



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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January 21, 2010

Board of Directors
Housing Opportunities, Inc.
954 Eastporte Centre, Ste. A
Valparaiso, IN 46383

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Housing Opportunities, Inc., as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

We call your attention to the findings in the report. Pages 23 and 24 contain two current audit findings. Page 25 contains the status of two prior audit findings.

STATE BOARD OF ACCOUNTS

HOUSING OPPORTUNITIES, INC.

FINANCIAL STATEMENTS

June 30, 2008 and 2007

HOUSING OPPORTUNITIES, INC.
Valparaiso, Indiana

FINANCIAL STATEMENTS
June 30, 2008 and 2007

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Crowe Horwath LLP
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, 2008 and 2007, 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, 2008 and 2007, 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.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 21, 2009, 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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
January 21, 2009

HOUSING OPPORTUNITIES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 183,115	\$ 19,930
Accounts receivable	10,926	7,254
Grants receivable	70,137	229,407
Developer fee receivable	5,000	5,200
Property deposits	14,667	35,250
Projects in progress	95,351	38,621
Property and equipment, net	<u>2,422,216</u>	<u>2,538,417</u>
Total assets	<u>\$ 2,801,412</u>	<u>\$ 2,874,079</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Construction loan payable	\$ 67,746	\$ 38,621
Accounts payable	25,916	30,616
Current maturities of long-term debt	10,474	2,724
Deposits	6,512	6,641
Due to related party	<u>29,286</u>	<u>550,757</u>
Total current liabilities	<u>139,934</u>	<u>629,359</u>
Long-term debt	714,896	229,119
Due to related party - long-term	<u>122,770</u>	<u>-</u>
Total liabilities	977,600	858,478
Net assets		
Unrestricted	114,465	192,661
Temporarily restricted	<u>1,709,347</u>	<u>1,822,940</u>
Total net assets	<u>1,823,812</u>	<u>2,015,601</u>
Total liabilities and net assets	<u>\$ 2,801,412</u>	<u>\$ 2,874,079</u>

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES, INC.
 STATEMENTS OF ACTIVITIES
 For the years ended June 30, 2008 and 2007

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2008 <u>Total</u>	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2007 <u>Total</u>
Revenues, gains and other support						
Government grants	\$ 570,445	\$ -	\$ 570,445	\$ 456,582	\$ 667,989	\$ 1,124,571
Private grants	-	-	-	5,256	-	5,256
Contributions	112,171	22,442	134,613	30,301	-	30,301
Program services	121,254	-	121,254	122,447	-	122,447
Special events fundraising	3,890	-	3,890	-	-	-
Miscellaneous	<u>7,474</u>	<u>-</u>	<u>7,474</u>	<u>16,775</u>	<u>-</u>	<u>16,775</u>
Total revenues, gains and other support	<u>815,234</u>	<u>22,442</u>	<u>837,676</u>	<u>631,361</u>	<u>667,989</u>	<u>1,299,350</u>
Net assets released from restrictions	136,035	(136,035)	-	135,830	(135,830)	-
Expenses						
Program	888,540	-	888,540	920,441	-	920,441
Administrative	136,807	-	136,807	160,184	-	160,184
Fundraising	<u>4,118</u>	<u>-</u>	<u>4,118</u>	<u>780</u>	<u>-</u>	<u>780</u>
Total expenses	<u>1,029,465</u>	<u>-</u>	<u>1,029,465</u>	<u>1,081,405</u>	<u>-</u>	<u>1,081,405</u>
Increase (decrease) in net assets	(78,196)	(113,593)	(191,789)	(314,214)	532,159	217,945
Net assets, beginning of year	<u>192,661</u>	<u>1,822,940</u>	<u>2,015,601</u>	<u>506,875</u>	<u>1,290,781</u>	<u>1,797,656</u>
Net assets, end of year	<u>\$ 114,465</u>	<u>\$ 1,709,347</u>	<u>\$ 1,823,812</u>	<u>\$ 192,661</u>	<u>\$ 1,822,940</u>	<u>\$ 2,015,601</u>

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2008

	IDA	Home Ownership	Client Special Events	McCord	New Permanent Housing	Low Income Rental	New Construction	Total Program	Administration	Fund- raising	Total
Contract labor	\$ 4,766	\$ 59,458	\$ -	\$ 31,892	\$ 144,676	\$ 4,970	\$ 7,518	\$ 253,280	\$ 59,230	\$ 644	\$ 313,154
Client services	-	-	18,163	1,661	7,366	-	-	27,190	-	1,575	28,765
Professional fees	614	1,752	-	5,971	30,876	1,088	1,906	42,207	38,628	1,603	82,438
Meals and lodging	176	1,820	-	-	10	-	-	2,006	461	-	2,467
Postage	216	1,757	142	196	880	56	304	3,551	631	9	4,191
Office supplies	99	1,558	-	110	382	-	-	2,149	6,322	-	8,471
Rent	-	2,231	-	936	3,160	-	-	6,327	5,175	-	11,502
Down payment assistance	-	1,400	-	-	-	-	29,300	30,700	-	-	30,700
Closing costs	-	-	-	-	-	-	10,634	10,634	-	-	10,634
Moving expense	-	-	-	1,160	8,242	180	-	9,582	100	-	9,682
Development subsidy	-	-	-	540	435	-	6,889	7,864	-	-	7,864
Deed restriction	-	-	-	-	-	-	20	20	-	-	20
Appraisals	-	-	-	-	700	-	-	700	-	-	700
Telephone	-	218	-	185	1,198	117	117	1,835	547	-	2,382
Utilities	-	-	-	18,678	76,223	9,643	-	104,544	-	-	104,544
Insurance	-	-	-	1,153	3,544	1,245	-	5,942	-	-	5,942
Interest	-	-	-	10,524	8,221	15,767	3,813	38,325	8,282	-	46,607
Building maintenance and repair	-	17,444	-	8,676	99,014	12,789	512	138,435	12	-	138,447
Equipment maintenance and repair	-	-	-	1,212	10,749	-	-	11,961	904	-	12,865
Printing	10	5,342	69	220	1,019	71	236	6,967	979	118	8,064
Transportation	205	1,477	-	108	3,170	50	96	5,106	789	129	6,024
Bad debt	-	1,893	-	-	-	375	10,000	12,268	-	-	12,268
Registration fees	-	380	-	10	270	-	-	660	669	40	1,369
Member dues	-	-	-	-	-	-	-	-	500	-	500
Miscellaneous	37	2,862	1	511	7,069	1,711	24	12,215	12,724	-	24,939
	6,123	99,592	18,375	83,743	407,204	48,062	71,369	734,468	135,953	4,118	874,539
Depreciation expense	-	-	-	22,672	110,143	21,257	-	154,072	854	-	154,926
Total expenses	\$ 6,123	\$ 99,592	\$ 18,375	\$ 106,415	\$ 517,347	\$ 69,319	\$ 71,369	\$ 888,540	\$ 136,807	\$ 4,118	\$ 1,029,465

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2007

	IDA	Home Ownership	Client Special Events	McCord	New Permanent Housing	Low Income Rental	New Construction	Total Program	Administration	Fund- raising	Total
Contract labor	\$ 3,387	\$ 38,685	\$ -	\$ 35,205	\$ 139,635	\$ 3,835	\$ 9,565	\$ 230,312	\$ 68,552	\$ 679	\$ 299,543
Client services	-	-	-	1,196	2,265	-	-	3,461	75	-	3,536
Professional fees	277	1,302	-	2,201	10,368	960	3,801	18,909	35,816	-	54,725
Meals and lodging	-	595	-	12	39	-	-	646	725	-	1,371
Postage	128	1,015	167	143	527	86	176	2,242	1,033	10	3,285
Office supplies	79	872	1,294	133	404	48	46	2,876	7,402	-	10,278
Rent	-	1,891	-	1,170	3,510	-	-	6,571	4,231	-	10,802
Down payment assistance	-	-	-	-	-	-	143,427	143,427	-	-	143,427
Closing costs	-	-	-	-	-	-	19,205	19,205	-	-	19,205
Moving expense	-	-	-	1,610	9,312	550	-	11,472	-	-	11,472
New construction survey	-	-	-	-	-	-	530	530	-	-	530
Development subsidy	-	-	-	302	2,199	-	59,527	62,028	572	-	62,600
Deed restriction	-	2	-	-	40	-	-	42	-	-	42
Appraisals	-	-	-	-	1,380	-	2,300	3,680	-	-	3,680
Telephone	-	621	-	289	854	31	274	2,069	705	-	2,774
Utilities	-	-	-	17,416	59,444	8,198	-	85,058	-	-	85,058
Insurance	-	-	-	1,406	3,928	1,422	1,500	8,256	-	-	8,256
Interest	-	-	-	-	8,695	14,634	13,360	36,689	34,257	-	70,946
Building maintenance and repair	-	-	-	13,749	73,994	11,586	1,898	101,227	37	-	101,264
Equipment maintenance and repair	-	-	-	-	964	-	-	964	368	-	1,332
Printing	15	10,608	5	114	375	147	157	11,421	2,466	91	13,978
Transportation	227	1,337	22	225	4,050	42	237	6,140	1,012	-	7,152
Registration fees	-	-	-	-	166	-	-	166	565	-	731
Member dues	-	-	-	20	-	-	-	20	500	-	520
Miscellaneous	<u>141</u>	<u>6,378</u>	<u>560</u>	<u>667</u>	<u>9,666</u>	<u>20</u>	<u>172</u>	<u>17,604</u>	<u>1,176</u>	<u>-</u>	<u>18,780</u>
	4,254	63,306	2,048	75,858	331,815	41,559	256,175	775,015	159,492	780	935,287
Depreciation expense	-	-	-	<u>22,526</u>	<u>104,041</u>	<u>18,859</u>	-	<u>145,426</u>	<u>692</u>	<u>-</u>	<u>146,118</u>
Total expenses	<u>\$ 4,254</u>	<u>\$ 63,306</u>	<u>\$ 2,048</u>	<u>\$ 98,384</u>	<u>\$ 435,856</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>

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES, INC.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets	\$ (191,789)	\$ 217,945
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	154,926	146,118
Bad debts	12,268	-
Change in assets and liabilities		
Accounts receivable	(15,940)	(3,369)
Grants receivable	159,270	(137,859)
Developer fee receivable	200	13,000
Property deposits	20,583	(1,040)
Projects in process	(56,730)	234,737
Accounts payable	(4,700)	7,158
Deposits	<u>(129)</u>	<u>(71)</u>
Net cash provided from operating activities	<u>77,959</u>	<u>476,619</u>
 Cash flows from investing activities		
Purchase of property and equipment	<u>(38,725)</u>	<u>(477,575)</u>
Net cash from investing activities	<u>(38,725)</u>	<u>(477,575)</u>
 Cash flows from financing activities		
Due to related party	(398,701)	175,098
Proceeds from borrowings	662,967	38,621
Payments on borrowings	<u>(140,315)</u>	<u>(245,422)</u>
Net cash from financing activities	<u>123,951</u>	<u>(31,703)</u>
 Net change in cash and cash equivalents	163,185	(32,659)
 Cash and cash equivalents, beginning of year	<u>19,930</u>	<u>52,589</u>
 Cash and cash equivalents, end of year	<u>\$ 183,115</u>	<u>\$ 19,930</u>
 Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	<u>\$ 38,325</u>	<u>\$ 31,799</u>

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 - ORGANIZATION

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Net Assets: 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. No permanently restricted net assets existed at June 30, 2008 and 2007.

Net Assets Released From Restrictions: Net assets are released from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events. Funds received from granting agencies which retain reversionary rights to the properties are released from restrictions evenly over the reversionary period.

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2008 and 2007 was \$12,268 and \$0, 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 \$10,926 and \$7,254 at June 30, 2008 and 2007, 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. As of June 30, 2008, the Organization had entered into two construction contracts, totaling approximately \$300,000, for the construction of two homes. Costs related to projects in process at June 30, 2008 and 2007, amounted to \$95,351 and \$38,621, respectively.

Subsequent to June 30, 2008, the Organization entered into an additional construction contract, totaling approximately \$130,000, for the construction of one home.

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in excess of \$500 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, 2008 and 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.

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.

Contributions In-Kind: In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair market value of certain in-kind contributions as both revenue and expense for the programs or activities benefited. For the year ended June 30, 2008 in-kind contributions totaled \$41,029.

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.

Functional Allocation of Expenses: The costs of operating the Organization have been summarized based on program services, administrative activities, and fund raising. The allocations are based on management's time and service estimates.

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation. During 2008, a specific reclassification in the amount of \$126,718 was made to transfer unrestricted net assets to temporarily restricted net assets. The reclassification has been made on the Statement of Activities for all years presented in the financial statements. There was no effect on change in net assets and net assets in total.

NOTE 3 - 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, 2008 and 2007 that have been requested for reimbursement under the terms of these cost-reimbursement grants.

Grant commitments that extend beyond June 30, 2008 are as follows:

<u>Grant</u>	<u>2008</u>	<u>2007</u>
U.S. Department of Housing & Urban Development Community Development Block Grant	\$ 27,551	\$ 8,976
U.S. Department of Housing & Urban Development Supportive Housing Program	21,840	59,889
U.S. Department of Housing & Urban Development Home Investment Partnership Program	8,328	151,330
U.S. Department of Housing & Urban Development Emergency Shelter Grant	9,118	3,846
U.S. Department of Housing & Urban Development Home Counseling Grant	<u>3,300</u>	<u>5,366</u>
	<u>\$ 70,137</u>	<u>\$ 229,407</u>

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Land	\$ 332,500	\$ 332,500
Building	2,217,335	2,217,335
Building improvements	551,123	512,398
Furniture and equipment	<u>16,617</u>	<u>16,617</u>
	3,117,575	3,078,850
Less: accumulated depreciation and amortization	<u>695,359</u>	<u>540,433</u>
	<u>\$ 2,422,216</u>	<u>\$ 2,538,417</u>

Depreciation expense for the years ended, June 30, 2008 and 2007 was \$154,926 and \$146,118 respectively.

NOTE 5 - CONSTRUCTION LOAN PAYABLE

The Organization has the following construction loans payable at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Horizon Bank, 5.00%, due April 30, 2009, secured by building under construction	\$ 67,746	\$ -
Horizon Bank, 8.25%, due September 20, 2007, secured by building under construction	<u>-</u>	<u>38,621</u>
	<u>\$ 67,746</u>	<u>\$ 38,621</u>

NOTE 6 - LONG-TERM DEBT

A summary of long-term debt at June 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</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 building	\$ 229,118	\$ 231,843

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 6 - LONG-TERM DEBT (Continued)

Mortgage note payable to Harris Bank, payable in monthly installment of \$1,583, including interest at 6.41%, due December, 2037, collateralized by corresponding land and building.	248,344	-
Mortgage note payable to Centier Bank, payable in monthly installment of \$1,719, including interest at 6.60%, due December, 2032, collateralized by corresponding land and building.	<u>247,908</u>	<u>-</u>
	725,370	231,843
Less: Current portion	<u>10,474</u>	<u>2,724</u>
	<u>\$ 714,896</u>	<u>\$ 229,119</u>

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

2009	\$ 10,474
2010	10,977
2011	11,723
2012	12,069
2013	13,368

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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Contracted services	\$ 313,156	\$ 299,543
Professional fees	17,605	30,441
Rent	<u>11,500</u>	<u>10,802</u>
Total services	342,261	340,786
Interest expense	<u>8,282</u>	<u>34,257</u>
Total services rendered by related party	<u>\$ 350,543</u>	<u>\$ 375,043</u>

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 7 - RELATED PARTY TRANSACTIONS (Continued)

Due to related party represents accrued fees and cash advances outstanding of \$29,286 and \$550,757 at June 30, 2008 and 2007, respectively. During 2008, OEI demanded payment on this note payable and all unpaid principal and interest. Management obtained financing by mortgaging two existing properties. 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 note is due in full on January 5, 2013. The outstanding balance on the long term note was \$122,770 at June 30, 2008.

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 rent expense for the years ended June 30, 2008 and 2007 was \$11,500 and \$10,802, respectively.

NOTE 9 - 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 10 - CONCENTRATION OF REVENUE

During the fiscal year ended June 30, 2008 and 2007, Housing Opportunities, Inc. received 54% and 81% 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.

NOTE 11 - SUBSEQUENT EVENT

During August 2008, the Organization terminated the lease agreement with OEI, as described in Note 8. The Organization entered into a new five year rent agreement with an unrelated party. In addition, the Organization entered into an operating lease for a copier expiring in fiscal year 2013. Total minimum rentals under these lease agreements over future fiscal years are as follows:

HOUSING OPPORTUNITIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 11 - SUBSEQUENT EVENT (Continued)

2009	\$ 14,797
2010	24,118
2011	24,118
2012	24,118
2013	24,118
Thereafter	<u>2,010</u>
Total	<u>\$ 113,279</u>

On August 4, 2008, the Organization experienced damage from a tornado, which resulted in a significant loss of the Organization's assets. The organization has filed an insurance claim for \$40,512 and is expected to receive this claim during the 2009 fiscal year in order to replace the lost assets.

On November 11, 2008, OEI forgave the remaining related party note payable of \$122,770 as described in Note 7.

SUPPLEMENTARY INFORMATION

HOUSING OPPORTUNITIES, INC.
SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

<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		\$ 52,367
U.S. Department of Housing & Urban Development Supportive Housing Program	14.235	IN-36B-502004 IN-36B-402006 IN-36B-402013 IN-36B-402021 IN-36B-502015 IN-36B-702007	318,132
U.S. Department of Housing & Urban Development Indiana Housing Finance Authority Home Investment Partnerships Program	14.239	CW-006-008 CH-004-004 CH-005-032 CH-006-009	136,042
U.S. Department of Housing & Urban Development Emergency Shelter Grant Home Counseling Grant	14.231 14.169	ESG-0197 HC-05-0498-057 HC-06-0498-123	29,738 <u>24,743</u>
Total U.S. Department of Housing & Urban Development			561,022
U.S. Department of Health and Human Services Indiana Department of Commerce Assets for Independence Account	93.602		<u>9,423</u>
Total Expenditures of Federal Awards			<u>\$ 570,445</u>

HOUSING OPPORTUNITIES, INC.
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

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, 2008 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.

NOTE 2 - AMOUNTS REQUIRED FOR MATCHING

To comply with program requirements, amounts that are required to be expended from non-Federal sources have been excluded from reported expenditures. The Organization's portion of expenditures for June 30, 2008 was as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided for Matching</u>
Supportive Housing Program	14.235	\$ 64,782



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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, 2008, and have issued our report thereon dated January 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness in internal control over financial reporting. Please see Finding 2008-1 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 January 21, 2009.

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 Horwath LLP

South Bend, Indiana
January 21, 2009



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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, 2008. 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, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-02.

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. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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 consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-02 to be a significant deficiency.

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 did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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 Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
January 21, 2009

HOUSING OPPORTUNITIES, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2008

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?
Yes X
No
- Significant deficiencies identified that are not considered to be material weaknesses? X
Yes
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>
14.235	Supportive Housing Program

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

Auditee qualified as low-risk auditee?
Yes X
No

HOUSING OPPORTUNITIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2008

Section II – Financial Statement Findings

Finding #2008-1: Preparation of Financial Statements in Accordance with GAAP

Condition: Statement on Auditing Standards (SAS) No. 112 “Communicating Internal Control Related Matters Identified in an Audit”, clarifies management’s responsibility to have internal controls in place to apply appropriate accounting principles and provide information to produce the year-end annual report in accordance with accounting principles generally in the United States of America (GAAP). While management is not required to prepare the annual report, management does need to demonstrate the level of qualifications and controls to prepare and review the report without significant deficiencies or material weaknesses in these controls. During our audits, we noted the following instances in which adjusting journal entries were required to correct misstatements in the financial statements. Two misstatements were considered “material” and the other two “more than inconsequential”.

- An entry to adjust construction in process and debt to reflect proper payment of the purchase of land for \$28,610.
- An entry to properly record contributions associated with a re-roofing project of \$22,442.
- An entry to adjust net assets for \$11,562.
- An entry to accrue fees associated with the annual audit of \$7,350.

Criteria: As noted above, the new auditing standards require management to implement controls and demonstrate the ability to produce the annual report, free of material misstatement, in accordance with GAAP.

Effect: Internal financial statements may not be presented consistent with GAAP. Additional business risk may be present since daily business decisions may be made based on inaccurate financial data.

Cause: New accounting and auditing literature continues to be added at an astonishing pace. Many business transactions have complex accounting rules and guidance is being produced from various authoritative sources. Each of these elements add a significant financial costs to the internal control process, a pressure that small and mid-size companies alike have been facing for years. It simply is very difficult for smaller companies to react.

Recommendation: Management should standardize its monthly closing process to include a checklist of standard entries to record on a monthly basis. A documented review of this checklist should be performed by someone independent of the journal entry process.

Views of responsible officials and planned corrective actions: The HO bookkeeper does a review of the monthly balance sheet, and monthly journal entries at the end of the month. The exterior accountant reviews the paperwork and signs off on it.

(Continued)

HOUSING OPPORTUNITIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2008

Section III - Federal Award Findings

Finding #2008-2: Timely submission of Data Collection Form

Statement of Condition: Per OMB Circular A-133, the Organization's Data Collection Form must be submitted within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the audit period, unless a longer period is agreed to in advance by the Federal agencies that provided the funding. We noted the June 30, 2007 Data Collection Form was not submitted to the Federal Clearinghouse as required by OMB Circular A-133.

Criteria: As noted above, OMB Circular A-133 requires the timely submission of Data Collection Forms.

Effect: The Organization is not in compliance with Federal requirements.

Cause: Management was not aware of the specific requirement.

Recommendation: The Organization should develop procedures to ensure the Data Collection Form is submitted within the established Federal guidelines.

Views of responsible officials and planned corrective actions: The Data Collection Form will be submitted for this year electronically. The auditing firm will generate the form with the HO CEO reviewing the form prior to submission. In addition, HO will submit the Data Collection Form for FY 2007 to the Federal Clearinghouse.

(Continued)

HOUSING OPPORTUNITIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2008

Section IV - Prior Year Findings and Questioned Costs

Finding #2007-1 - Internal Controls Over Financial Reporting

Statement of Condition: 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.

Status: Management contracted with an outside accounting firm to provide oversight of all financial reporting including month end close procedures, however, we still noted material audit adjustments that had to be made at year-end, as noted in Finding # 2008-1.

Finding #2007-2 - Segregation of Duties

Statement of Condition: 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. For example, 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.

Status: Management contracted with an outside accounting firm to provide oversight of all financial reporting including month end close procedures. In addition, management has implemented formal review procedures to document reviews and approvals of accounting transactions. No significant segregation of duties issues were identified during the current year audit.