CHARLES H. FOLEY & ASSOCIATES INC.

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SENT VIA HAND DELIVERED

August 2, 2011

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AUG 02 2011

HEALTH FACILITIES & SERVICES REVIEW BOARD

Mr. George Roate
Project Review Section
Health Facilities and Services Review Board
Illinois Department of Public Health
525 West Jefferson Street, 2nd floor
Springfield, Illinois 62761-0001

Re: **Project #11-065, Manor Court of Princeton.**

Dear Mr. Roate:

Enclosed please find the 2009 and 2010 consolidated financial report for the Applicant entities for the above referenced project. Please note that the 2009 report covers years 2008 and 2009 and the 2010 report provides the data for 2009 and 2010, thus three years audited financial statements are provided. This data is in response to your request for information to document the Applicant's ability to fully fund the proposed project in cash as per your e-mail dated August 1, 2011 on the above referenced project.

If you have any questions, please do not hesitate to contact me.

Sincerely,

John P. Kniery
Health Care Consultant

JPK

F&A

Health Care Consulting

McGladrey & Pullen
Certified Public Accountants

Frances House, Inc. and Subsidiaries

Consolidated Financial Report
03.31.2009

Contents

McGladrey & Pullen
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 sheet of Frances House, Inc. and subsidiaries as of March 31, 2009, and the related consolidated statement of operations, changes in net assets and cash flows for the period then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the 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, 2009, and the results of their operations, changes in net assets, and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Galesburg, Illinois
September 22, 2009

Frances House, Inc. and Subsidiaries

Consolidated Balance Sheet
March 31, 2009

ASSETS		
Current Assets		
Cash and cash equivalents		$ 13,220,202
Fiduciary trust accounts		40,072
Certificate of deposit		2,940,441
Receivables:		
Resident accounts, less allowance for doubtful accounts $720,513		14,816,296
Other		269,818
Assets whose use is limited		109,990
Prepaid expenses		384,928
Total current assets	1.5	31,781,747
		16,265,057
Long-Term Investments		
Marketable securities		11,224,132
Assets whose use is limited		281,287
		11,505,419
Property and Equipment		
Land		4,273,742
Land improvements		1,863,760
Buildings and improvements		69,803,469
Equipment, furniture and fixtures		5,187,069
Vehicles		2,257,678
Construction in Process		27,765
		83,413,483
Less accumulated depreciation		13,666,871
		69,746,612
Long-Term Receivables and Other Assets		
Receivables		925,000
Deferred debt issuance costs		742,103
Other		35,000
		1,702,103
Total assets		$ 114,735,881

See Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

Current Liabilities		
Current maturities of long-term debt		$ 701,172
Accounts payable		2,204,004
Accrued expenses		4,147,252
Checks written in excess of amounts on deposit		1,045,179
Deferred revenue		290,927
Refundable balances, including amounts due to third-party payors approximately $1,400,000		1,836,445
Due to residents, trust accounts		40,072
Total current liabilities		10,265,051
LongTerm Debt, net of current maturities		34,862,950
Resident Security Deposits		1,408,107
Total liabilities		46,536,108
Commitments and Contingencies (Notes 6, 10, 11, 13, 17 and 18)		
Net Assets, Unrestricted	30,000,00	68,199,773
Total liabilities and net assets		$ 114,735,881

Frances House, Inc. and Subsidiaries

Consolidated Statement of Operations
Year Ended March 31, 2009

Operating Revenue:	
Net resident services	$ 77,439,426
Other	504,076
Total operating revenue	77,943,502
Operating Expenses:	
Program support	7,032,648
Nursing services	20,044,686
Dietary	8,651,670
General and administrative	15,505,424
Operations and maintenance	13,456,616
Provider participation fees	1,614,486
Housekeeping	2,441,911
Depreciation	3,157,847
Special services	102,556
Laundry	598,520
Total operating expenses	72,606,364
Operating income	5,337,138
Nonoperating Income (Expense):	
Investment income	724,032
Realized loss from other-than-temporary decline in investments	(7,136,169)
Interest expense	(1,499,985)
Contributions received	11,927
Contributions made	(89,510)
	(7,989,705)
Excess of revenue over expenses	(2,652,567)
Net Change in Unrealized Gains and Losses on Investments	1,176,985
Increase in unrestricted net assets	$ (1,475,582)

See Notes to Consolidated Financial Statements.

Frances House, Inc. and Subsidiaries

Consolidated Statement of Changes In Net Assets
Year Ended March 31, 2009

Unrestricted Net Assets		
Excess of revenue over expenses	$	(2,652,567)
Net change in unrealized gains and losses on investments		1,176,985
Increase in unrestricted net assets		(1,475,582)
Total Net Assets		
Beginning of year		69,675,355
End of year	$	68,199,773

See Notes to Consolidated Financial Statements.

Frances House, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2009

Cash Flows From Operating Activities	
Change in net assets	$ (1,475,582)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net unrealized gains on investments	(1,176,985)
Realized loss from other-than-temporary decline in investments	7,136,169
Reinvested dividends	(221,854)
Interest reinvested in certificate of deposits	(60,183)
(Gain) on sale of equipment	(1,050)
Depreciation	3,157,847
Amortization	43,480
Provision for doubtful accounts	4,200,480
Change in working capital components:	
(Increase) decrease in:	
Receivables	(2,792,820)
Prepaid expenses	(113,830)
Other	35,848
(Decrease) increase in:	
Accounts payable	(204,768)
Accrued expenses	427,775
Deferred revenue	(549,370)
Refundable balances	880,792
Net cash provided by operating activities	9,285,949
Cash Flows From Investing Activities	
Proceeds from sale and redemption of marketable securities	3,045,000
Proceeds from sale and redemption of certificates of deposits	5,622,357
Purchase of marketable securities	(2,005,105)
Purchase of certificates of deposit	(1,739,609)
Proceeds from sale of equipment	1,050
Purchase of property and equipment	(49,743,023)
Disbursements made on construction in progress	(27,765)
Disbursements on standby loan agreements receivable	(730,000)
Disbursement on long-term receivable	(225,000)
Net cash (used in) investing activities	(45,802,095)

(Continued)

Frances House, Inc. and Subsidiaries

Consolidated Statement of Cash Flows (Continued)
Year Ended March 31, 2009

Cash Flows From Financing Activities	
Payment of debt acquisition costs	(762,038)
Checks written in excess of amounts on deposit	(85,832)
Decrease in resident security deposits	(46,220)
Proceeds from margin account	5,919,013
Payments on margin accounts	(5,919,013)
Proceeds from line of credit	2,167,055
Payments on line of credit	(2,167,055)
Proceeds from long-term debt	36,000,000
Principal payments on long-term debt	(435,878)
Net cash provided by financing activities	34,670,032
Net decrease in cash and cash equivalents	(1,846,114)
Cash and Cash Equivalents:	
Beginning	15,457,593
Ending, including cash and cash equivalents whose use is limited 2009 $391,277	$ 13,611,479
Supplemental Disclosures of Cash Flow Information	
Cash payments for interest	$ 1,455,335

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities

Frances House, Inc. and its subsidiaries (together the "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, 2009:

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:

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

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

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

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 Residential Alternatives of Illinois, Inc. 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 Housing and Urban Development (HUD) insured mortgage.

FHI is the sole member of the following subsidiaries, which have not started operations as of March 31, 2009. 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 Manor Court, Ltd., NFP
- Peoria Stalworth, Ltd., NFP
- Peru 31st, Ltd., NFP
- Peru Becker, Ltd., NFP
- Streator Eastwood, Ltd., NFP

Note 1. Nature of Activities (Continued)

FHI is the sole corporate member of Residential Alternatives of Illinois, Inc. (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	54	86	-	-	-	August 1, 2000
Hawthorne Inn of Freeport	29	-	-	-	29	-	July 1, 2002
Hawthorne Inn of Peoria	68	-	-	68	-	-	October 1, 2000
Hawthorne Inn of Peru	68	-	-	68	-	-	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	102	45	33	24	-	-	January 9, 2006
Manor Court of Peoria	50	50	-	-	-	-	August 22, 2006
Manor Court of Peru	103	75	28	-	-	-	February 8, 2005
Manor Court of Princeton	98	69	29	-	-	-	January 3, 2005
Freeport Rehab & Healthcare Center	143	143	-	-	-	-	February 1, 2008
	1377	570	176	191	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 Frances House, Inc. and its subsidiaries as described in Note 1. All material intercompany balances and transactions have been eliminated in consolidation.

Income taxes: The Organization is exempt from income taxes under Section 501(c)(3) 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.

Note 2. Significant Accounting Policies (Continued)

Fiduciary trust accounts: Cash held for residents and the related liability, due to residents, consists of cash that the Organization holds for its residents when they request the Organization 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.

Resident services revenue: Resident services revenue is reported at the estimated net realizable amounts 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 reimbursement 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 balance sheet.

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 are 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.

Note 2. Significant Accounting Policies (Continued)

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 in fair value.

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. 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 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 statement 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.

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.

Fair value of financial instruments: The estimated fair values of the Organization's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Pending Adoption of New Accounting Standards: In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy.

Note 2. Significant Accounting Policies (Continued)

In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted SFAS No. 157 for the fiscal year beginning April 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until our fiscal year beginning April 1, 2010. The Company is currently assessing the potential effect of the adoption of the remaining provisions of SFAS No. 157 on its financial position, results of operations and cash flows. The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and accordingly will be required to adopt FIN 48 in its 2010 annual financial statements. Prior to adoption of FIN 48, the Company will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies.* SFAS No. 5 requires the Company to accrue for losses it believes are probable and can be reasonably estimated. Management is currently assessing the impact of FIN 48 on its consolidated financial position and results of operations and has not yet determined if the adoption of FIN 48 will have a material effect on its financial statements.

Note 3. Investments

Marketable securities as of March 31, 2009 consisted of the following:

	Fair Value	Cost Basis
Marketable equity securities, mutual funds which invest primarily in U.S. Treasury and Government Agencies obligations	$ 1,997,511	$ 2,005,104
Marketable equity securities, mutual funds which invest in widely diverse holdings	8,494,562	8,494,562
Marketable debt securities, U.S. Treasury and Government Agency obligations	732,059	777,301
	$ 11,224,132	$ 11,276,967

Note 3. Investments (Continued)

The net change in unrealized gains and (losses) on investments for the year ended March 31, 2009 consisted of the following:

Classification	
Marketable securities:	
Equity securities	$ 1,240,234
Debt securities	(63,249)
Net unrealized gain	$ 1,176,985

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, 2009:

	Less Than 12 Months		12 Months or Greater		Total	
March 31, 2009	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities, mutual funds which invest primarily in U.S. Treasury and Government Agency obligations	$ 1,997,511	$ 7,593	$ -	$ -	$ 1,997,511	$ 7,593
Marketable debt securities, U.S. Treasury and Government Agency obligations	38,532	1,088	693,527.00	44,154.00	732,059	45,242
	$ 2,036,043	$ 8,681	$ 693,527	$ 44,154	$ 2,729,570	$ 52,835

Note 3. Investments (Continued)

The Organization had four marketable equity securities and one marketable debt security that had unrealized losses at March 31, 2009.

Based on the Organization's assessment of the near-term prospects of the issuers of common stocks and debt 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 fair value, the Organization does not consider these investments to be other-than-temporarily impaired as of March 31, 2009.

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. Management believes that, at March 31, 2009, there had been a significant impairment related to its investment in marketable equity securities consisting of one mutual fund security which invests in widely diverse holdings. This security's fair value at year end was less than 50% of the recorded cost and had been in a loss position for more than one year. Therefore, a realized loss due to an other-than temporary decline of its investment value of approximately $7,136,169 was recorded. There were $7,136,169 realized investment losses from impairment for the year ended March 31, 2009. There were no other realized gains or losses for the year ended March 31, 2009.

Note 4. Assets Whose Use is Limited, Escrow Deposits

The HUD insured mortgage note payable described in Note 6, required the Organization's subsidiary to make monthly escrow deposits for mortgage insurance, real estate taxes and property insurance of $5,621, $9,100 and $1,000, respectively, during the year ended March 31, 2009. The balance of the aggregate escrow deposits for mortgage insurance, real estate taxes and property insurance combined were $109,990 as of March 31, 2009.

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

The reserve for replacement represents restricted cash held jointly by HUD and the Organization's subsidiary to be used for capital expenditures and replacements. The HUD insured mortgage note payable, described in Note 6, required the Organization's subsidiary to make monthly deposit to the reserve for replacements in the amount of $3,500. Activity in the replacement reserves as of March 31, 2009 included the following:

Balance at beginning of year	$ -
Initial deposits	425,000
Total of monthly deposits	21,000
Approved withdrawal	(164,649)
Fees charged on approved withdrawal	(375)
Interest earned on replacement reserve account	311
Balance at end of year	$ 281,287

Note 6. Long-Term Debt, Line of Credit, Commitment and Subsequent Event

Long-term debt and pledged assets consisted of the following as of March 31, 2009:

Borrower and Description of Debt	Amount
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 $14,612,000 book value, insured by HUD under Section 232, pursuant to Section 223(f) of the National Housing Act	$ 12,575,329
Frances House, Inc.	
First Bank, mortgage note payable, 6.50%, due in monthly installments of $174,263, including interest, with the remaining balance due July 2013, 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 $32,520,000 book value	22,988,793
	35,564,122
Less current maturities	701,172
Long-Term Portion	$ 34,862,950

1.25 DS
1.50 current ratio
50,000,000 min net worth

Scheduled maturities of long-term debt as of March 31, 2009 were as follows:

Year Ending March 31	Amount
2010	$ 701,172
2011	748,332
2012	794,813
2013	852,124
2014	20,506,912
Thereafter	11,960,769
	$ 35,564,122

Note 6. Long-Term Debt, Line of Credit, Commitment and Subsequent Event (Continued)

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; and (3) annual minimum tangible net worth step-up. The Organization was in violation of a certain covenant with the First Bank note as of March 31, 2009. However, this violation was waived by the note holder subsequent to year-end.

During September 2008, the Organization obtained a line of credit from a third-party in the amount of $7,000,000. Through this agreement, the Organization 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 the third-party with a fair market value of approximately $9,227,000 at March 31, 2009. The agreement bears interest at the LIBOR Market Index Rate plus 1.00% per annum (1.50% as of March 31, 2009) and is due on demand or at expiration on October 15, 2009. As of March 31, 2009, there were no borrowed amounts owed on this agreement. Subsequent to year end, the Organization received proceeds from their revolving line of credit for $150,000. These proceeds were subsequently repaid in full in June 2009.

<u>HUD Insured Debt</u>
The Organization's subsidiary loan with HUD insured financing has certain regulatory and compliance requirements, including but not limited to, required deposits (Notes 4 and 5) and reporting requirements.

Note 7. Administrative and Support Service Agreements

The Organization has an administrative service agreement with RFMS, Inc. RFMS, Inc. 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, Inc. 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, 2009, Frances House, Inc. and subsidiaries reported a total of approximately $88,000 of payable expenses to RFMS, Inc. 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 (hereafter 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, 2009, Frances House, Inc. and subsidiaries reported a total of approximately $86,000 of prepaid expenses and $208,000 of 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 year ended March 31, 2009 were as follows:

RFMS, Inc., administrative services	$ 2,575,560
LTC Support Services, LLC, support services	1,489,200
	$ 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 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, 2009, the Organization had flow-through liabilities of approximately $309,000. 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 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 $1,600,000 for the year ended March 31, 2009.

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, Inc., an unrelated organization. Qualifying expenses are paid from the related participants contributions. Expenses relating to the medical benefit plan totaled approximately $992,000 for the year ended March 31, 2009.

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 Organization's 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 $755,000 for the year ended March 31, 2009.

Note 10. Employee Benefit Plans (Continued)

The Organization has adopted a multiple-employer 401(k) retirement savings plan covering substantially all employees. The President of the Organization's Board is employed as a broker for the Company that administers the 401(k) Plan. The Plan's administrator is considered an unrelated party. Plan management consists of employees of LTC Support Services, LLC, a related party as described in Note 7, and RFMS, Inc., 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 $175,000 for the year ended March 31, 2009.

Note 11. Standby Loan Agreement Receivables, Commitments, Contingencies and Subsequent Events

Frances House, Inc. has a standby loan agreement with Residential Alternatives of Iowa, a related party to Frances House, Inc.'s subsidiary, Residential Alternatives of Illinois, Inc., through a common Board of Directors. Through this agreement, Frances House, Inc. has agreed to advance, from time to time, working capital funds to Residential Alternatives of Iowa. The unsecured agreement provides for a credit limit of up to $2,500,000 and expires December 2009. The Board of Directors of Frances House, Inc. intends to renew the agreement upon its expiration. Interest shall be reset annually based on the Applicable Federal Rate for mid-term loans in effect at the beginning of Residential Alternatives of Iowa's fiscal year with interest paid quarterly (2.04% as of March 31, 2009), and principal is payable as available surplus funds are accumulated. The balance of this standby lóan agreement receivable as of March 31, 2009 is $2,500,000. Accrued interest receivable of approximately $79,000 was forgiven for the year ending March 31, 2009. Management has forgiven all applicable interest through March 31, 2009. Subsequent to year end, there have been no principal payments received and Frances House, Inc. has not advanced Residential Alternatives of Iowa any additional funds.

Residential Alternatives of Illinois, Inc. ("RAI") also has a standby loan agreement with Residential Alternatives of Iowa, 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 Residential Alternatives of Iowa. The agreement is unsecured, provides for a credit limit of up to $1,500,000 and expires on December 31, 2009. The Board of Directors of Frances House, Inc. intends to renew the agreement upon its expiration. Interest shall be reset annually based on the Applicable Federal Rate for mid-term loans in effect at the beginning of Residential Alternatives of Iowa's fiscal year (2.04% as of March 31, 2009), and principal is payable as available surplus funds are accumulated. The balance of this loan as of March 31, 2009 is approximately $971,000. The accrued interest receivable related to this loan was approximately $43,000 and was included in other receivables as of March 31, 2009. Subsequent to year end, there have been no principal payments received and RAI advanced $700,000 to Residential Alternatives of Iowa. Also, subsequent to year end, RAI increased the credit limit to $3,000,000.

The Organization's opinion as to the ultimate collectibility of standby loan agreement receivables is subject to estimates regarding borrower's future cash flows from operations. These estimates are affected by changing economic conditions and the economic prospects of the borrower. During the year ended March 31, 2009, the Organization recorded an allowance of approximately $3,471,000 related to the stand-by loan agreement receivables.

France House, Inc. has guaranteed Residential Alternatives of Iowa's Windmill Pointe Estates facility lease with an unrelated lessor. The leased facility is located in Coralville, Iowa. The monthly lease payment is $43,055 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 financial statements.

Note 11. Standby Loan Agreement Receivables, Commitments, Contingencies and Subsequent Events (Continued)

Rental commitments as of March 31, 2009, under this lease guaranteed by the Organization is due as follows:

Year Ending March 31	Amount
2010	$ 516,660
2011	516,660
2012	516,660
2013	172,220
	$ 1,722,200

In April 2006, the 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 2011. 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, the Organization removed the conditions for $125,000 of the promise to give and recognized a $125,000 expense in the consolidated statement of operations. As of March 31, 2009, $925,000 is recorded as a long-term receivable and $950,000 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 $51,000. 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 54% of the net resident services revenue was derived under federal and state third-party reimbursement programs for the year ended March 31, 2009. 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 year ended March 31, 2009 and resident accounts receivable as of March 31, 2009 by payor, as a percentage of total net resident services revenue and resident accounts receivable, respectively, were as follows:

Payor Types	
Net Resident Service Revenue:	
Medicaid	34%
Medicare	20%
Private	46%
Resident Accounts Receivable:	
Medicaid	60%
Medicare	27%
Private	13%

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

The Organization 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 agreement contain options to renew for additional five-year periods. The terms of these leases as of March 31, 2009 were as follows:

Lessor and Facility Name	Monthly Lease Payment	Expiration of Lease
Edwin Enterprises, LLC		
Hawthorne Inn of Freeport	$ 26,110	June 2011
Hawthorne Inn of Peoria	45,040	September 2010
Hawthorne Inn of Peru**	44,720	July 2010
Liberty Estates of Streator	41,023	February 2011
Manor Court of Peru**	61,222	January 2015
Manor Court of Peoria*	32,000	July 2016
LB Properties, Inc.		
Liberty Estates of Geneseo	37,533	August 2013
Hawthorne Inn of Princeton, LLC		
Manor Court of Princeton	61,417	January 2015
Mid-Illini Healthcare, Inc.		
Manor Court of Clinton	94,628	April 2015
	$ 443,693	

* Effective August 2009, the monthly lease payment increases to $34,000 in accordance with the lease terms.

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

** Effective July 2009, these facilities were purchased by a subsidiary of Frances House, Inc. The leasing company and its lessee mutually agreed to terminate the lease prior to its expiration pursuant to the sale of the facility to a subsidiary of Frances House, Inc. as described in Note 18.

Minimum rental commitments under facility leases, excluding real property taxes, insurance and maintenance as of March 31, 2009 are due as follows:

Year Ending March 31	Amount
2010	$ 4,492,780
2011	3,781,749
2012	2,833,266
2013	2,754,936
2014	2,492,205
Thereafter	2,696,289
	$ 19,051,225

Total rental expense for the year ended March 31, 2009, including real property taxes, insurance and maintenance costs, was approximately $8,000,000.

Note 14. Functional Expense Classifications

Operating and nonoperating expenses of the Organization according to their functional categories as of the year ended March 31, 2009 are as follows:

Program activities	$ 63,625,848
Management and general	10,570,011
	$ 74,195,859

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, 2009:

Wages and other related payroll	$ 1,929,699
Real estate taxes	1,790,197
Other	427,356
	$ 4,147,252

Note 17. Construction Commitments and Subsequent Event

The Organization had two construction projects in process as of March 31, 2009. Construction in progress totaled approximately $28,000 and total commitments on these projects totaled approximately $150,000 as of March 31, 2009. Subsequent to year end, none of the projects were finished and no new projects were started. Approximately $105,000 of the total commitment was paid subsequent to year end using unrestricted cash.

Note 18. Subsequent Events

During July 2009, Peru Becker, Ltd., NFP obtained a secured mortgage note from a third party in the amount of $19,800,000 (the "Note") collateralized by substantially all the assets of the entity. The debt is insured by HUD under Section 232, pursuant to Section 223(f) of the National Housing Act. The proceeds of the Note have been used to finance the purchase of real estate and improvements consisting of one independent living facility and one skilled nursing facility, from an unrelated party, included in Note 13. The terms of the Note include a fixed rate of interest at 5.3% per annum, monthly installments of $103,748 beginning September, 2009 and continuing until a final payment of the unpaid principal and interest is due on August 1, 2044.

The principal on this debt is due as follows:

Year Ending March 31	Amount
2010	$ 115,610
2011	206,678
2012	217,902
2013	229,735
2014	242,211
Thereafter	18,787,864
	$ 19,800,000

Allocated costs of assets acquired of approximately $23,000,000 will be allocated among land; building; equipment; furniture and fixtures and deferred debt issuance costs.

During July 2009, Peoria Manor Court, Ltd., NFP executed a purchase agreement with an unrelated party to purchase the facilities known as Manor Court of Peoria and Hawthorne Inn of Peoria for the aggregate price of $12,900,000. These pending sales are expected to close in December 2009. The Organization plans to obtain a secured mortgage note from a HUD insured note with an unrelated third party to finance the purchase.

Note 19. Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107 (SFAS No. 107), *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 Statement of Financial Accounting Standards No. 157 (SFAS No. 157), *Fair Value Measurements.* SFAS No. 107 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, 2009 and the methods and assumptions used to estimate those fair values. The Organization's financial instruments consist of cash and cash equivalents, certificates of deposit, accounts receivable, accrued liabilities, deferred revenue and refundable balances. Based on the current maturity of these instruments, carrying value approximates fair value. The Organization also has assets whose use is limited, investments, other long-term receivables, and debt. The fair value of assets whose use is limited and investments is based upon quoted market rates or, if not available, estimated market rates. 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. Long-term debt at March 31, 2009 was approximately $34,863,000.

Note 20. Fair Value Measurements

On April 1, 2008, the Organization adopted SFAS No. 157, except for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. There was no material impact to our financial statements upon adoption of SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

SFAS No. 157 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. SFAS No. 157 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, SFAS No. 157 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:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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 entity'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 the general classification of such instruments pursuant to valuation hierarchy, is set forth below.

Note 20. Fair Value Measurements (Continued)

Investments (recurring): The fair value of the Organization's investments are determined using the Level 1 input which is derived from readily available pricing sources for identical instruments.

Assets at Fair Value on a Recurring Basis

The following table summarizes assets measured at fair value on a recurring basis as of March 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	March 31, 2009			
	Total	Level 1	Level 2	Level 3
Marketable Securities	$ 11,224,132	$ 11,224,132	$ -	$ -

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on the Supplementary Information

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

Our audit was 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 audit 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
September 22, 2009

Frances House, Inc. and Subsidiaries

Consolidating Balance Sheet
March 31, 2009

ASSETS	Frances House, Inc.	Pioneer Concepts, Inc.	Pinnacle Opportunities Inc.
Current Assets			
Cash and cash equivalents	$ 4,243,774	$ 2,531,037	$ 896,614
Fiduciary trust accounts	-	-	-
Certificate of deposit	1,200,828	1,739,613	-
Receivables:			
Resident accounts, net	2,346,900	1,963,222	1,496,994
Other	641,893	5,988	69,935
Current maturities of mortgage notes receivable	235,567	-	-
Due from related party	2,409,880	7,592,766	785,000
Assets whose use is limited	-	-	-
Prepaid expenses	21,859	51,240	34,090
Total current assets	11,100,701	13,883,866	3,282,633
Long-Term Investments			
Marketable securities	9,226,621	993,691	505,920
Assets whose use is limited	-	-	-
	9,226,621	993,691	505,920
Property and Equipment			
Land	2,171,045	499,315	227,807
Land improvements	974,100	211,830	61,998
Buildings and improvements	37,387,968	4,325,378	2,414,278
Equipment, furniture and fixtures	1,026,319	171,516	260,054
Vehicles	761,878	374,209	298,926
Construction in Progress	-	-	22,250
	42,321,310	5,582,248	3,285,313
Less accumulated depreciation	6,048,837	2,418,116	1,071,530
	36,272,473	3,164,132	2,213,783
Long-Term Receivables and Other Assets			
Receivables	925,000	-	-
Mortgage notes receivable, intercompany	11,532,052	-	-
Standby loan agreement receivables	3,300,000	-	-
Deferred debt issuance costs	386,181	-	-
Other	10,000	-	-
	16,153,233	-	-
Total assets	$ 72,753,028	$ 18,041,689	$ 6,002,336

Concepts Plus, Inc.	Danville Independence, LLC	Other LTD, NFP's	Residential Alternatives of Illinois, Inc.	Intercompany Eliminations	Consolidated Totals
$ 1,582,256	$ 227,447	$ -	$ 3,739,074	$ -	$ 13,220,202
-	-	-	40,072	-	40,072
-	-	-	-	-	2,940,441
530,913	-	-	8,478,267	-	14,816,296
-	45,989	-	130,099	(624,086)	269,818
-		-	-	(235,567)	-
2,155,000	-	-	-	(12,942,646)	-
-	109,990	-	-	-	109,990
27,941	61,698	-	188,100	-	384,928
4,296,110	445,124	-	12,575,612	(13,802,299)	31,781,747
497,900	-	-	-	-	11,224,132
-	281,287	-	-	-	281,287
497,900	281,287	-	-	-	11,505,419
253,575	886,000	-	236,000	-	4,273,742
52,517	145,000	-	418,315	-	1,863,760
1,165,675	12,503,803	-	12,006,367	-	69,803,469
68,533	504,000	-	3,156,647	-	5,187,069
162,355	-	-	660,310	-	2,257,678
-	-	-	5,515	-	27,765
1,702,655	14,038,803	-	16,483,154	-	83,413,483
637,431	376,696	-	3,114,261	-	13,666,871
1,065,224	13,662,107	-	13,368,893	-	69,746,612
-	-	-	-	-	925,000
-	-	-	-	(11,532,052)	-
-	-	-	-	(3,300,000)	-
-	223,186	132,736	-	-	742,103
-	-	-	25,000	-	35,000
-	223,186	132,736	25,000	(14,832,052)	1,702,103
$ 5,859,234	$ 14,611,704	$ 132,736	$ 25,969,505	$ (28,634,351)	$ 114,735,881

Frances House, Inc. and Subsidiaries

Consolidating Balance Sheet (Continued)
March 31, 2009

LIABILITIES AND NET ASSETS	Frances House, Inc.	Pioneer Concepts, Inc.	Pinnacle Opportunities, Inc.
Current Liabilities			
Current maturities of long-term debt	$ 592,928	$ -	$ -
Accounts payable	273,257	439,696	122,741
Accrued expenses	229,775	274,292	370,223
Checks written in excess of amounts on deposit	726,196	86,030	163,440
Deferred revenue	8,739	4,727	11,213
Refundable balances	146,711	201,504	193,252
Due to residents, trust accounts	-	-	-
Due to related party	10,162,766	-	370,000
Total current liabilities	12,140,372	1,006,249	1,230,869
Long-Term Note Payable, less current maturities	22,395,865	-	-
Standby Loan Agreements	-	-	-
Resident Security Deposits	-	-	-
Total liabilities	34,536,237	1,006,249	1,230,869
Net Assets, Unrestricted	38,216,791	17,035,440	4,771,467
Total liabilities and net assets	$ 72,753,028	$ 18,041,689	$ 6,002,336

Concepts Plus, Inc.	Danville Independence, LLC	Other LTD., NFP's	Residential Alternatives of Illinois, Inc.	Intercompany Eliminations	Consolidated Totals
$ -	$ 108,244	$ -	$ 235,567	$ (235,567)	$ 701,172
35,212	251	-	1,332,847	-	2,204,004
63,745	128,463	-	3,704,840	(624,086)	4,147,252
69,513	-	-	-	-	1,045,179
1,544	-	-	264,704	-	290,927
25,928	-	-	1,269,050	-	1,836,445
-	-	-	40,072	-	40,072
-	2,277,144	132,736	-	(12,942,646)	-
195,942	2,514,102	132,736	6,847,080	(13,802,299)	10,265,051
-	12,467,085	-	11,532,052	(11,532,052)	34,862,950
-	-	-	3,300,000	(3,300,000)	-
-	-	-	1,408,107	-	1,408,107
195,942	14,981,187	132,736	23,087,239	(28,634,351)	46,536,108
5,663,292	(369,483)	-	2,882,266	-	68,199,773
$ 5,859,234	$ 14,611,704	$ 132,736	$ 25,969,505	$ (28,634,351)	$ 114,735,881

Frances House, Inc. and Subsidiaries

Consolidating Statement of Operations
Year Ended March 31, 2009

	Frances House, Inc.	Pioneer Concepts, Inc.	Pinnacle Opportunities, Inc.
Operating revenue:			
Net resident services	$ 9,939,378	$ 7,054,206	$ 4,639,989
Leasing	1,744,000	-	-
Other	77,098	59,972	45,736
Total operating revenue	11,760,476	7,114,178	4,685,725
Operating expenses:			
Program support	2,485,447	1,967,644	1,308,645
Nursing services	261,391	151,447	132,209
Dietary	1,299,712	874,573	647,864
General and administrative	4,464,017	988,302	1,017,235
Operations and maintenance	709,770	539,978	399,374
Provider participation fees	545,117	391,871	258,622
Housekeeping	456,295	291,520	214,645
Depreciation	1,289,923	280,919	202,660
Special services	35,029	18,789	18,882
Laundry	26,972	22,415	18,393
Total operating expenses	11,573,673	5,527,458	4,218,529
Operating income	186,803	1,586,720	467,196
Nonoperating income (expense):			
Investment income	1,334,859	121,998	16,552
Realized investment loss from impairment	(7,136,169)	-	-
Interest expense	(1,044,146)	-	-
Contributions received	5,352	100	-
Contributions made	(84,652)	(2,250)	(1,750)
	(6,924,756)	119,848	14,802
Excess of revenue over expenses	(6,737,953)	1,706,568	481,998
Net change in unrealized gains and (losses) on investments	1,184,578	(6,400)	(1,093)
Increase (decrease) in unrestricted net assets	$ (5,553,375)	$ 1,700,168	$ 480,905

Concepts Plus, Inc.	Danville Independence, LLC	Other LTD, NFP's	Residential Alternatives of Illinois, Inc.	Intercompany Eliminations	Consolidated Totals
$ 1,780,782	$ -	$ -	$ 54,025,071	$ -	$ 77,439,426
-	661,500	-	-	(2,405,500)	-
14,754	-	-	306,516	-	504,076
1,795,536	661,500	-	54,331,587	(2,405,500)	77,943,502
457,808	-	-	813,104	-	7,032,648
40,939	-	-	19,458,700	-	20,044,686
227,140	-	-	5,602,381	-	8,651,670
290,362	83,135	-	8,662,373	-	15,505,424
161,767	70,156	-	13,981,071	(2,405,500)	13,456,616
101,327	-	-	317,549	-	1,614,486
70,487	-	-	1,408,964	-	2,441,911
89,733	376,696	-	917,916	-	3,157,847
2,935	-	-	26,921	-	102,556
3,888	-	-	526,852	-	598,520
1,446,386	529,987	-	51,715,831	(2,405,500)	72,606,364
349,150	131,513	-	2,615,756	-	5,337,138
55,143	375	-	49,522	(854,417)	724,032
-	-	-	-	-	(7,136,169)
-	(475,952)	-	(834,304)	854,417	(1,499,985)
682	-	-	5,793	-	11,927
(750)	-	-	(108)	-	(89,510)
55,075	(475,577)	-	(779,097)	-	(7,989,705)
404,225	(344,064)	-	1,836,659	-	(2,652,567)
(100)	-	-	-	-	1,176,985
$ 404,125	$ (344,064)	$ -	$ 1,836,659	$ -	$ (1,475,582)

McGladrey & Pullen
Certified Public Accountants

Frances House, Inc. and Subsidiaries

Consolidated Financial Report
03.31.2010

Contents

McGladrey & Pullen
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 as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our 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, 2010 and 2009, 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 28, 2010

Frances House, Inc. and Subsidiaries

Consolidated Balance Sheets
March 31, 2010 and 2009

ASSETS	2010	2009
Current Assets		
Cash and cash equivalents	18,496,084	13,220,202
Fiduciary trust accounts	75,031	40,072
Certificate of deposit	-	2,940,441
Receivables:		
Resident accounts, less allowance for doubtful accounts, 2010 $728,999; 2009 $720,513	11,974,970	14,816,296
Other	286,939	269,818
Assets whose use is limited	336,225	109,990
Prepaid expenses	463,111	384,928
Total current assets	31,632,360	31,781,747
Long-Term Investments		
Marketable securities	15,589,974	11,224,132
Assets whose use is limited	937,931	281,287
	16,527,905	11,505,419
Property and Equipment		
Land	5,188,742	4,273,742
Land improvements	4,170,613	1,863,760
Buildings and improvements	108,667,346	69,803,469
Equipment, furniture and fixtures	7,299,323	5,187,069
Vehicles	2,481,819	2,257,678
Construction in process	1,761,974	27,765
	129,569,817	83,413,483
Less accumulated depreciation	18,443,237	13,666,871
	111,126,580	69,746,612
Long-Term Receivables and Other Assets		
Receivables	1,500,000	925,000
Deferred debt issuance costs, net of accumulated amortization, 2010 $139,144; 2009 $43,480	1,121,459	742,103
Other	35,000	35,000
	2,656,459	1,702,103
Total assets	$ 161,943,304	$ 114,735,881

See Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	2010	2009
Current Liabilities		
Current maturities of long-term debt	**1,419,025**	701,172
Accounts payable	**1,875,255**	2,204,004
Construction payable	**1,141,553**	-
Accrued expenses	**4,522,126**	4,147,252
Checks written in excess of amounts on deposit	**-**	1,045,179
Deferred revenue	**540,726**	290,927
Refundable balances, including amounts due to third-party payors approximately, 2010 $840,000; 2009 $1,400,000	**1,274,565**	1,836,445
Due to residents, trust accounts	**75,031**	40,072
Total current liabilities	**10,848,281**	10,265,051
Long Term Debt, net of current maturities	**69,019,741**	34,862,950
Standby Loan Agreement	**2,800,000**	-
Resident Security Deposits	**1,276,545**	1,408,107
Total liabilities	**83,944,567**	46,536,108
Commitments and Contingencies (Notes 6, 10, 11, 13, and 17)		
Net Assets, unrestricted	**77,998,737**	68,199,773
Total liabilities and net assets	**$ 161,943,304**	$ 114,735,881

Frances House, Inc. and Subsidiaries

Consolidated Statements of Operations
Year Ended March 31, 2010 and 2009

	2010	2009
Operating Revenue:		
Net resident services	79,804,332	77,439,426
Other	618,354	504,076
Total operating revenue	80,422,686	77,943,502
Operating Expenses:		
Program support	7,372,256	7,032,648
Nursing services	22,312,541	20,680,539
Dietary	9,512,897	8,651,670
General and administrative	12,503,642	14,944,275
Operations and maintenance	10,361,056	13,381,912
Provider participation fees	1,592,529	1,614,486
Housekeeping	2,678,921	2,441,911
Depreciation	4,879,143	3,157,847
Special services	99,446	102,556
Laundry	532,806	598,520
Total operating expenses	71,845,237	72,606,364
Operating income	8,577,449	5,337,138
Nonoperating Income (Expense):		
Investment income	325,918	724,032
Realized loss on sale of securities	(170)	-
Realized loss from other-than-temporary decline in investments	-	(7,136,169)
Interest expense	(3,242,996)	(1,499,985)
Contributions received	6,693	11,927
Contributions made	(96,958)	(89,510)
	(3,007,513)	(7,989,705)
Excess (deficit) of revenue over expenses	5,569,936	(2,652,567)
Net Change in Unrealized Gains and Losses on Investments	4,229,028	1,176,985
Increase (decrease) in unrestricted net assets	$ 9,798,964	$ (1,475,582)

See Notes to Consolidated Financial Statements.

Frances House, Inc. and Subsidiaries

Consolidated Statements of Changes In Net Assets
Year Ended March 31, 2010 and 2009

	2010	2009
Unrestricted Net Assets		
Excess (deficit) of revenue over expenses	**5,569,936**	(2,652,567)
Net change in unrealized gains and losses on investments	**4,229,028**	1,176,985
Increase (decrease) in unrestricted net assets	**9,798,964**	(1,475,582)
Total Net Assets		
Beginning of year	**68,199,773**	69,675,355
End of year	**77,998,737**	68,199,773

See Notes to Consolidated Financial Statements.

Frances House, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Year Ended March 31, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	**9,798,964**	(1,475,582)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized gains on investments	**(4,229,028)**	(1,176,985)
Realized loss on investments	**170**	-
Realized loss from other-than-temporary decline in investments	-	7,136,169
Reinvested dividends	**(144,782)**	(221,854)
Interest reinvested in certificate of deposits	**(20,999)**	(60,183)
(Gain) on sale of equipment	**(2,023)**	(1,050)
Depreciation	**4,879,143**	3,157,847
Amortization	**95,664**	43,480
Provision for doubtful accounts	**1,656,876**	4,200,480
Change in working capital components:		
(Increase) decrease in:		
Receivables	**2,367,329**	(2,792,820)
Prepaid expenses	**(78,183)**	(113,830)
Other	-	35,848
(Decrease) increase in:		
Accounts payable	**(328,749)**	(204,768)
Accrued expenses	**374,874**	427,775
Deferred revenue	**249,799**	(549,370)
Refundable balances	**(561,880)**	880,792
Net cash provided by operating activities	**14,057,175**	9,285,949
Cash Flows From Investing Activities		
Proceeds from sale and redemption of marketable securities	**7,798**	3,045,000
Proceeds from sale and redemption of certificates of deposits	**2,961,440**	5,622,357
Purchase of marketable securities	-	(2,005,105)
Purchase of certificates of deposit	-	(1,739,609)
Proceeds from sale of equipment	**47,096**	1,050
Purchase of property and equipment	**(44,547,725)**	(49,743,023)
Disbursements made on construction in progress	**(614,906)**	(27,765)
Disbursements on standby loan agreements receivable	**(1,325,000)**	(730,000)
Proceeds from standby loan agreements receivable	**125,000**	-
Disbursement on long-term receivable	**(1,025,000)**	(225,000)
Proceeds from long-term receivable	**450,000**	-
Net cash (used in) investing activities	**(43,921,297)**	(45,802,095)

(Continued)

Frances House, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Year Ended March 31, 2009 and 2010

	2010	2009
Cash Flows From Financing Activities		
Payment of debt acquisition costs	**(475,020)**	(762,038)
Checks written in excess of amounts on deposit	**(1,045,179)**	(85,832)
Decrease in resident security deposits	**(131,562)**	(46,220)
Proceeds from margin account	**-**	5,919,013
Payments on margin accounts	**-**	(5,919,013)
Proceeds from line of credit	**150,000**	2,167,055
Payments on line of credit	**(150,000)**	(2,167,055)
Proceeds from standby loan agreement	**2,800,000**	-
Proceeds from long-term debt	**35,884,141**	36,000,000
Principal payments on long-term debt	**(1,009,497)**	(435,878)
Net cash provided by financing activities	**36,022,883**	34,670,032
Net increase (decrease) in cash and cash equivalents	**6,158,761**	(1,846,114)
Cash and Cash Equivalents:		
Beginning	**13,611,479**	15,457,593
Ending, including cash and cash equivalents whose use is limited, 2010 $1,274,156; 2009 $391,277	**$ 19,770,240**	$ 13,611,479
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	**$ 3,111,911**	$ 1,455,335
Supplemental Schedules of Noncash Investing and Financing Activities		
Construction in progress financed through construction payable	**$ 1,141,553**	$ -
Property and equipment transferred from construction in progress to buildings and improvements	**$ 22,250**	$ -

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities

Frances House, Inc. and its subsidiaries (together the "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, 2010:

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:

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

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

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

Effective November 30, 2009, FHI became 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 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 corporation's 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, 2010. 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
- 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	68	-	-	68	-	-	October 1, 2000
Hawthorne Inn of Peru	68	-	-	68	-	-	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	102	45	33	24	-	-	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
	1,404	603	170	191	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: The Organization is exempt from income taxes under Section 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.

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.

Note 2. Significant Accounting Policies (Continued)

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

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 in fair value.

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 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 the Organization would be required to sell a 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 that credit loss portion in excess of revenues over expenses and the noncredit loss portion in other changes in net assets and excluded from excess of revenues over expenses.

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. Actual results could differ from those estimates.

Note 2. Significant Accounting Policies (Continued)

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 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 statement 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.

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.

Fair value of financial instruments: The estimated fair values of the Organization's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. See Note 18 for additional information.

Reclassifications: Certain amounts in the consolidated statements of operations for the year ended March 31, 2009 been reclassified, with no effect on excess of revenue over expenses or net assets, to be consistent with the classifications adopted for the year ended March 31, 2010.

Subsequent Events: Management has evaluated subsequent events through July 28, 2010, 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, 2010.

Recently issued accounting standards:
In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05, *Fair Value Measurements and Disclosures* (ASC Topic 820)—*Measuring Liabilities at Fair Value*. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the update. ASU 2009-05 is effective for the Organization in the first quarter of fiscal year 2011. The Organization is currently evaluating the impact that adoption will have on the Organization's consolidated financial statements. This guidance may change the valuation techniques used by the Organization for measuring liabilities at fair value. 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:

Described by Asset Type	2010 Fair Value	2010 Cost Basis	2009 Fair Value	2009 Cost Basis
Marketable equity securities, bond exchange traded funds, which invest primarily in U.S. Treasury and Government Agencies obligations	$ 1,510,990	$ 1,507,104	$ 1,499,611	$ 1,507,104
Marketable equity securities, bond exchange traded fund, which invest primarily in widely diverse holdings	490,426	490,032	497,900	498,000
Marketable equity securities, mutual funds which invest primarily in widely diverse holdings	12,722,900	8,599,655	8,494,562	8,494,562
Marketable debt securities, mutual funds which invest primarily in widely diverse holdings	865,658	817,142	732,059	777,301
	$ 15,589,974	$ 11,413,933	$ 11,224,132	$ 11,276,967

The net change in unrealized gains and (losses) on investments for the year ended March 31, 2010 and 2009 consisted of the following:

Classification	2010	2009
Marketable securities:		
Equity securities	$ 4,135,119	$ 1,240,234
Debt securities	93,909	(63,249)
Net unrealized gain	$ 4,229,028	$ 1,176,985

Note 3. Investments (Continued)

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, 2010 and 2009:

	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, mutual funds which invest primarily in U.S. Treasury and Government Agency obligations	$ -	$ -	$ 750,330	$ 10,192	$ 750,330	$ 10,192

	Less Than 12 Months		12 Months or Greater		Total	
March 31, 2009	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities, bond exchange traded funds, mutual funds which invest primarily in U.S. Treasury and Government Agency obligations	$ 1,997,511	$ 7,593	$ -	$ -	$ 1,997,511	$ 7,593
Marketable debt securities, which invest primarily in widely diverse holdings	38,532	1,088	693,527	44,154	732,059	45,242
	$ 2,036,043	$ 8,681	$ 693,527	$ 44,154	$ 2,729,570	$ 52,835

The Organization had 2 marketable debt securities and no marketable equity securities that had unrealized losses at March 31, 2010.

Based on the Organization's assessment of the near-term prospects of the issuers of common stocks and debt 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 fair value, the Organization does not consider these investments to be other-than-temporarily impaired as of March 31, 2010 and 2009.

Note 3. Investments (Continued)

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. Management believed that, at March 31, 2009, there had been a significant impairment related to its investment in marketable equity securities consisting of one mutual fund security which invests in widely diverse holdings. This security's fair value at March 31, 2009 was less than 50% of the recorded cost and had been in a loss position for more than one year. Therefore, a realized loss due to an other-than temporary decline of its investment value of approximately $7,136,000 was recorded as of March 31, 2009. There were $7,136,169 realized investment losses from impairment for the year ended March 31, 2009. There were no other realized gains or losses for the year ended March 31, 2009. Net realized losses for the year ended March 31, 2010 were $170 and were reported in the statement of operations.

Investment income consists of interest and dividends 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's subsidiary to make monthly escrow deposits for real estate taxes, mortgage insurance and property insurance. As of March 31, 2010, the required monthly mortgage escrow account for escrow deposit was $44,038; 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 $336,225 and $109,990 as of March 31, 2010 and 2009, 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's subsidiary 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 as of during 2010 and 2009 included the following:

	2010	2009
Balance at beginning of year	$ 281,287	$ -
Initial deposits	550,000	425,000
Total of monthly deposits	77,825	21,000
Approved withdrawal	-	(164,649)
Fees charged on approved withdrawal	-	(375)
Interest earned on replacement reserve account	703	311
Balance at end of year	$ 909,815	$ 281,287

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

Peoria Manor Court, Ltd., NFP also had a separate repair deposit balance as of March 31, 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, 2010 and 2009:

Borrower and Description of Debt	2010	2009
Frances House, Inc.		
First Bank, mortgage note payable, 6.50%, due in monthly installments of $174,263, including interest, with the remaining balance due July 2013, 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 $31,744,000 book value	$ 22,395,348	$ 22,988,793
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 $7,785,000 book value, and guaranteed by Community Living Options, Inc., an unrelated not-for-profit organization	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 $14,173,000 book value, insured by HUD under Section 232, pursuant to Section 223(f) of the National Housing Act	12,467,085	12,575,329
	39,809,151	35,564,122

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

Borrower and Description of Debt	2010	2009
Subtotal carried forward	$ 39,809,151	$ 35,564,122
Peru Becker, Ltd., NFP		
Cambridge Realty Capital, Ltd. of Illinois, mortgage note payable, 5.30%, due in monthly installments of $103,7481, 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 $22,679,000 book value, insured by HUD under Section 232, pursuant to Section 223(f) of the National Housing Act	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 $13,697,000 book value, insured by HUD under Section 232, pursuant to Section 223(f) of the National Housing Act	10,945,224	-
	70,438,766	35,564,122
Less current maturities	1,419,025	701,172
Long-Term Portion	$ 69,019,741	$ 34,862,950

Scheduled maturities of long-term debt as of March 31, 2010 were as follows:

Year Ending March 31	Amount
2011	$ 1,419,025
2012	1,482,894
2013	5,481,399
2014	20,887,956
2015	551,165
Thereafter	40,616,327
	$ 70,438,766

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.

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

FHI has a line of credit with Wachovia Bank, National Association in the amount of $8,250,000. 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 $13,589,000 at March 31, 2010. The agreement bears interest at the one-month LIBOR Market Index Rate plus 1.00% per annum (1.25% as of March 31, 2010) and is due at expiration on November 15, 2010. During the year ended March 31, 2010, $150,000 was borrowed and repaid against this agreement. As of March 31, 2010, 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. The balance of this standby loan agreement as of March 31, 2010 is $2,800,000. Subsequent to March 31, 2010, there have been no principal payments paid and 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. LLC was in violation of one of the requirements. 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, 2010 and 2009, the Organization reported a total of approximately $18,000 and $88,000, 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, 2010 and 2009, the Organization reported a total of approximately none and $86,000, respectively, of prepaid expenses and none and $208,000, respectively, of payable expenses to LTC. Expenses relating to this agreement are disclosed below.

Note 7. Administrative and Support Service Agreements (Continued)

Fees incurred under these agreements are included in general and administrative expenses for the year ended March 31, 2010 and 2009 were as follows:

	2010	2009
RFMS, Inc., administrative services	$ 2,575,560	$ 2,575,560
LTC Support Services, LLC, support services	1,489,200	1,489,200
	$ 4,064,760	$ 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 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, 2010 and 2009, the Organization had flow-through liabilities of approximately none and $309,000, respectively. 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 $1,600,000 for the years ended March 31, 2010 and 2009.

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 $1,039,000 and $992,000 for the year ended March 31, 2010 and 2009, 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 $1,450,000 and $755,000 for the year ended March 31, 2010 and 2009, respectively.

The Organization has adopted a multiple-employer 401(k) retirement savings 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 401(k) 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 $161,000 and $175,000 for the year ended March 31, 2010 and 2009, 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 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 (0.64% as of March 31, 2010), and principal is payable as available surplus funds are accumulated. The balance of this standby loan agreement receivable as of March 31, 2010 and 2009 was $2,500,000. Accrued interest receivable of approximately $35,000 and $79,000 was forgiven for the year ending March 31, 2010 and 2009, respectively. Management has forgiven all applicable interest through March 31, 2010. Subsequent to year end, there have been no principal payments received and FHI has not advanced RAO any additional funds.

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

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 $3,000,000 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 (0.64% as of March 31, 2010), and principal is payable as available surplus funds are accumulated. The balance of this loan as of March 31, 2010 and 2009 is approximately $2,172,000 and $971,000, respectively. The accrued interest receivable related to this loan was approximately none and $43,000 and was included in other receivables as of March 31, 2010 and 2009, respectively. Accrued interest receivable of approximately $59,000 and none was forgiven for the year ending March 31, 2010 and 2009, respectively. Management has forgiven all applicable interest through March 31, 2010. Subsequent to year end, there have been no principal payments received and RAI has not advanced any funds to RAO.

The Organization's opinion as to the ultimate collectibility of standby loan agreement receivables is subject to estimates regarding 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, 2010 and 2009, the Organization has recorded an allowance of approximately $4,672,000 and $3,471,000, 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 $43,055 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 financial statements.

Rental commitments as of March 31, 2010, under this lease guaranteed by FHI are due as follows:

Year Ending March 31	Amount
2011	$ 516,660
2012	516,660
2013	172,220
	$ 1,205,540

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 2011. 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 statement of operations. As of March 31, 2010 and 2009, $1,500,000 and $925,000, respectively, is recorded as a long-term receivable and $375,000 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 $51,000. 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.

Approximately 54% and 53% of the net resident services revenue was derived under federal and state third-party reimbursement programs for the year ended March 31, 2010 and 2009, 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 year ended March 31, 2010 and 2009 and resident accounts receivable as of March 31, 2010 and 2009 by payor, as a percentage of total net resident services revenue and resident accounts receivable, respectively, were as follows:

Payor Types	2010	2009
Net Resident Service Revenues:		
Medicaid	34%	34%
Medicare	20%	19%
Other	46%	47%
Resident Accounts Receivable:		
Medicaid	64%	60%
Medicare	16%	22%
Other	20%	18%

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, 2010 were as follows:

Lessor and Facility Name	Monthly Lease Payment	Expiration of Lease
Edwin Enterprises, LLC		
Hawthorne Inn of Freeport	$ 26,110	June 2011
Liberty Estates of Streator	41,023	February 2011
LB Properties, Inc.		
Liberty Estates of Geneseo	37,533	August 2013
Mid-Illini Healthcare, Inc.		
Manor Court of Clinton*	94,628	April 2015
	$ 199,294	

*Effective April 2010, the monthly lease payment increases to $101,253 in accordance with the lease terms.

Minimum rental commitments under facility leases, excluding real property taxes, insurance and maintenance as of March 31, 2010 are due as follows:

Year Ending March 31	Amount
2011	$ 2,430,005
2012	1,743,762
2013	1,665,432
2014	1,402,701
2015	1,215,036
	$ 8,456,936

Total rental expense for the year ended March 31, 2010 and 2009, including real property taxes, insurance and maintenance costs, was approximately $4,606,000 and $8,000,000, respectively.

Note 14. Functional Expense Classifications

Operating and nonoperating expenses of the Organization according to their functional categories as of the year ended March 31, 2010 and 2009 are as follows:

	2010	2009
Program activities	$ 65,498,667	$ 63,625,848
Management and general	9,686,524	10,570,011
	$ 75,185,191	$ 74,195,859

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, 2010 and 2009:

	2010	2009
Wages and other related payroll	$ 2,277,422	$ 1,929,699
Real estate taxes	1,907,844	1,790,197
Other	336,860	427,356
	$ 4,522,126	$ 4,147,252

Note 17. Construction in Progress and Subsequent Events

The Organization contracts with RFMS, an unrelated party, see Note 7, to construct additions to facilities. The following is a summary of construction in progress commitments as of March 31, 2010:

Project Location and Description	Costs Incurred Through March 31, 2010	Approximate Total Project Cost	Projected Completion Date
Princeton, Illinois; Physical Therapy Addition	$ 407,997	$ 580,000	August 2010
Freeport, Illinois; Physical Therapy Addition	195,252	675,000	October 2010
Danville, Illinois; Physical Therapy Addition	439,295	793,500	July 2010
	$ 1,042,544	$ 2,048,500	

Note 17. Construction in Progress and Subsequent Events (Continued)

Subsequent to March 31, 2010, the Organization entered into an additional construction commitment. The approximate total project cost of the subsequent commitment is $159,000. Management plans to finance these projects using unrestricted cash. Approximately $859,000 of total commitments was paid subsequent to March 31, 2010, using unrestricted cash and none of these projects were completed.

The Organization also has 17 and 2 construction in progress projects without a commitment as of March 31, 2010 and 2009, respectively. Construction in progress without a related commitment totaled approximately $719,000 and $28,000, as of March 31, 2010 and 2009, 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, 2010. 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 without a commitment were finished and four new projects without a commitment were started. Management plans to finance these projects without a commitment using unrestricted cash. Total costs incurred subsequent to March 31, 2010 for construction in progress projects without a commitment were approximately $26,000.

Note 18. Fair Value Disclosures

Fair Value of Financial Instruments: ASC 825, *Disclosures about Fair Value of Financial Instruments,* formerly Statement of Financial Accounting Standards No. 107, 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*, Statement of Financial Accounting Standards No. 157. 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, 2010 and 2009 and the methods and assumptions used to estimate those fair values. The Organization's financial instruments consist of cash and cash equivalents, certificates of deposit, accounts receivable, accrued liabilities, deferred revenue and refundable balances. Based on the current maturity of these instruments, carrying value approximates fair value. The Organization also has assets whose use is limited, investments, other long-term receivables, and debt. The fair value of assets whose use is limited and investments is based upon quoted market rates or, if not available, estimated market rates. 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. Long-term debt at March 31, 2010 and 2009 was approximately $69,020,000 and $34,863,000, 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 entity 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. The Organization does not have any investments classified within Level 2 or 3 of the valuation hierarchy.

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 entity'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 the Level 1 input which is derived from readily available pricing sources for identical instruments.

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, 2010 and 2009, 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, 2010				
Exchange-Traded-Fund Securities:				
Intermediate term bonds invested primarily in U.S. Treasury and Government Agencies Obligations	$ 760,660	$ 760,660	$ -	$ -
Short term bonds 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	$ -	$ -
Fair Value Measurements of Investments as of March 31, 2009				
Exchange-Traded-Fund Securities	$ 1,997,511	$ 1,997,511	$ -	$ -
Open-End Mutual Funds	9,226,621	9,226,621	-	-
	$ 11,224,132	$ 11,224,132	$ -	$ -

McGladrey & Pullen
Certified Public Accountants

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 28, 2010

Frances House, Inc. and Subsidiaries

Consolidating Balance Sheet
March 31, 2010

ASSETS	Frances House, Inc.	Pioneer Concepts, Inc.	Pinnacle Opportunities Inc.
Current Assets			
Cash and cash equivalents	$ 5,334,837	$ 4,183,477	$ 598,910
Fiduciary trust accounts	-	-	-
Certificate of deposit	-	-	-
Receivables:			
Resident accounts, net	2,611,099	1,997,321	1,319,061
Other	664,891	4,010	60,648
Current maturities of mortgage notes receivable	250,097	-	-
Due from related party	10,877,923	8,952,766	960,000
Assets whose use is limited	-	-	-
Prepaid expenses	20,448	49,880	8,325
Total current assets	19,759,295	15,187,454	2,946,944
Long-Term Investments			
Marketable securities	13,588,558	1,010,770	500,220
Assets whose use is limited	-	-	-
	13,588,558	1,010,770	500,220
Property and Equipment			
Land	2,171,045	499,315	227,807
Land improvements	974,100	211,830	61,998
Buildings and improvements	37,551,613	4,433,435	3,013,562
Equipment, furniture and fixtures	1,108,767	206,607	315,236
Vehicles	855,808	422,574	380,772
Construction in Progress	459,446	-	203,170
	43,120,779	5,773,761	4,202,545
Less accumulated depreciation	7,808,891	2,707,039	1,332,406
	35,311,888	3,066,722	2,870,139
Long-Term Receivables and Other Assets			
Receivables	1,500,000	-	-
Mortgage notes receivable, intercompany	11,281,957	-	-
Standby loan agreement receivables	750,000	-	-
Deferred debt issuance costs	220,237	-	-
Other	10,000	-	-
	13,762,194	-	-
Total assets	$ 82,421,935	$ 19,264,946	$ 6,317,303

Concepts Plus, Inc.	FHI Sole Member LLCs	Other LTD, NFP's	Residential Altematives of Illinois, Inc.	Intercompany Eliminations	Consolidated Totals
$ 1,782,845	$ 361,125	$ 237,244	$ 5,997,646	$ -	$ 18,496,084
-	-	-	75,031	-	75,031
-	-	-	-	-	-
	-				
567,576	-	-	5,479,913	-	11,974,970
2,005	28,246	26,705	181,053	(680,619)	286,939
-	-	-	-	(250,097)	-
2,205,000	-	-	-	(22,995,689)	-
-	107,380	228,845	-	-	336,225
27,422	32,889	168,979	155,168	-	463,111
4,584,848	529,640	661,773	11,888,811	(23,926,405)	31,632,360
490,426	-	-	-	-	15,589,974
-	323,650	614,281	-	-	937,931
490,426	323,650	614,281	-	-	16,527,905
253,575	951,000	850,000	236,000	-	5,188,742
52,517	405,138	2,046,715	418,315	-	4,170,613
1,219,957	19,390,320	30,891,485	12,166,974	-	108,667,346
105,168	1,179,387	1,111,800	3,272,358	-	7,299,323
162,355	-	-	660,310	-	2,481,819
-	407,997	-	691,361	-	1,761,974
1,793,572	22,333,842	34,900,000	17,445,318	-	129,569,817
730,150	1,051,275	882,223	3,931,253	-	18,443,237
1,063,422	21,282,567	34,017,777	13,514,065	-	111,126,580
-	-	-	-	-	1,500,000
-	-	-	-	(11,281,957)	-
-	-	-	-	(750,000)	-
-	251,101	650,121	-	-	1,121,459
-	-	-	25,000	-	35,000
-	251,101	650,121	25,000	(12,031,957)	2,656,459
$ 6,138,696	$ 22,386,958	$ 35,943,952	$ 25,427,876	$ (35,958,362)	$ 161,943,304

Frances House, Inc. and Subsidiaries

Consolidating Balance Sheet (Continued)
March 31, 2010

LIABILITIES AND NET ASSETS	Frances House, Inc.	Pioneer Concepts, Inc.	Pinnacle Opportunities, Inc.
Current Liabilities			
Current maturities of long-term debt	$ 633,842	$ -	$ -
Accounts payable	309,300	120,157	115,691
Construction payable	-	-	-
Accrued expenses	312,378	150,381	332,488
Checks written in excess of amounts on deposit	-	-	-
Deferred revenue	10,425	6,060	25,386
Refundable balances	110,904	186,611	270,042
Due to residents, trust accounts	-	-	-
Due to related party	11,612,765	-	505,000
Total current liabilities	12,989,614	463,209	1,248,607
Long-Term Note Payable, less current maturities	21,761,506	-	-
Standby Loan Agreements	2,800,000	-	-
Resident Security Deposits	-	-	-
Total liabilities	37,551,120	463,209	1,248,607
Net Assets, Unrestricted	44,870,815	18,801,737	5,068,696
Total liabilities and net assets	$ 82,421,935	$ 19,264,946	$ 6,317,303

Concepts Plus, Inc.	FHI Sole Member LLCs	Other LTD., NFP's	Residential Alternatives of Illinois, Inc.	Intercompany Eliminations	Consolidated Totals
$ -	$ 456,403	$ 328,780	$ 250,097	$ (250,097)	$ 1,419,025
49,610	-	-	1,280,497	-	1,875,255
-	407,997	-	733,556	-	1,141,553
48,182	202,261	230,461	3,926,594	(680,619)	4,522,126
-	-	-	-	-	-
3,855	-	-	495,000	-	540,726
41,008	-	-	666,000	-	1,274,565
-	-	-	75,031	-	75,031
-	5,082,742	5,795,182	-	(22,995,689)	-
142,655	6,149,403	6,354,423	7,426,775	(23,926,405)	10,848,281
-	16,957,400	30,300,835	11,281,957	(11,281,957)	69,019,741
-	-	-	750,000	(750,000)	2,800,000
-	-	-	1,276,545	-	1,276,545
142,655	23,106,803	36,655,258	20,735,277	(35,958,362)	83,944,567
5,996,041	(719,845)	(711,306)	4,692,599	-	77,998,737
$ 6,138,696	$ 22,386,958	$ 35,943,952	$ 25,427,876	$ (35,958,362)	$ 161,943,304

Frances House, Inc. and Subsidiaries

Consolidating Statement of Operations
Year Ended March 31, 2010

	Frances House, Inc.	Pioneer Concepts, Inc.	Pinnacle Opportunities, Inc.
Operating revenue:			
Net resident services	$ 10,173,411	$ 7,137,079	$ 4,596,084
Leasing	2,616,000	-	-
Other	68,306	23,935	27,773
Total operating revenue	12,857,717	7,161,014	4,623,857
Operating expenses:			
Program support	2,573,994	2,003,689	1,429,692
Nursing services	316,914	165,251	147,277
Dietary	1,324,145	908,019	715,465
General and administrative	2,112,304	858,797	862,822
Operations and maintenance	688,144	510,627	397,576
Provider participation fees	549,733	364,557	256,963
Housekeeping	445,635	315,861	218,727
Depreciation	1,760,054	293,570	270,025
Special services	30,538	24,699	15,313
Laundry	32,352	21,820	19,475
Total operating expenses	9,833,813	5,466,890	4,333,335
Operating income	3,023,904	1,694,124	290,522
Nonoperating income (expense):			
Investment income	945,752	55,094	12,407
Realized loss on sale of securities	-	-	-
Interest expense	(1,497,612)	-	-
Contributions received	2,395	-	-
Contributions made	(37,570)	-	-
	(587,035)	55,094	12,407
Excess of revenue over expenses	2,436,869	1,749,218	302,929
Net change in unrealized gains and (losses) on investments	4,217,155	17,079	(5,700)
Increase (decrease) in unrestricted net assets	$ 6,654,024	$ 1,766,297	$ 297,229

Concepts Plus, Inc.	FHI Sole Member LLCs	Other LTD, NFP's	Residential Alternatives of Illinois, Inc.	Intercompany Eliminations	Consolidated Totals
$ 1,794,284	$ -	$ -	$ 56,103,474	$ -	$ 79,804,332
-	1,407,913	1,332,581	-	(5,356,494)	-
18,065	-	-	480,275	-	618,354
1,812,349	1,407,913	1,332,581	56,583,749	(5,356,494)	80,422,686
521,365	-	-	843,516	-	7,372,256
41,800	-	-	21,641,299	-	22,312,541
239,599	-	-	6,325,669	-	9,512,897
285,502	113,036	180,507	8,090,674	-	12,503,642
124,193	125,715	83,951	13,787,344	(5,356,494)	10,361,056
97,890	-	-	323,386	-	1,592,529
80,611	-	-	1,618,087	-	2,678,921
92,719	674,579	882,223	905,973	-	4,879,143
1,926	-	-	26,970	-	99,446
7,522	-	-	451,637	-	532,806
1,493,127	913,330	1,146,681	54,014,555	(5,356,494)	71,845,237
319,222	494,583	185,900	2,569,194	-	8,577,449
12,332	604	495	30,486	(731,252)	325,918
(170)	-	-	-	-	(170)
-	(845,549)	(897,701)	(733,386)	731,252	(3,242,996)
871	-	-	3,427	-	6,693
-	-	-	(59,388)	-	(96,958)
13,033	(844,945)	(897,206)	(758,861)	-	(3,007,513)
332,255	(350,362)	(711,306)	1,810,333	-	5,569,936
494	-	-	-	-	4,229,028
$ 332,749	$ (350,362)	$ (711,306)	$ 1,810,333	$ -	$ 9,798,964