a non-profit corporation. The corporation is organized exclusively to serve the community through the development and provision of safe, decent, and affordable housing and customized support services.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America.

Financial Statement Presentation: The financial statements have been prepared in accordance with Statement of Financial Accounting Standard (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. SFAS No. 117 requires, among other things, that the financial statements report the changes in, and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

Unrestricted net assets represent the part of the net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization.

Permanently restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Use of Estimates in Preparation of Financial Statements: 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 affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$100,000 per financial institution. Additionally, for purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable: Interest is not charged on outstanding receivables. The Organization records bad debts on the direct write-off method when, in management's opinion, an account becomes uncollectible. The direct write-off method is a departure from generally accepted accounting principles. Bad debt expenses calculated using the direct write-off method do not differ materially from those calculated using generally accepted methods. The bad debt expense for the years ended June 30, 2007 and 2006 was \$0 and \$392, respectively.

Financial Instruments and Credit Risk: The Organization's accounts receivables arise from the provision of various services addressing the needs of those seeking affordable housing. The accounts receivable of \$7,254 and \$3,885 at June 30, 2007 and 2006, respectively, are unsecured. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of clients having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Projects in Process: The Organization provides newly constructed homes to eligible individuals. Costs related to projects in process at June 30, 2007 and 2006, amounted to \$38,621 and \$273,358, respectively.

Property and Equipment: Property and equipment are stated at cost or, if donated to the Organization, at fair market value on the date of acquisition. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	5	to	20 Years
Furniture and equipment	3	to	8 Years

Program Service Revenue: Under the terms of certain government reimbursed programs, providers of these services are subject to regulation by the program intermediaries. For many programs, payment for the services rendered is based upon "allowable cost" as defined by each program's regulations, and is subject to financial audit by the program intermediary. Costs and reimbursements for the year June 30, 2007 for certain programs remain subject to final financial audit by program intermediaries.

Contributions: Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist.

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as unrestricted.

Income Taxes: The Organization is exempt from income taxes on income from related activities under Section 501(c) (3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

NOTE 2 - GRANTS RECEIVABLE

The Organization receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Grants receivable represents the costs incurred through June 30, 2007 and 2006 that have been requested for reimbursement under the terms of these cost-reimbursement grants.

Grant commitments that extend beyond June 30, 2007 are as follows:

<u>Grant</u>	<u>Grants Receivable</u>
U.S. Department of Housing & Urban Development Community Development Block Grant	\$ 8,976
U.S. Department of Housing & Urban Development Supportive Housing Program	59,889
U.S. Department of Housing & Urban Development Home Investment Partnership Program	156,530
U.S. Department of Housing & Urban Development Emergency Shelter Grant	3,846
U.S. Department of Housing & Urban Development Home Counseling Grant	5,366

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Land	\$ 332,500	\$ 282,500
Building	2,217,335	1,896,181
Building improvements	512,398	407,508
Furniture and equipment	16,617	14,026
Construction in process	<u>-</u>	<u>1,059</u>
	3,078,850	2,601,274
Less: accumulated depreciation and amortization	<u>540,433</u>	<u>394,314</u>
	<u>\$ 2,538,417</u>	<u>\$ 2,206,960</u>

Depreciation expense for the years ended, June 30, 2007 and 2006 was \$146,118 and \$110,467 respectively.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

The Organization has agreements with a funding source to provide existing and newly constructed homes and homeownership counseling to eligible individuals. Certain funds received under these agreements are considered to be restricted until the completion of the projects. Funds received from granting agencies which retain reversionary rights to the properties are released from restrictions evenly over the reversionary period.

NOTE 5 - CONSTRUCTION LOAN PAYABLE

The Organization has the following construction loans payable at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Centier Bank, 7.75%, due April 27, 2007, secured by building under construction	\$ -	\$ 15,000
Centier Bank, 8.00%, due June 12, 2007, secured by building under construction	-	74,409
Centier Bank, 8.00%, due May 15, 2007, secured by building under construction	-	24,000
Centier Bank, 8.00%, due June 2, 2007, secured by building under construction	-	15,000

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 5 - CONSTRUCTION LOAN PAYABLE (Continued)

	<u>2007</u>	<u>2006</u>
Horizon Bank, 8.25%, due September 15, 2006, secured by building under construction	-	114,467
Horizon Bank, 8.25%, due September 20, 2007, secured by building under construction	<u>38,621</u>	<u>-</u>
Total	38,621	242,876
Less: current portion	<u>38,621</u>	<u>242,876</u>
 Total long term construction loans payable	 <u>\$ -</u>	 <u>\$ -</u>

NOTE 6 - LONG-TERM DEBT

A summary of long-term debt at June 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Mortgage note payable to Centier Bank payable in monthly installments of \$1,524, including interest at 6.75%, due April, 2021, collateralized by corresponding land and a building	\$ 231,843	\$ 234,389
Less: Current portion	<u>2,724</u>	<u>2,547</u>
	<u>\$ 229,119</u>	<u>\$ 231,842</u>

Scheduled principal repayments over the next five years are as follows:

2008	\$ 2,724
2009	2,914
2010	3,117
2011	3,334
2012	3,566

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 7 - RELATED PARTY TRANSACTIONS

Housing Opportunities, Inc. (HOI) is a supported organization of Opportunity Enterprises, Inc. (OEI). HOI received the following contracted services from OEI for the years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Contracted services	\$ 299,543	\$ 307,488
Professional fees	30,441	18,231
Rent	<u>10,802</u>	<u>10,564</u>
Total services	340,786	336,283
Interest expense	<u>34,257</u>	<u>21,286</u>
Total services rendered by related party	<u>\$ 375,043</u>	<u>\$ 357,569</u>

Due to related party represents accrued fees and cash advances outstanding of \$550,757 and \$375,659 at June 30, 2007 and 2006, respectively. Interest is accrued on the accrued fees and advances at the prime rate, which was 8.25% at June 30, 2007. During 2007, OEI demanded payment on this note payable and all unpaid principal and interest needs to be paid in full by December 31, 2007. As further described in Note 11, management obtained financing by mortgaging two existing properties and obtained a long term financing agreement with OEI in January 2008 to pay off this advance.

NOTE 8 - LEASES

The Organization has an agreement with Opportunity Enterprises, Inc., a related party, whereby OEI provides various services to the Organization, including the provision of space. The agreement renews automatically each year in April. The current monthly rent expense is \$900. The rent expense for the years ended June 30, 2007 and 2006 was \$10,802 and \$10,564, respectively. Management expects the rent expense for the calendar year ended June 30, 2008 to be \$10,800.

NOTE 9 - CONCENTRATION OF REVENUE

During the fiscal year ended June 30, 2007 and 2006, Housing Opportunities, Inc. received 82% and 91% of its revenue from two funding sources. No determination has been made as to the effect on the financial statements should either source cease funding Housing Opportunities, Inc.

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 10 - PRIOR PERIOD ADJUSTMENT

During an internal review of the grants received by the Organization dating back to the fiscal year ended June 30, 2004, it was determined that several capital grants received contained language describing certain reversionary rights held by the granting agencies with respect to the permanent housing units established by the Organization. The nature of these reversionary rights requires these housing units to be classified as temporarily restricted and are released from restrictions over a 20 year period. As such, the Organization reclassified \$865,386 of unrestricted net assets to temporarily restricted net assets at July 1, 2005. This activity is presented as a Correction of an Error in the Statement of Activities.

NOTE 11 - SUBSEQUENT EVENT

As stated in Note 7, OEI demanded payment on the related party advance by December 31, 2007. The Organization obtained two mortgages totaling approximately \$500,000 from a financial institution to be repaid over 30 years, with a fixed interest rate of 6.4150%. The remaining related party advance will be financed by OEI over a five year term at a fixed rate of 6.5% per annum.

The above mentioned mortgages are on properties originally purchased using federal grant awards. The Organization received permission from each granting agency prior to obtaining these mortgages.

SUPPLEMENTARY INFORMATION

HOUSING OPPORTUNITIES, INC.
SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2007

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing & Urban Development Community Development Block Grant	14.288		\$ 21,880
U.S. Department of Housing & Urban Development Supportive Housing Program	14.235	IN-36B-203004 IN-36B-502004 IN-36B-402006 IN-36B-402013 IN-36B-402021 IN-36B-502015	462,317
U.S. Department of Housing & Urban Development Indiana Housing Finance Authority Home Investment Partnerships Program	14.239	CW-004-012 CW-006-008 CH-004-004 CH-005-003 CH-005-021 CH-005-032 CH-006-009	<u>593,164</u> 1,077,361
U.S. Department of Housing & Urban Development Indiana Family & Social Services Administration Emergency Shelter Grant	14.231	ESG-0197	23,346
Home Counseling Grant	14.169	HC-05-0498-117 HC-06-0498-123	<u>16,316</u>
Total U.S. Department of Housing & Urban Development			1,117,023
U.S. Department of Health and Human Services Indiana Department of Commerce Assets for Independence Account	93.602		<u>7,548</u>
Total Expenditures of Federal Awards			<u>\$ 1,124,571</u>

HOUSING OPPORTUNITIES, INC.
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization for the year ended June 30, 2007 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.



Crowe Chizek and Company LLC
Member Horwath International

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

Board of Directors
Housing Opportunities, Inc.
Valparaiso, Indiana

We have audited the financial statements of Housing Opportunities, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated February 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Housing Opportunities, Inc. 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 Housing Opportunities, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Housing Opportunities, Inc.'s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

inconsequential will not be prevented or detected by Housing Opportunities, Inc.'s internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses in internal control over financial reporting. Please see findings 2007-1 and 2007-3 in Section # 2 of the Schedule of Findings and Questioned Costs.


Compliance and Other Matters

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

We noted certain matters that we reported to management of Housing Opportunities, Inc. in a separate letter dated February 28, 2008.

Housing Opportunities, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Housing Opportunities, Inc.'s response and, accordingly, we express no opinion on it.

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


Crowe Chizek and Company LLC

South Bend, Indiana
February 28, 2008



Crowe Chizek and Company LLC
Member Horwath International

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

Board of Directors
Housing Opportunities, Inc.
Valparaiso, Indiana

Compliance

We have audited the compliance of Housing Opportunities, Inc. 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 June 30, 2007. Housing Opportunities, 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 of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Housing Opportunities, Inc.'s management. Our responsibility is to express an opinion on Housing Opportunities, 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 occurred. An audit includes examining, on a test basis, evidence about Housing Opportunities, 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 Housing Opportunities, Inc.'s compliance with those requirements..

In our opinion, Housing Opportunities, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Housing Opportunities, Inc. 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 Housing Opportunities, Inc.'s internal control over compliance with

the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

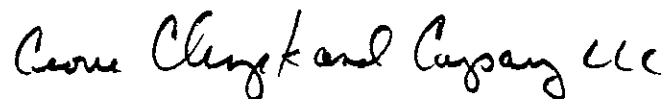
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-2 to be material weaknesses.

Housing Opportunities, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Housing Opportunities, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management 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.



Crowe Chizek and Company LLC

South Bend, Indiana
February 28, 2008

HOUSING OPPORTUNITIES, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2007

Section I-- Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X
Yes
No

- Significant deficiencies identified that are not considered to be material weaknesses?
Yes X
None reported

Noncompliance material to financial statements noted?
Yes X
No

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? X
Yes
No

- Significant deficiencies identified that are not considered to be material weaknesses?
Yes X
None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X
Yes
No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	Home Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X
Yes
No

HOUSING OPPORTUNITIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2007

Section II – Financial Statement Findings

Finding #2007-1: Internal Controls Over Financial Reporting

- *Criteria or specific requirement:* During the course of our audit, it was noted that additional oversight was needed in the preparation of financial reporting in accordance with accounting principles generally accepted in the United States. Someone with sufficient knowledge in selecting and applying accounting principles should be in place within the Organization or within the Organization's Board of Directors.
- *Condition:* The Organization lacks the ability to prepare financial statements in accordance with Generally Accepted Accounting Principles.
- *Effect:* If a material weakness exists in the controls over financial reporting, management will not have accurate data to utilize as part of their business decisions process. In addition, with external reporting requirements, inaccurate financial data produced may be shared with outside users, including financing sources and regulatory agencies.
- *Cause:* Significant turnover in the accounting department.
- *Recommendation:* With new accounting literature continuing to be added at an astonishing pace, many business transactions have complex accounting rules. Also, guidance is being produced from various authoritative sources. Each of these elements adds a significant financial cost to the internal control process, a pressure that small and mid-size organizations alike have been facing for years.

As a result of these deficiencies in controls (design and implementation), management is making business decisions that may be based on inaccurate financial data.

To improve the internal control system over the preparation of financial reports and the selection and application of accounting principles, management should enhance its knowledge of accounting standards that are released and apply to the Organization. This may be accomplished by attending seminars, review of professional standards, or other personal reading. In addition, management could utilize a checklist of accounting and reporting requirements (GAAP Checklist) in order to identify new accounting rules that may apply as well as previously issued guidance that applies. However, a GAAP Checklist by itself is not the complete answer. The Organization may also develop a process (manual) for documenting the information that is required to be included in the financial reporting process and who is responsible for various aspects of the reporting. It may also be beneficial for the organization to contract with an outside accountant, with sufficient accounting knowledgeable, to oversee the month end close and the financial statement preparation, along with providing guidance to the accounting staff.

(Continued)

HOUSING OPPORTUNITIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2007

- *Views of responsible officials and planned corrective actions:* Housing Opportunities, Inc. has contracted with an outside accounting firm, Nugent CPA of Portage to provide oversight of all financial reporting including the month end close and financial statement preparation. In addition, Nugent CPA will be providing guidance to the Housing Opportunities, Inc. bookkeeper and other HO staff as needed to ensure that all accounting standards are met.

Finding #2007-2: Grant Billings - Home Investment Partnership Program

- *Criteria or specific requirement:* During the course of our audit, it came to our attention that reimbursements claim forms were not sent to the state for over 3 months during the end of the fiscal year 2007. During this time period, many of the accounts on the general ledger were not reconciled, and many of the expenses were recorded in incorrect accounts. The Organization experienced turn over in the accounting departments and thus claim forms and account reconciliations were not timely prepared during this time period.
- *Condition:* Reimbursement claim forms were not submitted in a timely manner to the granting agencies.
- *Effect:* Not submitting claim forms and reconciling the accounting records on a monthly basis could lead to errors when submitting the claim forms. In addition, by not timely sending in the claim forms, this leaves the organization low on cash that is needed to fund their operations.
- *Cause:* Significant turnover in the accounting department.
- *Recommendation:* We recommend that management establish a system where the book keeper is supported by a higher level accounting supervisor, who can ensure that turn-over with-in the organization doesn't lead to delays in the reconciliation of accounts and the submitting of claim forms to the state for reimbursement.
- *Views of responsible officials and planned corrective actions:* Housing Opportunities, Inc. has established a system to ensure timely billing of all grants. An outside accounting firm who can assist in billings as needed now supports the bookkeeper. In addition, two staff within Housing Opportunities, Inc. will provide back up to the bookkeeper in regards to grant billing.

Finding #2007-3: Segregation of Duties

- *Criteria or specific requirement:* A strong system of internal control requires the segregation of incompatible accounting functions. During our audit we noted a situation where incompatible duties were being performed by employees. We understand that, with the limited number of employees at the Organization, these types of situations may occur. We suggest, however, that where possible incompatible

(Continued)

HOUSING OPPORTUNITIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2007

functions be segregated between employees. Where segregation is not feasible, we suggest that management remain aware of these control weaknesses and attempt to mitigate them by applying increased management supervision. We offer the following situation, although there may be others, where we believe segregation of duties is weak or where increased management supervision and authorization is needed.

During our procedures, we discovered that the accounting staff has access to make changes in the general ledger, add vendors to the accounts payable system, and processes invoices, with no formal review procedures in place to provide support.

- *Condition:* Certain incompatible functions are not segregated.
- *Effect:* Employees that have the ability to record payments in the general ledger, add new vendors to the accounts payable system, and process invoices have the ability to misappropriate assets from the organization. The misappropriation of assets could also be concealed by the employee, making this type of fraud hard to detect.
- *Cause:* Small size and significant turnover in the accounting department.
- *Recommendation:* We recommend that management set up a policy that requires all new vendors to have approval from someone independent of the recording function prior to adding new vendors to the accounts payable system. This approval should be documented and initialed by an authorized individual.

We also recommend that a formal review of journal entries be implemented on a monthly basis, and that the review is evidenced by initialing the journal entry documentation

- *Views of responsible officials and planned corrective actions:* Housing Opportunities, Inc. has set up a system of check and balance in regards to journal entries, and vendor approval. The journal entries will be reviewed and approved by the outside accounting firm or by the Executive Director of Housing Opportunities, Inc. The documents for the journal entry will be signed by the person who is approving the journal entry. For new vendor approval, the bookkeeper will notify the Executive Director of the new vendor and request approval. The approval will be given in written format. In addition, at each check run, the Executive Director will review the check ledger for new vendors.

HOUSING OPPORTUNITIES, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2007

PRIOR YEARS FINDINGS

No findings or questioned costs for federal awards including audit findings as defined in OMB circular A-133 section 510(a) were reported in the prior period.