Constantino, Mike

From: John Kniery [JKniery@foleyandassociates.com]
Sent: Friday, May 11, 2012 2:06 PM
To: Constantino, Mike
Subject: FW: FH Financial Statement
Attachments: DOC.PDF

Mike: I understand that your requested through Charles Foley the current audited financial statements for the Freeport project, IHFSRB Project Number 12-014. Appended herein is the audited financial statements in accordance with your request. Please note that Frances House, Inc is the parent of Residential Alternatives of Illinois, Inc. (RAI). Both are applicants to the project. Please let me know if you have any other questions or if you need any additional information. Thank You for your consideration.

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From: Cox, Verna [mailto:vjcox@rfmsinc.com]
Sent: Friday, May 11, 2012 9:34 AM
To: John Kniery
Subject: FH Financial Statement

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Frances House, Inc. and Subsidiaries

Consolidated Financial Report
March 31, 2011

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McGladrey & Pullen, LLP
Certified Public Accountants

Independent Auditor's Report
on the Financial Statements

To the Board of Directors
Frances House, Inc.
Galesburg, Illinois

We have audited the accompanying consolidated balance sheets of Frances House, Inc. and Subsidiaries (Organization) as of March 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frances House, Inc. and Subsidiaries as of March 31, 2011 and 2010, and the results of their operations, changes in net assets, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Galesburg, Illinois
July 26, 2011

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Frances House, Inc. and Subsidiaries

Consolidated Balance Sheets
March 31, 2011 and 2010

Assets	**2011**	2010
Current Assets		
Cash and cash equivalents	**$ 24,749,373**	$ 18,496,084
Fiduciary trust accounts	**68,489**	75,031
Receivables:		
Resident accounts, less allowance for doubtful accounts, 2011 $759,794; 2010 $728,999	**4,297,342**	11,974,970
Other	**655,674**	286,939
Assets whose use is limited	**335,425**	336,225
Prepaid expenses	**472,724**	463,111
Total current assets	**30,579,027**	31,632,360
Long-Term Investments		
Marketable securities	**23,135,676**	15,589,974
Assets whose use is limited	**1,067,800**	937,931
	24,203,476	16,527,905
Property and Equipment		
Land	**5,188,742**	5,188,742
Land improvements	**4,170,613**	4,170,613
Buildings and improvements	**112,037,255**	108,667,346
Equipment, furniture and fixtures	**7,616,275**	7,299,323
Vehicles	**2,463,857**	2,481,819
Construction in progress	**220,606**	1,761,974
	131,697,348	129,569,817
Less accumulated depreciation	**24,252,858**	18,443,237
	107,444,490	111,126,580
Long-Term Receivables and Other Assets		
Receivables	**1,650,000**	1,500,000
Deferred debt issuance costs, net of accumulated amortization, 2011 $204,912; 2010 $139,144	**1,055,691**	1,121,459
Other	**20,000**	35,000
	2,725,691	2,656,459
Total assets	**$ 164,952,684**	$ 161,943,304

See Notes to Consolidated Financial Statements.

Liabilities and Net Assets	2011	2010
Current Liabilities		
Current maturities of long-term debt	**$ 1,539,932**	$ 1,419,025
Accounts payable	**1,780,842**	1,875,255
Construction payable	**788,253**	1,141,553
Accrued expenses	**5,016,974**	4,522,126
Deferred revenue	**545,012**	540,726
Refundable balances, including amounts due to third-party payors approximately, 2011 $1,110,570; 2010 $840,000	**1,376,570**	1,274,565
Due to residents, trust accounts	**68,489**	75,031
Total current liabilities	**11,116,072**	10,848,281
Long Term Debt, net of current maturities	**67,483,459**	69,019,741
Standby Loan Agreement	**-**	2,800,000
Resident Security Deposits	**1,210,756**	1,276,545
Total liabilities	**79,810,287**	83,944,567
Commitments and Contingencies (Notes 6, 10, 11, 13, and 17)		
Net Assets, unrestricted	**85,142,397**	77,998,737
Total liabilities and net assets	**$ 164,952,684**	$ 161,943,304

Frances House, Inc. and Subsidiaries

Consolidated Statements of Operations
Years Ended March 31, 2011 and 2010

	2011	2010
Operating revenue:		
Net resident services	**$ 81,752,700**	$ 79,804,332
Other	**686,231**	618,354
Total operating revenue	**82,438,931**	80,422,686
Operating expenses:		
Program support	**7,374,283**	7,372,256
Nursing services	**23,768,889**	22,312,541
Dietary	**9,822,120**	9,512,897
General and administrative	**12,541,208**	12,503,642
Operations and maintenance	**9,280,280**	10,361,056
Provider participation fees	**1,634,631**	1,592,529
Housekeeping	**2,641,789**	2,678,921
Depreciation	**5,860,183**	4,879,143
Special services	**99,528**	99,446
Laundry	**620,073**	532,806
Total operating expenses	**73,642,984**	71,845,237
Operating income	**8,795,947**	8,577,449
Nonoperating income (expense):		
Investment income	**781,259**	325,918
Realized loss on sale of securities	**(422)**	(170)
Interest expense	**(4,211,537)**	(3,242,996)
Contributions received	**13,287**	6,693
Contributions made	**(27,721)**	(96,958)
	(3,445,134)	(3,007,513)
Excess of revenue over expenses	**5,350,813**	5,569,936
Net change in unrealized gains and losses on investments	**1,792,847**	4,229,028
Increase in unrestricted net assets	**$ 7,143,660**	$ 9,798,964

See Notes to Consolidated Financial Statements.

Frances House, Inc. and Subsidiaries

Consolidated Statements of Changes In Net Assets
Years Ended March 31, 2011 and 2010

	2011	2010
Unrestricted net assets:		
Excess of revenue over expenses	**$ 5,350,813**	$ 5,569,936
Net change in unrealized gains and losses on investments	**1,792,847**	4,229,028
Increase in unrestricted net assets	**7,143,660**	9,798,964
Total net assets:		
Beginning of year	**77,998,737**	68,199,773
End of year	**$ 85,142,397**	$ 77,998,737

See Notes to Consolidated Financial Statements.

Frances House, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Year Ended March 31, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	**$ 7,143,660**	$ 9,798,964
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized losses on investments	**(1,792,847)**	(4,229,028)
Realized loss on sale of securities	**422**	170
Reinvested dividends	**(219,388)**	(144,782)
Interest reinvested in certificate of deposits	**-**	(20,999)
(Gain) on sale of equipment	**(11,466)**	(2,023)
Depreciation	**5,860,183**	4,879,143
Amortization	**65,768**	95,664
Provision for doubtful accounts	**1,875,624**	1,656,876
Net change in other assets	**15,000**	-
Change in working capital components:		
(Increase) decrease in:		
Receivables	**6,183,269**	2,367,329
Prepaid expenses	**(9,613)**	(78,183)
(Decrease) increase in:		
Accounts payable	**(94,413)**	(328,749)
Accrued expenses	**494,848**	374,874
Deferred revenue	**4,286**	249,799
Refundable balances	**102,005**	(561,880)
Net cash provided by operating activities	**19,617,338**	14,057,175
Cash Flows From Investing Activities		
Proceeds from sale and redemption of marketable securities	**489,659**	7,798
Proceeds from sale and redemption of certificates of deposits	**-**	2,961,440
Purchase of marketable securities	**(6,023,548)**	-
Proceeds from sale of equipment	**11,466**	47,096
Purchase of property and equipment	**(2,023,867)**	(44,547,725)
Disbursements made on construction in progress	**(154,226)**	(614,906)
Disbursements on standby loan agreements receivable	**(750,000)**	(1,325,000)
Proceeds from standby loan agreements receivable	**-**	125,000
Disbursement on long-term receivable	**(250,000)**	(1,025,000)
Proceeds from long-term receivable	**100,000**	450,000
Net cash (used in) investing activities	**(8,600,516)**	(43,921,297)

(Continued)

Frances House, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Year Ended March 31, 2011 and 2010

	2011	2010
Cash Flows From Financing Activities		
Payment of debt acquisition costs	$ -	$ (475,020)
Checks written in excess of amounts on deposit	-	(1,045,179)
Decrease in resident security deposits	(65,789)	(131,562)
Proceeds from line of credit	-	150,000
Payments on line of credit	-	(150,000)
Proceeds from standby loan agreement	-	2,800,000
Payments on standby loan agreement	(2,800,000)	-
Proceeds from long-term debt	-	35,884,141
Disbursements on construction payable	(353,300)	-
Principal payments on long-term debt	(1,415,375)	(1,009,497)
Net cash (used in) provided by financing activities	(4,634,464)	36,022,883
Net increase in cash and cash equivalents	6,382,358	6,158,761
Cash and cash equivalents:		
Beginning	19,770,240	13,611,479
Ending, including cash and cash equivalents whose use is limited, 2011 $1,403,225; 2010 $1,274,156	$ 26,152,598	$ 19,770,240
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 4,080,452	$ 3,111,911
Supplemental Schedule of Noncash Investing and Financing Activities		
Construction in progress financed through construction payable	$ -	$ 1,141,553

See Notes to Consolidated Financial Statements.

Note 1. Nature of Activities

Frances House, Inc. and its subsidiaries (Organization) are Illinois not-for-profit organizations that provide housing, healthcare, and other related services to residents through the operations of the following facilities for the year ended March 31, 2011:

Frances House, Inc. (FHI)
- Thirteen 16-bed facilities
- One 16-bed group home, consisting of two 6-bed and one 4-bed facilities

Subsidiaries, of which FHI is the sole corporate member:

Pioneer Concepts, Inc. (PIO)
- Six 16-bed facilities
- Two 16-bed group homes, each consisting of two 6-bed and one 4-bed facilities

Pinnacle Opportunities, Inc. (PIN)
- Four 16-bed facilities
- Two 16-bed group homes, each consisting of two 6-bed and one 4-bed facilities

Concepts Plus, Inc. (CPI)
- One 16-bed facility
- One 16-bed group home, consisting of two 6-bed and one 4-bed facilities

FHI, PIO, PIN, and CPI operate long-term care facilities, as detailed above, for the developmentally disabled, all located in Illinois.

FHI is the sole member of Hawthorne Inn of Princeton, LLC (HIP) which is an Illinois not-for-profit limited liability company that owns a skilled nursing facility leased to Residential Alternatives of Illinois, Inc. (RAI). HIP has a finite life and is to dissolve January 15, 2042.

FHI is the sole member of Danville Independence, LLC (LLC), which is an Illinois not-for-profit limited liability company that owns the property of one facility operated by RAI. The LLC has a finite life and is to dissolve May 13, 2044. The LLC purchased the property and equipment for this facility and financed the purchase with a Housing and Urban Development (HUD) insured mortgage.

FHI is the sole member of the following subsidiaries, which are Illinois not-for-profit limited corporations that own the property of four facilities operated by RAI. The limited corporations purchased the property and equipment for these facilities. Both of these purchases were financed with HUD insured mortgages.

- Peru Becker, Ltd., NFP
- Peoria Manor Court, Ltd., NFP

Note 1. Nature of Activities (Continued)

FHI is the sole member of the following subsidiaries, which have not started operations as of March 31, 2011. These are Illinois not-for-profit limited corporations:

- Clinton Park Lane, Ltd., NFP
- Freeport Kiwanis, Ltd., NFP
- Freeport Navajo, Ltd., NFP
- Freeport Manor Court, Ltd., NFP
- Geneseo South Chicago, Ltd., NFP
- Manor Court of Princeton, Ltd., NFP
- Peoria Stalworth, Ltd., NFP
- Streator Eastwood, Ltd., NFP

FHI is the sole corporate member of RAI, an Illinois not-for-profit organization. RAI operates skilled nursing facilities, retirement living centers and assisted living facilities located in Illinois. The names of the facilities, bed/units and dates operations commenced are as follows:

Facility Name	Total Beds/Units	Skilled Beds	Sheltered Beds	Assisted Beds	Supportive Living Facility Units	Apt. Units	Date Resident Operations Commenced
Hawthorne Inn of Clinton	21	-	-	-	21	-	January 2, 2007
Hawthorne Inn of Danville	140	70	70	-	-	-	August 1, 2000
Hawthorne Inn of Freeport	29	-	-	-	29	-	July 1, 2002
Hawthorne Inn of Peoria	52	-	-	52	-	-	October 1, 2000
Hawthorne Inn of Peru	52	-	-	52	-	-	August 1, 2000
Hawthorne Inn of Princeton	21	-	-	-	21	-	January 29, 2007
Liberty Estates of Danville	82	-	-	-	-	82	August 15, 1997
Liberty Estates of Freeport	69	-	-	-	-	69	January 14, 2000
Liberty Estates of Geneseo	49	-	-	15	-	34	August 22, 1997
Liberty Estates of Peoria	81	-	-	-	-	81	March 1, 2000
Liberty Estates of Peru	69	-	-	-	-	69	February 6, 2000
Liberty Estates of Streator	50	-	-	16	-	34	March 18, 2002
Manor Court of Clinton	134	134	-	-	-	-	January 10, 2005
Manor Court of Freeport	114	90	12	12	-	-	January 9, 2006
Manor Court of Peoria	50	50	-	-	-	-	August 22, 2006
Manor Court of Peru	130	85	45	-	-	-	February 8, 2005
Manor Court of Princeton	98	76	22	-	-	-	January 3, 2005
Freeport Rehab & Healthcare Center	143	143	-	-	-	-	February 1, 2008
	1,384	648	149	147	71	369	

Note 2. Significant Accounting Policies

The following is a summary of the Organization's significant accounting policies:

Principles of consolidation: The consolidated financial statements include the accounts of the Organization as described in Note 1. All material intercompany balances and transactions have been eliminated in consolidation.

Income taxes: Frances House, Inc. and its Subsidiaries are exempt from income taxes under Sections 501(c)(3) or 501(c)(2) of the Internal Revenue Code.

Cash equivalents: For purposes of reporting cash flows, the Organization considers money market funds and all highly liquid debt instruments purchased with a maturity of three months of less to be cash equivalents.

Fiduciary trust accounts: Cash held for residents and the related liability, due to residents, consists of cash that RAI holds for its residents when they request RAI to do so. Such cash consists of cash-on-hand and cash deposited in accounts at insured depository institutions, and is available for use or withdrawal by the residents at their request.

Resident accounts receivable: Resident accounts receivable, which include amounts due directly from residents and third-party payors on the resident's behalf, are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Resident accounts receivable are written off when deemed uncollectible. Recoveries of resident accounts receivable previously written off are recorded when received. Generally, interest is not charged on resident accounts receivable. Management has not specifically designated a time period for determining when a resident account receivable is past due.

The Organization extends credit for routine services provided to the residents of its facilities. A significant portion of these services provided to residents are paid by federal and state third-party payors as part of the Medicare and Medicaid programs. Credit risk with respect to the Medicare and Medicaid program receivables, as described in Note 12, is mitigated by the taxing authority of the governmental entities funding the programs while credit risk relating to private-pay accounts receivables are mitigated by the number of private-pay residents.

Standby Loan Agreement receivables: Interest is accrued monthly on the outstanding balances of each loan. A loan is considered impaired when it is probable the Organization will be unable to collect all contractual principal and interest payments due in accordance with the terms of the standby loan agreement. Impaired loans are evaluated based on the present value of expected future cash flows discounted at the loan's effective interest rate.

Note 2. Significant Accounting Policies (Continued)

Resident services revenue: Resident services revenue is reported at the estimated net realizable amount from residents, third-party payors and others for services provided. Services subject to third-party payor agreements (see concentration described in Note 12) are reimbursed based on prospectively determined rates, which are generally not subject to retroactive adjustment. However, the laws and regulations under which the Medicare and Medicaid programs operate are complex, subject to frequent change and subject to interpretation. As part of operating under these programs, there is a possibility that governmental authorities may review the Organization's compliance with these laws and regulations. Such review may result in adjustments to Medicare and Medicaid reimbursements previously received and subject the Organization to fines and penalties. Any retroactive adjustments resulting from such reviews made by Medicare and Medicaid programs are recognized in the period the Organization is notified by the governmental authorities of such adjustment. Although no assurances can be given, management believes they have complied with the requirements of the Medicare and Medicaid programs.

Resident security deposits: Refundable security deposits paid by residents upon entering into a rental agreement are reflected as other liabilities in the accompanying consolidated balance sheets.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Realized gains and losses are determined based on the specific identification of securities sold. Unrealized gains and losses are determined based on the increase or decrease in the fair value of investments. Investment income or loss, including realized gains and losses on investments, interest and dividends, is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. The net change in unrealized gains and losses on investments is excluded from the excess of revenue over expenses and presented as an increase or decrease in unrestricted net assets unless the gain or loss is restricted by donor or law.

Declines in the fair value of individual securities below their cost that are determined to be other-than temporary are reflected in earnings as realized losses. In estimating other-than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Organization to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery of the cost.

When an other-than-temporary impairment loss is determined to have occurred on equity securities, the losses are recognized in excess of revenues over expenses. The way in which impairment losses on fixed income securities are recognized in the consolidated financial statements is dependent on the facts and circumstances related to the specific security. If the Organization intends to sell a security or it is more likely than not it would be required to sell a security before the recovery of its amortized cost, less any current period credit loss, the Organization recognizes an other-than-temporary impairment in excess of revenues over expenses for the difference between amortized cost and fair value. If the Organization does not expect to recover the amortized cost basis, does not plan to sell the security and if it is not more likely than not that the Organization would be required to sell a security before the recovery of its amortized cost, less any current period credit loss, the recognition of the other-than-temporary impairment is bifurcated. The Organization recognizes the credit loss portion in excess of revenues over expenses and the noncredit loss portion in other changes in net assets and is excluded from excess of revenues over expenses.

Note 2. Significant Accounting Policies (Continued)

Property and equipment: Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the following estimated useful lives:

Classification	Years
Land improvements	8 to 20
Buildings and improvements	5 to 40
Equipment, furniture and fixtures	3 to 25
Vehicles	4

Debt issuance costs: Debt issuance costs are deferred and amortized over the term of the related loan agreement.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount 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. Significant estimates, which are particularly susceptible to change in a short period of time, relate to the determination of the allowance for doubtful accounts, fair value of investments in marketable securities, and depreciation of property and equipment. Actual results could differ from those estimates.

Excess of revenue over expenses: The statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include changes in unrealized gains and losses on investments.

Donor-restricted contributions: The Organization reports contributions as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. There were no donor restricted contributions received for the years ended March 31, 2011 and 2010.

Contributions made: Contributions made are recognized at the time the unconditional promise to give is approved by the Board of Directors and communicated to the donee.

Subsequent events: Management has evaluated subsequent events through July 26, 2011, the date on which the financial statements were available to be issued, in preparing the consolidated financial statements and the notes thereto for the year ended March 31, 2011.

Note 2. Significant Accounting Policies (Continued)

Recently issued accounting standards: In May 2011, the FASB issue ASU 2011-04, *Fair Value Measurements (ASC Topic 820)-Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU 2011-04 provides clarification and amendments to ASC Topic 820 and results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. ASU 2011-04 is effective for the Organization's fiscal year beginning April 1, 2012. The adoption of this guidance is not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

Note 3. Investments

Summary schedules of marketable securities by fair value and cost basis as of March 31 is as follows:

	2011		2010	
Described by Asset Type	Fair Value	Cost Basis	Fair Value	Cost Basis
Marketable equity securities, bond exchange traded funds, which invest primarily in U.S. Treasury and Government Agencies obligations	$ 1,521,199	$ 1,507,104	$ 1,510,990	$ 1,507,104
Marketable equity securities, bond exchange traded funds, which invest primarily in widely diverse holdings	-	-	490,426	490,032
Marketable equity securities, mutual funds which invest primarily in widely diverse holdings	15,623,595	9,578,202	13,588,558	9,416,797
Marketable equity securities, mutual funds which invest primarily in U.S. Treasury and Government Agencies obligations	5,990,882	6,081,482	-	-
	$ 23,135,676	$ 17,166,788	$ 15,589,974	$ 11,413,933

Note 3. Investments (Continued)

The net change in unrealized gains and losses on marketable equity securities for the year ended March 31, 2011 and 2010 were $1,792,847 and $4,229,028, respectively.

The following tables show the gross unrealized losses and fair value of the Organization's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in continuous loss position, as of March 31, 2011 and 2010:

	Less Than 12 Months		12 Months or Greater		Total	
March 31, 2011	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities, bond exchange traded funds, which invest primarily in U.S. Treasury and Government Agency obligations	$ -	$ -	$ 753,750	$ 6,771	$ 753,750	$ 6,771
Marketable equity securities, mutual funds, which invest primarily in U.S. Treasury and Government Agency obligations	5,990,882	90,600	-	-	5,990,882	90,600
	$ 5,990,882	$ 90,600	$ 753,750	$ 6,771	$ 6,744,632	$ 97,371

	Less Than 12 Months		12 Months or Greater		Total	
March 31, 2010	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities, bond exchange traded funds, which invest primarily in U.S. Treasury and Government Agency obligations	$ -	$ -	$ 750,330	$ 10,192	$ 750,330	$ 10,192

Note 3. Investments (Continued)

The Organization had two marketable equity securities that had unrealized losses at March 31, 2011.

Based on the Organization's assessment of the near-term prospects of the issuers of marketable equity securities with unrealized losses and the Organization's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of cost, the Organization does not consider these investments to be other-than-temporarily impaired as of March 31, 2011 and 2010.

Management and a third-party broker evaluate the investment portfolio on an annual basis to determine if investments have suffered an other-than-temporary decline in value. In addition, management and a third-party broker monitor market trends and other circumstances to identify trends and circumstances that might impact the carrying value of securities. Net realized losses for the years ended March 31, 2011 and 2010 were $422 and $170, respectively, and were reported in the consolidated statements of operations.

Investment income consists of interest and dividend income and is generated on notes receivable, assets whose use is limited, cash and cash equivalents, and marketable securities.

Note 4. Assets Whose Use is Limited, Escrow Deposits

The HUD insured mortgage notes payable described in Note 6, required the Organization to make monthly escrow deposits for real estate taxes, mortgage insurance and property insurance. As of March 31, 2011, the required monthly mortgage escrow account for escrow deposit was $45,690; however the required amount is subject to periodic change to meet the needs of actual disbursements for these items. Escrow deposits are restricted to their described purpose and the release of these funds is authorized by the mortgage company upon submission of invoices for real estate taxes, mortgage insurance and property insurance. The aggregate balance of the escrow deposits for real estate taxes, mortgage insurance and property insurance was $335,425 and $336,225 as of March 31, 2011 and 2010, respectively.

Note 5. Assets Whose Use is Limited, Replacement Reserves and Repair Deposit

The HUD insured mortgage notes payable, described in Note 6, requires the Organization to make monthly deposits to the reserves for replacements in the amount of $10,725. Withdrawals from these reserves, whether for the purpose of effecting replacement of structural elements and mechanical equipment of the project or for any other purpose, may be made only after receiving approval in writing of the Secretary of HUD. Activity in the replacement reserves during the years ended March 31, 2011 and 2010 included the following:

	2011	2010
Balance at beginning of year	$ 909,815	$ 281,287
Initial deposits	-	550,000
Total of monthly deposits	128,700	77,825
Interest earned on replacement reserve account	1,169	703
Balance at end of year	$ 1,039,684	$ 909,815

Peoria Manor Court, Ltd., NFP also had a separate repair deposit balance as of March 31, 2011 and 2010 in the amount of $28,116. The repair deposit was required by HUD to be deposited December 2009 at the time of closing on the mortgage note payable, described in Note 6. There has not been any activity in the repair deposit account since it was established December 2009.

Note 6. Long-Term Debt, Line of Credit, Commitment and Standby Loan Agreement

Long-term debt and pledged assets consisted of the following as of March 31, 2011 and 2010:

Borrower and Description of Debt	2011	2010
Frances House, Inc.		
First Mid-Illinois Bank & Trust, N.A., mortgage note payable, 6.00%, due in monthly installments of $169,800, including interest, with the remaining balance due February 2016, collateralized by substantially all of the assets of Liberty Estates of Danville, Liberty Estates of Peoria, Liberty Estates of Peru and Liberty Estates of Freeport, approximately $30,379,000 book value	$ 21,765,157	$ 22,395,348
Hawthorne Inn of Princeton, LLC		
Midland States Bank, mortgage note payable, 5.75%, due in monthly principal installments of $28,440, interest due monthly, with the remaining balance due October 2012, collateralized by substantially all of the assets related to the LLC, approximately $8,061,000 book value, and guaranteed by Community Living Options, Inc., an unrelated not-for-profit organization	4,605,443	4,946,718
Danville Independence, LLC		
Cambridge Realty Capital, Ltd. of Illinois, mortgage note payable, 6.18%, due in monthly installments of $73,531, including interest, with the remaining balance due September 1, 2043, collateralized by substantially all of the assets of the related LLC, approximately $14,559,000 book value, insured by HUD under Section 232, pursuant to Section 223(f) of the National Housing Act	12,351,958	12,467,085
	38,722,558	39,809,151

Note 6. Long-Term Debt, Line of Credit, and Standby Loan Agreement (Continued)

Borrower and Description of Debt	2011	2010
Subtotal carried forward	$ 38,722,558	$ 39,809,151
Peru Becker, Ltd., NFP		
Cambridge Realty Capital, Ltd. of Illinois, mortgage note payable, 5.30%, due in monthly installments of $103,748, including interest, with the remaining balance due August 1, 2044, collateralized by substantially all of the assets located at the premises of the skilled nursing facility, sheltered care and assisted living facility known as "Manor Court of Peru" and "Hawthorne Inn of Peru," approximately $21,734,000 book value, insured by HUD under Section 232, pursuant to Section 223(f) of the National Housing Act	19,477,712	19,684,391
Peoria Manor Court, Ltd., NFP		
Cambridge Realty Capital, Ltd. of Illinois, mortgage note payable, 4.90%, due in monthly installments of $54,642, including interest, with the remaining balance due January 1, 2045, collateralized by substantially all of the assets located at the premises of the skilled nursing facility and assisted living facility known as "Manor Court of Peoria," approximately $13,425,000 book value, insured by HUD under Section 232, pursuant to Section 223(f) of the National Housing Act	10,823,121	10,945,224
	69,023,391	70,438,766
Less current maturities	1,539,932	1,419,025
Long-Term Portion	$ 67,483,459	$ 69,019,741

Note 6. Long-Term Debt, Line of Credit, and Standby Loan Agreement (Continued)

Scheduled maturities of long-term debt as of March 31, 2011 were as follows:

Year Ending March 31	Amount
2012	$ 1,539,932
2013	5,538,086
2014	1,350,176
2015	1,431,025
2016	19,129,686
Thereafter	40,034,486
	$ 69,023,391

In connection with certain bank notes, the Organization has agreed to certain restrictive covenants, including but not limited to: (1) minimum fixed charge coverage ratio; (2) minimum current ratio; (3) annual minimum tangible net worth, step-up; and (4) debt service coverage.

FHI has a line of credit with Wachovia Bank, National Association in the amount of $8,000,000. Through this agreement, FHI may borrow funds from time to time, not to exceed the principal balance. This note is secured by an investment account held on deposit with Wells Fargo Advisors, LLC with a fair market value of approximately $17,122,000 at March 31, 2011. The agreement bears interest at the one-month LIBOR Market Index Rate plus 1.00% per annum (1.26% as of March 31, 2011). During the year ended March 31, 2011, no amount was borrowed or repaid against this agreement. As of March 31, 2011, there were no borrowed amounts owed on this agreement.

During November 2009, FHI obtained a standby loan agreement with Community Living Options, Inc. (CLO), an unrelated party. Through this agreement CLO has agreed to advance, from time to time, working capital funds to FHI. The unsecured agreement provides for a credit limit of up to $2,800,000 and expires November 30, 2014. The agreement bears interest at a fixed 4% per annum. There was no balance on this standby loan agreement as of March 31, 2011. Subsequent to March 31, 2011, CLO has not advanced FHI any additional funds.

HUD Insured Debt

The Organization's subsidiaries' loans with HUD insured financing has certain regulatory and compliance requirements, including but not limited to, required deposits (Notes 4 and 5) and reporting requirements. Danville Independence, LLC was in violation of one of the requirements. Danville Independence, LLC does not yet have a correction plan to resolve this significant finding. The impact of this finding could be denied future participation in HUD insured programs and denial of withdrawals of replacement reserve funds.

Note 7. Administrative and Support Service Agreements

The Organization has an administrative service agreement with RFMS, Inc (RFMS), an unrelated company. RFMS is a related party, through common ownership with certain facility lessors, including Edwin Enterprises, LLC, LB Properties, Inc., and Mid-Illini Healthcare, Inc., disclosed in Note 13. RFMS provides administrative services for cash management, accounting and financial reporting, payroll and employee benefits, information technology, and other general operational and financial management. As of March 31, 2011 and 2010, the Organization reported a total of approximately $88,000 and $18,000, respectively, of payable expenses to RFMS. Expenses related to this agreement are discussed below.

Frances House, Inc. and Residential Alternatives of Illinois, Inc. are two of eight not-for-profit entities that became members of a newly formed limited liability company, LTC Support Services, LLC (LTC). The purpose of LTC is to support its members' operations by providing consulting services to its members and others. The Organization entered into a contractual agreement with this related party to obtain consulting services that include, but are not limited to: training, regulatory compliance, quality assurance programs, human resource support, marketing and maintenance. The agreement is for one year with an automatic one year renewal unless cancelled with at least 30 days notice. Each member made a $10,000 investment in the Company. As of March 31, 2011 and 2010, the Organization reported no prepaid expenses and no payable expenses to LTC. Expenses relating to this agreement are disclosed below.

Fees incurred under these agreements are included in general and administrative expenses for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
RFMS, Inc., administrative services	$ 2,575,560	$ 2,575,560
LTC Support Services, LLC, support services	1,516,110	1,489,200
	$ 4,091,670	$ 4,064,760

Note 8. Off-Site Programming Services

Pursuant to federal and state regulations, residential providers to persons with developmental disabilities are responsible for ensuring the provision of active treatment services for each resident. These active treatment services typically include developmental training, and if applicable, supported employment services. In cases where the residential facility is not certified by the Illinois Department of Human Services Division of Developmental Disabilities (DHSDD) to provide these services, another business entity which is certified by DHSDD may provide these services with the residential facility acting as an agent for the actual service provider. The Organization acts as such an agent for an unrelated provider of developmental services through an agreement renewed annually. The Illinois Department of Human Services issues a reimbursement rate to the developmental training services provider; however, the state requires the reimbursement to flow-through the residential facility provider. The state's administrative code specifies that the residential facility must flow-through payments to the developmental training services provider no later than ten working days after the facility's receipt of the payment from the state. Depending on the timing of the receipt by the facility of the monthly flow-through payment from the state and the disbursement of the flow-through by the facility to the developmental provider, a liability to the service provider may exist as of year-end. Such a liability, if any, is included in accounts payable of the Organization. As of March 31, 2011 and 2010, the Organization did not have any flow-through liabilities. Since the arrangement between the residential facility and the developmental service provider is an agency relationship, no revenue or expense related to those services has been included in these consolidated financial statements.

Note 9. Provider Participation Fees

The Illinois Department of Healthcare and Family Services assesses provider participation fees on Illinois healthcare providers receiving Medicaid payments. Provider participation fees totaled approximately $1,635,000, and $1,600,000 for the years ended March 31, 2011 and 2010, respectively.

Note 10. Employee Benefit Plans

The Organization has adopted a medical benefit plan providing medical benefits, short-term disability benefits, group term life insurance, dependent care assistance and medical expense reimbursement. The medical benefits, short-term disability benefits and group term insurance portion of this plan is administered by an unrelated third-party organization. The medical and short-term disability benefits are, in effect, self-insured. This plan involves several organizations who contribute monthly premiums to a special pooled account, which is to be used exclusively for payment of the claims of all eligible employees and certain administrative fees. The portion of the plan relating to dependent care and medical expense reimbursement is administered by employees of RFMS, an unrelated organization. Qualifying expenses are paid from the related participants contributions. Expenses relating to the medical benefit plan totaled approximately $1,106,000 and $1,039,000 for the years ended March 31, 2011 and 2010, respectively.

The workers' compensation insurance plan for the Organization's employees is administered by a third party organization and, in effect, is a self-insured plan involving several not-for-profit organizations who formed a not-for-profit trust. These organizations contribute monthly premiums to a special pooled account, which is to be used exclusively for payment of the workers' compensation claims of all the participating organizations plus administrative fees. The President of the FHI, PIN, PIO and CPI Board and Secretary of the RAI Board is also a member of the Board of Trustees for this plan. The Organization's share of expenses relating to this plan totaled approximately $1,218,000 and $1,450,000 for the years ended March 31, 2011 and 2010, respectively.

Note 10. Employee Benefit Plans (Continued)

The Organization has adopted a multiple-employer 401(k) retirement savings plan (Plan) covering substantially all employees. The President of the FHI, PIN, PIO and CPI Board and Secretary of the RAI Board is employed as a broker for the Company that administers the Plan. The Plan's administrator is considered an unrelated party. Plan management consists of employees of LTC, a related party as described in Note 7, and RFMS, an unrelated organization. The Plan is funded by (a) participant contributions and (b) 50% matching by the Organization of participant's eligible contributions up to 5% of the participant's compensation. Participant contributions are fully vested at the time they are made. Employer contributions begin vesting after 2 years of service at 20% per year. Expenses related to this plan totaled approximately $166,000 and $161,000 for the years ended March 31, 2011 and 2010, respectively.

Note 11. Long-Term Receivables, Commitments, Contingencies and Subsequent Events

FHI has a standby loan agreement with Residential Alternatives of Iowa (RAO), a related party to FHI's subsidiary, RAI, through a common Board of Directors. Through this agreement, FHI has agreed to advance, from time to time, working capital funds to RAO. The unsecured agreement provides for a credit limit of up to $2,500,000 and expires December 31, 2014. Interest shall be reset monthly based on the Applicable Federal Rate for short-term loans in effect at the beginning of RAO's fiscal year with interest paid annually (0.54% as of March 31, 2011), and principal is payable as available surplus funds are accumulated. The balance of this standby loan agreement receivable as of March 31, 2011 and 2010 was $2,500,000. Accrued interest receivable of approximately $13,000 and $35,000 was forgiven for the year ending March 31, 2011 and 2010, respectively. Management has forgiven all applicable interest through March 31, 2011. Subsequent to year-end, there have been no principal payments received and FHI has not advanced RAO any additional funds.

RAI also has a standby loan agreement with RAO, a related party through a common board of directors. Through this agreement, RAI has agreed to advance, from time to time, working capital funds to RAO. The agreement is unsecured, provides for a credit limit of up to $5,000,000 and expires on December 31, 2014. The Board of Directors of RAI intends to renew the agreement upon its expiration. Interest shall be reset monthly based on the Applicable Federal Rate for short-term loans in effect at the beginning of RAO's fiscal year (0.54% as of March 31, 2011), and principal is payable as available surplus funds are accumulated. The balance of this loan as of March 31, 2011 and 2010 is approximately $2,922,000 and $2,172,000, respectively. Accrued interest receivable of approximately $13,000 and $59,000 was forgiven for the years ending March 31, 2011 and 2010, respectively. Subsequent to year-end, there have been no principal payments received and RAI has advanced an additional $1,000,000 in funds to RAO.

The Organization's opinion as to the ultimate collectability of standby loan agreement receivables is subject to estimates regarding the borrower's future cash flows from operations. These estimates are affected by changing economic conditions and the economic prospects of the borrower. As of March 31, 2011 and 2010, the Organization has recorded an allowance of approximately $5,422,000 and $4,672,000, respectively, related to the stand-by loan agreement receivables.

FHI has guaranteed RAO's Windmill Pointe Estates facility lease with an unrelated lessor. The leased facility is located in Coralville, Iowa. The monthly lease payment is $40,555 until the lease expiration in July 2012. Management has determined the liability for the fair value of the guarantee is not material to the Organization's consolidated financial statements.

Note 11. Long-Term Receivables, Commitments, Contingencies and Subsequent Events (Continued)

Rental commitments as of March 31, 2011, under this lease guaranteed by FHI are due as follows:

Year Ending March 31	Amount
2012	$ 486,660
2013	162,220
	$ 648,880

In April 2006, the FHI Board of Directors approved a conditional promise to give not to exceed $2 million to Community Residential Centers, Inc. (CRC), an unrelated not-for-profit organization. This refundable advance receivable is to be used by CRC to make building repairs necessary for CRC to be in compliance with Life Safety Codes. The agreement expires April 2014. CRC has not yet substantially met the conditions required to recognize these advances as a contribution. If these conditions are not met prior to the expiration of the agreement, these advances are required to be refunded. During prior years, FHI removed the conditions for $125,000 of the promise to give and recognized a $125,000 expense in the consolidated statements of operations. As of March 31, 2011 and 2010, $1,650,000 and $1,500,000, respectively, is recorded as a long-term receivable and $225,000 and $375,000, respectively, remains available to CRC.

The Organization is involved as a defendant in certain litigation and regulatory claims arising in the ordinary course of business. After consultation with legal counsel, management estimates that these claims will result in out-of-pocket costs of approximately $13,000. The Organization has recorded this estimate as a miscellaneous accrued expense.

Note 12. Concentration of Credit Risk and Major Third-Party Payors

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses from these accounts and believes it is not exposed to any significant credit risk on bank deposit accounts.

The Organization has cost reimbursement agreements with third-party payors (Medicaid and Medicare), with costs submitted subject to audit and adjustment by these payors. In the opinion of management, retroactive adjustments, that have not already been considered and recorded, would not be material to the financial position or results of operations of the Organization.

Note 12. Concentration of Credit Risk and Major Third-Party Payors (Continued)

Approximately 53% and 54% of the net resident services revenue was derived under federal and state third-party reimbursement programs for the years ended March 31, 2011 and 2010, respectively. Credit risk with respect to the Medicaid program receivables is mitigated by the taxing authority of the governmental entities funding the programs. Net resident services revenue by payor for the years ended March 31, 2011 and 2010 and resident accounts receivable as of March 31, 2011 and 2010 by payor, as a percentage of total net resident services revenue and resident accounts receivable, respectively, were as follows:

Payor Types	2011	2010
Net Resident Service Revenues:		
Medicaid	34%	34%
Medicare	19%	20%
Other	47%	46%
Resident Accounts Receivable:		
Medicaid	20%	64%
Medicare	35%	16%
Other	45%	20%

Note 13. Lease Commitments, Total Rental Expense and Subsequent Event

RAI leases some of its facilities from unrelated leasing companies under agreements that require monthly rentals plus the payment of real property taxes, insurance and maintenance costs. Monthly lease payments of certain leases are adjusted periodically according to the lease agreement based on 50 percent of the change in the consumer price index (CPI). Certain lease agreements contain options to renew for additional five-year periods. The terms of these leases as of March 31, 2011 were as follows:

Lessor and Facility Name	Monthly Lease Payment	Expiration of Lease
Edwin Enterprises, LLC		
Hawthorne Inn of Freeport	$ 26,110	June 2016
Liberty Estates of Streator	45,419	February 2016
LB Properties, Inc.		
Liberty Estates of Geneseo	37,533	August 2012
Mid-Illini Healthcare, Inc.		
Manor Court of Clinton	101,253	April 2015
	$ 210,315	

Minimum rental commitments under facility leases, excluding real property taxes, insurance and maintenance as of March 31, 2011 are due as follows:

Year Ending March 31	Amount
2012	$ 2,288,790
2013	1,947,729
2014	1,760,064
2015	1,760,064
2016	550,236
	$ 8,306,883

Total rental expense for the years ended March 31, 2011 and 2010, including real property taxes, insurance and maintenance costs, were approximately $3,046,000 and $4,606,000, respectively.

Note 14. Functional Expense Classifications

Operating and nonoperating expenses of the Organization according to their functional categories for the years ended March 31, 2011 and 2010 are as follows:

	2011	2010
Program activities	$ 67,451,548	$ 65,498,667
Management and general	10,430,694	9,686,524
	$ 77,882,242	$ 75,185,191

Note 15. Professional Liability Insurance

The Organization is covered by professional liability insurance on an occurrence basis. Each entity is insured for individual and aggregate claims on an annual basis of $1,000,000 and $3,000,000, respectively.

Note 16. Accrued Expenses

Accrued expenses consisted of the following as of March 31, 2011 and 2010:

	2011	2010
Wages and other related payroll	$ 2,466,724	$ 2,277,422
Real estate taxes	2,193,649	1,907,844
Other	356,601	336,860
	$ 5,016,974	$ 4,522,126

Note 17. Construction in Progress and Subsequent Events

The Organization contracts with RFMS, an unrelated party, see Note 7, to construct additions to facilities. As of March 31, 2011 there were no construction projects with commitments.

The Organization had 11 and 17 construction in progress projects as of March 31, 2011 and 2010, respectively. Construction in progress, with no related commitment, totaled approximately $221,000 and $719,000, as of March 31, 2011 and 2010, respectively. Management is unable to estimate the total costs relating to these projects due to the nature of the construction in progress as of March 31, 2011. The total costs to complete the projects are not expected to be material to the Organization. Subsequent to year-end, eight of the construction in progress projects were finished and four new projects, with no related commitment, were started. Management plans to finance these projects using unrestricted cash. Total costs incurred subsequent to March 31, 2011 for construction in progress projects were approximately $5,000.

Note 18. Fair Value Disclosures

Fair Value of Financial Instruments: ASC 825, *Disclosures about Fair Value of Financial Instruments* requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. Fair value is determined under the framework established by ASC 820, *Fair Value Measurements and Disclosures*. ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Organization. The following information presents estimated fair values of the Organization's financial instruments as of March 31, 2011 and 2010 and the methods and assumptions used to estimate those fair values. The Organization's financial instruments consist of cash and cash equivalents, accounts receivable, accrued liabilities, deferred revenue and refundable balances.

The Organization also has assets whose use is limited, other long-term receivables, and debt. Assets who use is limited is composed of cash on deposit with a third-party, thus carrying value approximates fair value. The fair value of the Organization's long-term receivables is estimated based upon the present value of expected future cash flows discounted at the loan's effective interest rate and approximated $1,650,000 and $1,500,000 at March 31, 2011 and 2010, respectively. The fair value of the Organization's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Organization. The fair value of long-term debt at March 31, 2011 and 2010 was approximately $69,000,000 and $70,400,000, respectively.

Fair Value Measurements: ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Note 18. Fair Value Disclosures (Continued)

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Organization has the ability to access as of the measurement date. Level 1 securities would include highly liquid exchange traded funds and open-end mutual funds.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets, measured at fair value, as well as general classification of such instruments pursuant to valuation hierarchy, is set forth below.

Investments (recurring): The fair values of the Organization's investments in open-end mutual funds are valued at the net asset value based on shares held at year-end, and fair values of exchange-traded-fund securities are valued at the market value based on shares held at year-end. These values are determined using Level 1 inputs which are derived from readily available pricing sources for identical instruments in active markets.

Note 18. Fair Value Disclosures (Continued)

Assets Measured at Fair Value on a Recurring Basis

The following table summarizes assets measured at fair value on a recurring basis as of March 31, 2011 and 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measurements of Investments as of March 31, 2011				
Exchange-Traded-Fund Securities:				
Intermediate term funds invested primarily in U.S. Treasury and Government Agencies obligations	$ 767,449	$ 767,449	$ -	$ -
Short term funds invested primarily in U.S. Treasury and Government Agencies obligations	753,750	753,750	-	-
Open-End Mutual Funds:				
Short term mutual funds invested primarily in U.S. Treasury and Government Agencies obligations	5,990,882	5,990,882	-	-
Bonds invested primarily in widely diverse holdings	919,412	919,412	-	-
Large blend equity funds	14,704,183	14,704,183	-	-
	$ 23,135,676	$ 23,135,676	$ -	$ -
Fair Value Measurements of Investments as of March 31, 2010				
Exchange-Traded-Fund Securities:				
Intermediate term funds invested primarily in U.S. Treasury and Government Agencies obligations	$ 760,660	$ 760,660	$ -	$ -
Short term funds invested primarily in U.S. Treasury and Government Agencies obligations	750,330	750,330	-	-
Short term bonds invested primarily in widely diverse holdings	490,426	490,426	-	-
Open-End Mutual Funds:				
Bonds invested primarily in widely diverse holdings	865,658	865,658	-	-
Large blend equity funds	12,722,900	12,722,900	-	-
	$ 15,589,974	$ 15,589,974	$ -	$ -

Independent Auditor's Report
on the Supplementary Information

To the Board of Directors
Frances House, Inc.
Galesburg, Illinois

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual organizations. The consolidating information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Galesburg, Illinois
July 26, 2011

McGladrey is the brand under which RSM McGladrey, Inc. and McGladrey & Pullen, LLP serve clients' business needs. The two firms operate as separate legal entities in an alternative practice structure.

Member of RSM International network, a network of independent accounting, tax and consulting firms.

Frances House, Inc. and Subsidiaries

Consolidating Balance Sheet
March 31, 2011

Assets	Frances House, Inc.	Pioneer Concepts, Inc.	Pinnacle Opportunities Inc.
Current Assets			
Cash and cash equivalents	$ 6,552,228	$ 6,387,828	$ 2,192,400
Fiduciary trust accounts	-	-	-
Receivables:			
Resident accounts, net	131,404	30,240	176,774
Other	655,584	-	58,657
Current maturities of mortgage notes receivable	265,522	-	-
Due from related party	12,237,498	8,952,766	960,000
Assets whose use is limited	-	-	-
Prepaid expenses	31,890	63,512	33,518
Total current assets	19,874,126	15,434,346	3,421,349
Long-Term Investments			
Marketable securities	17,122,088	2,512,256	497,565
Assets whose use is limited	-	-	-
	17,122,088	2,512,256	497,565
Property and Equipment			
Land	2,171,045	499,315	227,807
Land improvements	974,100	211,830	61,998
Buildings and improvements	38,014,348	4,449,875	3,240,719
Equipment, furniture and fixtures	1,119,244	212,501	315,236
Vehicles	855,808	422,574	369,435
Construction in progress	52,851	-	28,562
	43,187,396	5,796,095	4,243,757
Less accumulated depreciation	9,585,713	3,009,332	1,624,111
	33,601,683	2,786,763	2,619,646
Long-Term Receivables and Other Assets			
Receivables	1,650,000	-	-
Mortgage notes receivable, intercompany	11,016,436	-	-
Standby loan agreement receivables	-	-	-
Deferred debt issuance costs	189,411	-	-
Other	10,000	-	-
	12,865,847	-	-
Total assets	$ 83,463,744	$ 20,733,365	$ 6,538,560

(Continued)

Concepts Plus, Inc.	FHI Sole Member LLCs	Other Sole Member LTD., NFP's	Residential Alternatives of Illinois, Inc.	Intercompany Eliminations	Consolidated Totals
$ 3,079,860	$ 370,608	$ 400,929	$ 5,765,520	$ -	$ 24,749,373
-	-	-	68,489	-	68,489
179,351	-	-	3,779,573	-	4,297,342
-	-	143,878	453,904	(656,349)	655,674
-	-	-	-	(265,522)	-
2,205,000	-	-	-	(24,355,264)	-
-	119,614	215,811	-	-	335,425
26,052	32,686	88,935	196,131	-	472,724
5,490,263	522,908	849,553	10,263,617	(25,277,135)	30,579,027
-	-	-	3,003,767	-	23,135,676
-	366,063	701,737	-	-	1,067,800
-	366,063	701,737	3,003,767	-	24,203,476
253,575	951,000	850,000	236,000	-	5,188,742
52,517	405,138	2,046,715	418,315	-	4,170,613
1,228,614	20,979,799	30,891,485	13,232,415	-	112,037,255
105,168	1,179,387	1,111,800	3,572,939	-	7,616,275
138,030	-	-	678,010	-	2,463,857
-	-	-	139,193	-	220,606
1,777,904	23,515,324	34,900,000	18,276,872	-	131,697,348
803,361	2,022,928	2,365,507	4,841,906	-	24,252,858
974,543	21,492,396	32,534,493	13,434,966	-	107,444,490
-	-	-	-	-	1,650,000
-	-	-	-	(11,016,436)	-
-	-	-	100,000	(100,000)	-
-	238,450	627,830	-	-	1,055,691
-	-	-	10,000	-	20,000
-	238,450	627,830	110,000	(11,116,436)	2,725,691
$ 6,464,806	$ 22,619,817	$ 34,713,613	$ 26,812,350	$ (36,393,571)	$ 164,952,684

Frances House, Inc. and Subsidiaries

Consolidating Balance Sheet (Continued)
March 31, 2011

Liabilities and Net Assets	Frances House, Inc.	Pioneer Concepts, Inc.	Pinnacle Opportunities, Inc.
Current Liabilities			
Current maturities of long-term debt	$ 730,087	$ -	$ -
Accounts payable	246,151	152,685	124,281
Construction payable	-	-	-
Accrued expenses	276,910	197,076	344,637
Deferred revenue	16,408	8,113	23,914
Refundable balances	173,748	208,061	253,229
Due to residents, trust accounts	-	-	-
Due to related party	11,612,766	-	505,000
Total current liabilities	13,056,070	565,935	1,251,061
Long Term Debt, net of current maturities	21,035,070	-	-
Standby Loan Agreements	100,000	-	-
Resident Security Deposits	-	-	-
Total liabilities	34,191,140	565,935	1,251,061
Net Assets, unrestricted	49,272,604	20,167,430	5,287,499
Total liabilities and net assets	$ 83,463,744	$ 20,733,365	$ 6,538,560

Concepts Plus, Inc.	FHI Sole Member LLCs	Other Sole Member LTD., NFP's	Residential Alternatives of Illinois, Inc.	Intercompany Eliminations	Consolidated Totals
$ -	$ 463,722	$ 346,123	$ 265,522	$ (265,522)	$ 1,539,932
49,579	-	-	1,208,146	-	1,780,842
-	3,823	5,938	778,492	-	788,253
47,915	204,585	371,621	4,230,579	(656,349)	5,016,974
8,577	-	-	488,000	-	545,012
90,819	-	-	650,713	-	1,376,570
-	-	-	68,489	-	68,489
-	6,441,477	5,796,021	-	(24,355,264)	-
196,890	7,113,607	6,519,703	7,689,941	(25,277,135)	11,116,072
-	16,493,678	29,954,711	11,016,436	(11,016,436)	67,483,459
-	-	-	-	(100,000)	-
-	-	-	1,210,756	-	1,210,756
196,890	23,607,285	36,474,414	19,917,133	(36,393,571)	79,810,287
6,267,916	(987,468)	(1,760,801)	6,895,217	-	85,142,397
$ 6,464,806	$ 22,619,817	$ 34,713,613	$ 26,812,350	$ (36,393,571)	$ 164,952,684

Frances House, Inc. and Subsidiaries

Consolidating Statement of Operations
Year Ended March 31, 2011

	Frances House, Inc.	Pioneer Concepts, Inc.	Pinnacle Opportunities, Inc.
Operating revenue:			
Net resident services	$ 10,128,830	$ 6,923,801	$ 4,649,417
Leasing	2,616,000	-	-
Other	67,215	33,784	26,666
Total operating revenue	12,812,045	6,957,585	4,676,083
Operating expenses:			
Program support	2,485,742	2,060,667	1,455,452
Nursing services	320,591	237,249	175,589
Dietary	1,329,766	913,825	687,756
General and administrative	2,066,118	962,022	1,036,109
Operations and maintenance	659,524	563,292	369,230
Provider participation fees	557,789	383,428	253,497
Housekeeping	460,419	308,875	222,116
Depreciation	1,776,822	302,293	303,042
Special services	37,249	17,374	15,320
Laundry	36,081	28,381	14,434
Total operating expenses	9,730,101	5,777,406	4,532,545
Operating income	3,081,944	1,180,179	143,538
Nonoperating income (expense):			
Investment income	1,080,559	200,920	72,985
Realized loss on sale of securities	-	-	-
Interest expense	(1,601,440)	-	-
Contributions received	4,131	850	-
Contributions made	(13,251)	-	-
	(530,001)	201,770	72,985
Excess of revenue over expenses	2,551,943	1,381,949	216,523
Net change in unrealized gains and losses on investments	1,849,846	(16,256)	2,280
Increase (decrease) in unrestricted net assets	$ 4,401,789	$ 1,365,693	$ 218,803

Concepts Plus, Inc.	FHI Sole Member LLCs	Other Sole Member LTD., NFP's	Residential Alternatives of Illinois, Inc.	Intercompany Eliminations	Consolidated Totals
$ 1,724,725	$ -	$ -	$ 58,325,927	$ -	$ 81,752,700
-	1,955,630	2,514,276	-	(7,085,906)	-
14,637	-	-	543,929	-	686,231
1,739,362	1,955,630	2,514,276	58,869,856	(7,085,906)	82,438,931
492,735	-	-	879,687	-	7,374,283
55,664	-	-	22,979,796	-	23,768,889
242,001	-	-	6,648,772	-	9,822,120
302,837	86,420	298,463	7,789,239	-	12,541,208
124,366	128,430	212,443	14,308,901	(7,085,906)	9,280,280
99,175	-	-	340,742	-	1,634,631
82,095	-	-	1,568,284	-	2,641,789
97,536	971,653	1,483,284	925,553	-	5,860,183
5,322	-	-	24,263	-	99,528
5,227	-	-	535,950	-	620,073
1,506,958	1,186,503	1,994,190	56,001,187	(7,085,906)	73,642,984
232,404	769,127	520,086	2,868,669	-	8,795,947
40,664	414	905	73,909	(689,097)	781,259
(422)	-	-	-	-	(422)
-	(1,037,164)	(1,570,486)	(691,544)	689,097	(4,211,537)
45	-	-	8,261	-	13,287
-	-	-	(14,470)	-	(27,721)
40,287	(1,036,750)	(1,569,581)	(623,844)	-	(3,445,134)
272,691	(267,623)	(1,049,495)	2,244,825	-	5,350,813
(816)	-	-	(42,207)	-	1,792,847
$ 271,875	$ (267,623)	$ (1,049,495)	$ 2,202,618	$ -	$ 7,143,660