One Hope United

Consolidated Financial Report
June 30, 2015

Contents

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Independent Auditor's Report

RSM US LLP

To the Board of Directors
One Hope United
Chicago, Illinois

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of One Hope United which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of One Hope United as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Chicago, Illinois
February 9, 2016

One Hope United

Consolidated Statements of Financial Position
June 30, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash	$ 2,240,303	$ 3,057,324
Cash in restricted construction account	471,512	-
Accounts receivable, less allowance for doubtful accounts	5,521,153	6,367,905
Other current assets	1,554,747	1,535,971
Total current assets	9,787,715	10,961,200
Contribution receivable - restricted	157,167	1,886,004
Fixed Assets		
Land and buildings	13,766,669	14,289,894
Building improvements	3,039,862	2,790,177
Furniture and equipment	3,790,028	3,554,774
Vehicles	367,917	350,198
Leasehold improvements	234,177	234,177
Construction in progress	5,380,212	1,734,124
	26,578,865	22,953,344
Less accumulated depreciation	10,441,119	10,025,625
Total fixed assets	16,137,746	12,927,719
Long-Term Assets		
Investments in securities	10,529,623	10,957,270
Investments in farm land	5,216,000	5,623,800
Leveraged loan receivable	6,910,576	-
Beneficial interest in perpetual trusts	2,549,821	2,741,466
Deferred financing costs, less accumulated amortization of $51,315	402,420	-
Investments held for deferred compensation	647,424	631,965
Other long-term assets	22,000	-
Total long-term assets	26,277,864	19,954,501
	$ 52,360,492	$ 45,729,424
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,494,706	$ 2,551,846
Accrued expenses	2,921,979	2,837,343
Deferred revenue	1,921,064	2,184,432
Mortgage loan and notes payable	201,769	199,934
Total current liabilities	6,539,518	7,773,555
Long-Term Liabilities		
Investments held for deferred compensation	647,424	631,965
Mortgage loan and note payable, less current portion	2,184,809	2,509,589
NMTC notes payable	10,000,000	-
Total liabilities	19,371,751	10,915,109
Net Assets		
Unrestricted	27,113,175	28,939,385
Temporarily restricted	3,325,745	3,133,464
Permanently restricted	2,549,821	2,741,466
Total net assets	32,988,741	34,814,315
	$ 52,360,492	$ 45,729,424

See Notes to Consolidated Financial Statements.

One Hope United

Consolidated Statements of Activities
Years Ended June 30, 2015 and 2014

	2015	2014
Changes in unrestricted net assets:		
Public support and revenue:		
Dept. of Children and Family Services - Illinois	**$ 17,903,551**	$ 18,811,595
Dept. of Human Services - Illinois	**9,198,577**	8,548,599
Other government funding	**5,288,909**	5,139,917
Program service fees	**5,724,638**	6,086,116
Contributions and bequests	**1,005,721**	1,100,836
In-kind contributions	**303,875**	323,813
Investment (loss) income	**(199,265)**	1,400,752
United Way agencies	**288,962**	281,525
Florida case management services:		
Community Based Care of Central Florida	**3,507,698**	3,251,713
Heartland	**2,918,003**	2,905,952
Eckerd Youth Services	**2,936,132**	2,698,517
Ounce of Prevention	**1,844,497**	1,697,816
Omni Youth Services	**214,633**	229,913
Choices	**50,158**	-
Rental income	**107,531**	98,913
Farm income	**56,815**	92,787
Miscellaneous	**655,179**	403,224
Net assets released from restrictions	**145**	15,904
Total public support and revenue	**51,805,759**	53,087,892
Expenses:		
Program services	**46,890,512**	46,934,896
General fundraising	**784,261**	718,908
Management and general	**5,657,781**	3,900,324
Other services	**299,415**	484,700
Total expenses	**53,631,969**	52,038,828
Change in unrestricted net assets	**(1,826,210)**	1,049,064
Changes in temporarily restricted net assets:		
Contributions	**192,426**	2,535,123
Net assets released from restrictions	**(145)**	(15,904)
Change in temporarily restricted net assets	**192,281**	2,519,219
Changes in permanently restricted net assets:		
Change in value of perpetual trusts	**(191,645)**	88,118
Change in net assets	**(1,825,574)**	3,656,401
Net assets:		
Beginning	**34,814,315**	31,157,914
Ending	**$ 32,988,741**	$ 34,814,315

See Notes to Consolidated Financial Statements.

One Hope United

Consolidated Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services			
	Early Learning and Child Development	Placement Services	Community Based Family Support Services	Total Program Services
Expenses:				
Salaries	$ 9,532,279	$ 11,684,738	$ 5,236,732	$ 26,453,749
Salary-related expenses	2,055,355	2,469,471	1,086,924	5,611,750
Total salaries and related expenses	11,587,634	14,154,209	6,323,656	32,065,499
Professional liability insurance	106,179	163,054	67,434	336,667
Bad debt expense	26,102	37,341	22,308	85,751
Professional fees and contract services	525,877	839,307	389,643	1,754,827
Legal fees	49,402	92,343	15,906	157,651
Audit fees	-	57	-	57
Interest expense	131,258	22,432	7,687	161,377
Supplies	1,608,115	418,221	64,936	2,091,272
Telephone and telegraph	177,108	398,442	192,934	768,484
Postage and shipping	18,721	17,357	11,036	47,114
Rent	858,055	607,828	423,589	1,889,472
Other occupancy expenses	633,833	435,407	139,196	1,208,436
Local transportation	91,985	1,015,555	545,511	1,653,051
Conferences, meetings and seminars	51,995	115,470	17,884	185,349
Specific assistance to individuals	135,484	2,269,036	344,048	2,748,568
Membership dues	19,099	32,211	13,455	64,765
Equipment purchases	43,402	32,610	26,118	102,130
Equipment rentals	64,713	89,847	66,741	221,301
In-kind contributions	78,012	133,302	92,923	304,237
Printing expense	45,757	6,626	6,506	58,889
Miscellaneous expenses	41,609	15,569	7,134	64,312
Total expenses before depreciation	16,294,340	20,896,224	8,778,645	45,969,209
Depreciation	547,308	280,795	93,200	921,303
Total expenses	$ 16,841,648	$ 21,177,019	$ 8,871,845	$ 46,890,512

(Continued)

One Hope United

Consolidated Statement of Functional Expenses (Continued)
Year Ended June 30, 2015

	General Fund Raising	Management and General	Other Services	Totals
Expenses:				
Salaries	$ 390,318	$ 2,666,231	$ 5,651	$ 29,515,949
Salary-related expenses	60,974	438,039	563	6,111,326
Total salaries and related expenses	451,292	3,104,270	6,214	35,627,275
Professional liability insurance	43	116	4,752	341,578
Bad debt expense	-	-	51	85,802
Professional fees and contract services	140,479	1,700,891	151,719	3,747,916
Legal fees	967	70,982	24,071	253,671
Audit fees	-	110,231	-	110,288
Interest expense	-	-	1	161,378
Supplies	16,507	24,545	2,115	2,134,439
Telephone and telegraph	7,314	99,703	(31)	875,470
Postage and shipping	4,365	34,234	61	85,774
Rent	9,036	124,869	98,042	2,121,419
Other occupancy expenses	11,486	28,916	1,338	1,250,176
Local transportation	21,535	187,214	835	1,862,635
Conferences, meetings and seminars	6,773	34,248	239	226,609
Specific assistance to individuals	209	313	-	2,749,090
Membership dues	983	26,774	424	92,946
Equipment purchases	752	27,253	4	130,139
Equipment rentals	2,158	15,136	8,098	246,693
In-kind contributions	-	-	-	304,237
Printing expense	15,316	12,755	257	87,217
Miscellaneous expenses	92,230	27,246	1,210	184,998
Total expenses before depreciation	781,445	5,629,696	299,400	52,679,750
Depreciation	2,816	28,085	15	952,219
Total expenses	$ 784,261	$ 5,657,781	$ 299,415	$ 53,631,969

See Notes to Consolidated Financial Statements.

One Hope United

Consolidated Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services			
	Early Learning and Child Development	Placement Services	Community Based Family Support Services	Total Program Services
Expenses:				
Salaries	$ 9,678,895	$ 11,500,564	$ 5,680,795	$ 26,860,254
Salary-related expenses	2,120,618	2,350,193	1,109,289	5,580,100
Total salaries and related expenses	11,799,513	13,850,757	6,790,084	32,440,354
Professional liability insurance	104,570	163,781	75,883	344,234
Bad debt expense	47,506	63,613	38,116	149,235
Professional fees and contract services	321,565	678,162	440,593	1,440,320
Legal fees	6,462	97,598	13,961	118,021
Audit fees	-	-	-	-
Interest expense	44,066	24,411	7,677	76,154
Supplies	1,328,597	445,901	89,525	1,864,023
Telephone and telegraph	185,241	424,791	202,278	812,310
Postage and shipping	6,665	17,572	10,604	34,841
Rent	809,736	620,325	412,510	1,842,571
Other occupancy expenses	672,187	401,427	155,463	1,229,077
Local transportation	89,466	962,495	636,733	1,688,694
Conferences, meetings and seminars	73,952	85,171	36,552	195,675
Specific assistance to individuals	124,629	2,443,682	388,785	2,957,096
Membership dues	31,998	48,370	16,185	96,553
Equipment purchases	60,421	24,512	16,580	101,513
Equipment rentals	61,363	91,277	69,140	221,780
In-kind contributions	70,653	138,805	97,606	307,064
Printing expense	42,853	6,787	5,561	55,201
Miscellaneous expenses	38,840	37,802	11,086	87,728
Total expenses before depreciation	15,920,283	20,627,239	9,514,922	46,062,444
Depreciation	511,295	272,411	88,746	872,452
Total expenses	$ 16,431,578	$ 20,899,650	$ 9,603,668	$ 46,934,896

(Continued)

One Hope United

Consolidated Statement of Functional Expenses (Continued)
Year Ended June 30, 2014

	General Fund Raising	Management and General	Other Services	Totals
Expenses:				
Salaries	$ 359,072	$ 1,406,401	$ 49,649	$ 28,675,376
Salary-related expenses	64,431	197,500	4,430	5,846,461
Total salaries and related expenses	423,503	1,603,901	54,079	34,521,837
Professional liability insurance	59	95	371	344,759
Bad debt expense	-	-	183	149,418
Professional fees and contract services	106,115	1,560,813	288,240	3,395,488
Legal fees	-	59,598	(10,826)	166,793
Audit fees	-	108,876	-	108,876
Interest expense	-	-	1	76,155
Supplies	7,357	44,238	2,801	1,918,419
Telephone and telegraph	11,903	87,552	396	912,161
Postage and shipping	3,839	28,855	4	67,539
Rent	11,988	125,213	90,361	2,070,133
Other occupancy expenses	16,313	24,933	1,600	1,271,923
Local transportation	16,163	133,960	25,691	1,864,508
Conferences, meetings and seminars	5,381	16,150	1,241	218,447
Specific assistance to individuals	100	-	1,838	2,959,034
Membership dues	1,615	11,629	73	109,870
Equipment purchases	3,047	32,795	4	137,359
Equipment rentals	1,915	15,125	8,138	246,958
In-kind contributions	-	-	16,749	323,813
Printing expense	17,950	2,082	2,105	77,338
Miscellaneous expenses	88,481	17,418	1,636	195,263
Total expenses before depreciation	715,729	3,873,233	484,685	51,136,091
Depreciation	3,179	27,091	15	902,737
Total expenses	$ 718,908	$ 3,900,324	$ 484,700	$ 52,038,828

See Notes to Consolidated Financial Statements.

One Hope United

Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	**$ (1,825,574)**	$ 3,656,401
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	**952,219**	902,737
Amortization of capitalized financing fees	**51,315**	-
Bad debt expense	**85,802**	149,418
Net realized and unrealized loss (gain) on investments	**20,665**	(1,069,291)
Net unrealized loss (gain) on investments in farm land	**407,800**	(163,800)
Net gain on sale of equipment	**(296)**	-
Change in value of beneficial interest in perpetual trusts	**191,645**	(88,118)
Contribution restricted for capital purposes	**(10,259)**	(579,119)
Changes in:		
Accounts receivable	**760,950**	950,536
Contribution receivable	**1,728,837**	(1,886,004)
Accounts payable and accrued expenses	**(995,980)**	67,234
Deferred revenue	**(263,368)**	598,860
Other assets	**(40,776)**	(185,658)
Net cash provided by operating activities	**1,062,980**	2,353,196
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	**3,979,480**	3,579,406
Purchases of investments	**(3,572,498)**	(5,211,575)
Purchases of fixed assets	**(4,138,770)**	(851,865)
Cash paid in exchange for leveraged loan receivable	**(6,910,576)**	-
Proceeds from sale of equipment	**296**	-
Net cash used in investing activities	**(10,642,068)**	(2,484,034)
Cash Flows from Financing Activities		
Repayment on mortgage loan and note payable	**(322,945)**	(272,765)
Proceeds from issuance of NMTC notes payable	**10,000,000**	-
Repayment on mortgages refinanced	**-**	(1,174,835)
Proceeds from loan	**-**	1,459,209
Change in cash in restricted construction account	**(471,512)**	-
Increase in deferred financing costs	**(453,735)**	-
Contribution restricted for capital purposes	**10,259**	579,119
Net cash provided by financing activities	**8,762,067**	590,728
Net (decrease) increase in cash	**(817,021)**	459,890
Cash:		
Beginning	**3,057,324**	2,597,434
Ending	**$ 2,240,303**	$ 3,057,324
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	**$ 162,063**	$ 74,912
Supplemental Schedule of Noncash Investing Activities		
Net increase in investments held for deferred compensation/accrued expenses	**$ 15,459**	$ 87,577
Construction in progress included in accounts payable	**$ 23,476**	$ 1,009,977

See Notes to Consolidated Financial Statements.

Note 1. Nature of Organization and Significant Accounting Policies

One Hope United (OHU), is an Illinois not-for-profit organization which is exempt from payment of income taxes under Section 501(c)(3) of the Internal Revenue Code. OHU's primary purpose is to respond to the unmet needs of children and families by operating social welfare programs which offer services in the areas of child development, placement, prevention, family preservation, counseling and youth services.

OHU operates under a federated model, which was created to maximize economies of scale and minimize the use of resources for centralized administrative functions. Under this model, the operations of One Hope United, and each partner agency (One Hope United Northern Region, One Hope United Hudelson Region, and One Hope United Florida Region) are consolidated. OHU maintains ownership of all assets including property, investments and cash management. Additionally, OHU manages long-term debt, the line of credit and other federation-wide functions. The partner agencies control and service contracts, raise funds, advocate for clients and are responsible for their financial performance. OHU, however, maintains responsibility for approval of all partner agency budgets and monitors performance. OHU allocates federation expenses to the partner agencies based on overall partner agency operating expenses.

OHU established One Hope United Title Holding Company (THC), an affiliated Illinois not-for-profit corporation which is exempt from income taxes under Section 501(c)(2) of the Internal Revenue Code (IRC) and applicable state law. OHU is the sole voting member of THC, which holds title to OHU's new Early Learning Center construction project located at 500 Parks Ave, Joliet, IL and 503 Parks Ave, Joliet, IL. THC also holds title to the land and buildings of the Aurora Early Learning Center, 525 College Ave, Aurora, IL. THC was formed to facilitate a New Markets Tax Credit (NMTC) transaction for the new Early Learning Center project construction. Throughout the remainder of these notes the term OHU will refer to both OHU and THC unless otherwise indicated.

Principles of consolidation: The consolidated financial statements include the accounts of OHU and its affiliate, THC. Any significant intercompany balances and transactions have been eliminated in consolidation.

Accounting policies: OHU follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial condition, results of activities, and cash flows. References to Generally Accepted Accounting Principles (GAAP) in these footnotes are to the *FASB Accounting Standards Codification,* sometimes referred to as the Codification or ASC.

Accounting estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue recognition: The majority of funding for OHU operations is provided by governmental agencies. OHU recognizes program revenues in the fiscal year that the services are rendered. Grant revenue is recognized when the related grant expenditure has been incurred. Contribution revenues and other support are recognized when an unconditional promise to give is made or when cash is received if an unconditional promise does not exist. Contributions include bequests, which are recognized as revenue when OHU has an irrevocable right to the gift, such as when the bequest has been through probate and declared valid.

Deferred revenue: Program revenues received in advance are deferred to the period in which they are earned.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Cash in restricted construction account: Unspent cash from the NMTC transaction is reflected as restricted cash on the consolidated statement of financial position. Its use is restricted to the Joliet Project and the disbursements are subject to a blocked account agreement. THC maintains its cash at bank accounts which, at times, may exceed federally insured limits. THC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Deferred financing costs: Fees paid in connection with financings for the NMTC transaction have been capitalized as deferred financing costs and are being amortized using the straight-line method (which approximates the interest method) over the seven year NMTC compliance period. The amortization expense was $51,315 for the year ended June 30, 2015.

Accounts receivable: Accounts receivable are primarily uncollateralized obligations of the State of Illinois and other grantors. These receivables are stated at the amounts billed and do not accrue interest. Payments of accounts receivable are allocated to specific invoices identified on the remittance advices or, if unspecified, are applied to the oldest unpaid invoices. The carrying amount of accounts receivable is reduced by a valuation allowance that is adjusted as information about specific accounts becomes available and as accounts reach six months outstanding and have not been collected as of year-end. OHU also compares current reserve amounts to prior-year collections or write-off experience.

Investments: Investments are recorded at fair value. Realized gains and losses from sales of investments are determined using the average cost method. Investments are classified as current or long-term based on intended use.

Fixed assets: Fixed assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets which range from 3 to 30 years.

In-kind contributions: OHU received contributions of services from outside corporations, including printing, advertising, and various goods, in the amount of $303,875 and $323,813 during the years ended June 30, 2015 and 2014, respectively, which it distributed to the families it serves. The receipt and subsequent distribution of these goods and services are shown as revenue and expenditures in the consolidated statements of activities.

Temporarily restricted net assets: Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because OHU has fulfilled the restriction. Donor-restricted gifts are reported as temporarily restricted contributions regardless of when the net assets are expended. Transfers of temporarily restricted net assets associated with current expenditures for which the restrictions have been satisfied as well as donor changes in the nature of restrictions of net assets are reported as net assets released from restrictions. Temporarily restricted net assets at June 30, 2015 and 2014 consist of:

	2015	2014
Educational scholarships	$ 254,652	$ 229,797
Daycare programs	39,210	39,210
Joliet capital project	2,956,883	2,789,457
Other capital projects	75,000	75,000
	$ 3,325,745	$ 3,133,464

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Permanently restricted net assets: Permanently restricted net assets are net assets for which the principal must remain intact per donor request and the earnings can be used for specified purposes or general operations to the extent of its investment income. Included in this category is OHU's interest in perpetual trusts.

Concentration of credit risk: OHU maintains cash accounts at several commercial banks. The amount on deposit customarily exceeds the insurance limits of the Federal Deposit Insurance Corporation. OHU has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Income taxes: OHU, including each of the consolidated partner agencies, is exempt from federal income taxes under IRC Section 501(c)(3).

THC was organized and incorporated in Illinois as a not-for-profit organization in July of 2014. THC has received a favorable determination letter from the Internal Revenue Service stating that it is exempt from income taxes under the provisions of Section 501(c)(2) of the IRC of 1986, as amended, except for income taxes, if any, pertaining to unrelated business income.

The accounting standard for uncertainty in income taxes addresses the determination of whether tax benefits claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, OHU may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of OHU and the various positions related to the potential sources of unrelated business taxable income (UBIT). OHU has determined that there were no uncertain tax positions during the reported periods covered by these consolidated financial statements.

OHU files Forms 990 in the U.S. federal jurisdiction and in the State of Illinois. With few exceptions, OHU is no longer subject to examination by the Internal Revenue Service for years before 2012.

THC will file a Form 990 in the U.S. federal jurisdiction and the State of Illinois each fiscal year beginning in 2015.

Pending accounting pronouncements: In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalen*t). The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this update are effective for non-public entities for fiscal years beginning after December 2016. Early adoption is permitted. OHU's management is currently evaluating the impact this update will have on the organization's consolidated financial statements.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. The updated standard will be effective for OHU’s June 30, 2019 consolidated financial statements. OHU has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

Reclassification: Certain items on the 2014 financial statement of functional expenses have been reclassified to conform to the 2015 presentation. These reclassifications have no effect on the 2014 net assets or change in net assets.

Note 2. Accounts Receivable

Accounts receivable as of June 30, 2015 and 2014, net of allowances for doubtful accounts of $48,209 and $120,087, respectively, are summarized as follows:

	2015	2014
Supporting agencies:		
DCFS - Illinois	$ 1,448,238	$ 2,360,829
DHS - Illinois	906,427	883,349
Florida case management	1,310,273	1,282,375
Other governmental funding	1,169,284	1,323,338
Other	686,931	518,014
	$ 5,521,153	$ 6,367,905

Note 3. Investment (Loss) Income

Investment (loss) income for the years ended June 30, 2015 and 2014 is comprised of the following:

	2015	2014
Interest and dividend income	$ 229,200	$ 167,661
Unrealized (losses) gains - securities	(99,906)	920,540
Unrealized (losses) gains - investments in farm land	(407,800)	163,800
Realized gains	79,241	148,751
	$ (199,265)	$ 1,400,752

OHU invests in a portfolio of fixed income securities, mutual funds and common stocks. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Note 4. Fair Value Disclosures

The Fair Value Measurements and Disclosures Topic of the Codification 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 at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Topic as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the Topic are described below:

Level 1. Unadjusted quoted prices in active markets, such as the New York Stock Exchange, for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2. Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3. Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies or investment pools, general and limited partnership interests in corporate private equity and real estate funds, debt funds and funds of hedge funds.

For the years ended June 30, 2015 and 2014, the application of valuation techniques applied to similar assets and liabilities has been consistent. OHU assesses levels of the investments at each measurement date and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer. For the years ended June 30, 2015 and 2014, there were no such instances.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment Securities

The fair value of publicly traded equity, fixed income, commodities and real estate funds is based upon market quotations of national security exchanges. These financial instruments are classified as Level 1 in the fair value hierarchy.

Investments in Farm Land

The fair value of farm land is based on independent appraisals. The appraisals valued the properties based on the market approach, which considers comparable sales and adjusts for factors such as time (since comparable sale), location, and land quality. Since the valuations include certain unobservable inputs, the investments are classified as Level 3. Between appraisals, which are generally obtained bi-annually, OHU adjusts the fair value of the land based on industry benchmarks for changes in farm land value for the relevant region in Illinois, which considers comparable sales, commodity prices and regional economics.

Note 4. Fair Value Disclosures (Continued)

Beneficial Interest in Perpetual Trusts

The fair value of OHU's beneficial interest in perpetual trusts were provided by the trustee. The trustee determines fair value based on readily available pricing sources for market transactions involving identical assets for securities and based on independent appraisals for farm land. The valuations include certain unobservable inputs and are, therefore, classified as Level 3.

Investments Held for Deferred Compensation

Participants in the 457(b) plan described in Note 12 are offered a variety of investment options within a pooled separate account. Investment options include a variety of equity, fixed income and balanced funds. Fair value of the funds are determined as follows.

Investments in money market funds are traded on national securities exchanges and are stated at the last reported sales price on the day of valuation and are, therefore, classified as Level 1.

Investments in the equity funds, fixed income funds, and balanced funds are valued at fair value based on the applicable percentage ownership of the underlying funds' net assets as of the measurement date, as determined by the Fund Manager. In determining fair value, the Fund Manager utilizes the valuations of the underlying investments, which are primarily comprised of securities which are traded on national securities exchanges and have readily available market prices.

The fair value of OHU's investments in these funds generally represents the amount OHU would expect to receive if it were to liquidate its investment in the funds excluding any redemption charges that may apply. There are no redemption restrictions. These investments are classified as Level 2.

Note 4. Fair Value Disclosures (Continued)

The following tables present OHU's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and 2014:

	June 30, 2015			
	Fair Value Measurements Using			
Description	Total	Level 1	Level 2	Level 3
Assets				
Investments in securities:				
Money market funds	$ 515,626	$ 515,626	$ -	$ -
Equity securities:				
U.S. small cap	6,835	6,835	-	-
U.S. mid cap	702,518	702,518	-	-
U.S. large cap	2,709,978	2,709,978	-	-
International equities	2,068,492	2,068,492	-	-
Global equities	631,571	631,571	-	-
Fixed income securities:				
Fixed income funds	2,408,491	2,408,491	-	-
Other securities:				
Commodities funds	104,828	104,828	-	-
Other funds	48,084	48,084	-	-
Hedge funds	1,333,200	1,333,200	-	-
	$ 10,529,623	$ 10,529,623	$ -	$ -
Investments in farm land	$ 5,216,000	$ -	$ -	$ 5,216,000
Beneficial interest in perpetual trusts	$ 2,549,821	$ -	$ -	$ 2,549,821
Investments held for deferred compensation in a pooled separate account:				
Money market funds	$ 209,016	$ 209,016	$ -	$ -
Equity funds	173,696	-	173,696	-
Fixed income funds	113,723	-	113,723	-
Balanced funds	150,989	-	150,989	-
	$ 647,424	$ 209,016	$ 438,408	$ -

Note 4. Fair Value Disclosures (Continued)

	June 30, 2014			
	Fair Value Measurements Using			
Description	Total	Level 1	Level 2	Level 3
Assets				
Investments in securities:				
Money market funds	$ 838,643	$ 838,643	$ -	$ -
Equity securities:				
U.S. small cap	7,613	7,613	-	-
U.S. mid cap	690,266	690,266	-	-
U.S. large cap	2,289,228	2,289,228	-	-
International equities	2,644,136	2,644,136	-	-
Global equities	302,913	302,913	-	-
Fixed income securities:				
Fixed income funds	2,442,997	2,442,997	-	-
Other securities:				
Commodities funds	102,945	102,945	-	-
Real estate fund	272,758	272,758	-	-
Hedge funds	1,365,771	1,365,771	-	-
	$ 10,957,270	$ 10,957,270	$ -	$ -
Investments in farm land	$ 5,623,800	$ -	$ -	$ 5,623,800
Beneficial interest in perpetual trusts	$ 2,741,466	$ -	$ -	$ 2,741,466
Investments held for deferred compensation in a pooled separate account:				
Money market funds	$ 225,140	$ 225,140	$ -	$ -
Equity funds	159,939	-	159,939	-
Fixed income funds	101,084	-	101,084	-
Balanced funds	145,802	-	145,802	-
	$ 631,965	$ 225,140	$ 406,825	$ -

Note 4. Fair Value Disclosures (Continued)

Financial instruments classified as Level 3 in the fair value hierarchy represent OHU's investments in financial instruments in which at least one significant unobservable input is used in the valuation model. The following table presents a reconciliation of activity for the Level 3 financial instruments during the years ended June 30, 2015 and 2014:

	June 30, 2015		June 30, 2014	
	Investments in Farm Land	Beneficial Interest in Perpetual Trusts	Investments in Farm Land	Beneficial Interest in Perpetual Trusts
Balance, beginning of year	$ 5,623,800	$ 2,741,466	$ 5,460,000	$ 2,653,348
Purchases	-	-	-	-
Change in value of perpetual trusts	-	(191,645)	-	88,118
Unrealized losses - investments in farm land	(407,800)	-	163,800	-
Balance, end of year	$ 5,216,000	$ 2,549,821	$ 5,623,800	$ 2,741,466

The following table represents OHU's investments in farm land, the valuation techniques used to measure fair value, the significant unobservable inputs, and the ranges of values of those inputs:

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Per Acre)
Farm land	$ 5,216,000	Market (comparable sales)	Time (since comparable sale)	$100 - $425
			Location	$0 - $250
			Land quality (e.g. tillable percentage, soil quality, drainage)	$25 - $825
			Improvements	$0 - $25

Note 5. Beneficial Interest in Perpetual Trusts

OHU has a beneficial interest in two related perpetual trusts. Each trust includes cash and an undivided 75 percent interest in 360 acres of a parcel of farm land in Illinois. At June 30, 2015 and 2014, cash in both trusts combined was $40,425 and $39,987, respectively, and the estimated fair market value of the 360 acres of farm land was $3,359,336 and $3,615,300, respectively. OHU has a 75 percent interest in the income from each trust. OHU values its beneficial interest in each perpetual trust based on the fair value of the assets within the trust. OHU's proportionate share of the fair value of the trusts' assets was $2,549,821 and $2,741,466 at June 30, 2015 and 2014, respectively. The income from the trusts is to be paid annually. During the years ended June 30, 2015 and 2014, OHU received $48,601 and $53,933, respectively, of income from the trusts and this amount is included in miscellaneous revenue on the consolidated statements of activities.

Note 6. Leveraged Loan Receivable

In September 2014, OHU made leveraged loans to a qualified equity investment fund (QEI) linked to OHU's financing obtained through the NMTC program.

The loans accrue interest at a fixed rate, with interest-only payable quarterly at a rate of 1 percent over the first seven years (Compliance Period); quarterly principal and interest (stated rate) payments are then required through 2044.

Notes receivable at June 30, 2015 and 2014, are as follows:

	2015	2014
Stonehenge Illinois NMTC Investment Fund III, LLC with interest accruing at an annual rate of 1%; 1% interest-only quarterly payments are due through April 2021, and then principal and interest payments of $112,592 are due quarterly through maturity in September 2044.	$ 6,910,576	$ -

After the Compliance Period, there are put and call agreements between OHU and the investor in the QEI Fund. It is anticipated that the NMTC investor will put their option and OHU will own the QEI funds at the end of the Compliance Period. However, if the investor does not put their interest, management plans to exercise its option to call. This action will essentially result in forgiveness of these loans as well as extinguishment of OHU's debt described in Note 8. Interest income was $54,920 and $0 for the years ended June 30, 2015 and 2014, respectively.

In order to fund the above loan, OHU paid $6,910,576 in cash on hand (including $5,145,725 in lender reimbursements as a result of the NMTC transaction).

Note 7. Mortgage Loan and Note Payable

A summary of OHU's mortgage loan and note payable and collateral pledged thereon consisted of the following as of June 30, 2015 and 2014:

	2015	2014
Note payable, GMAC, 5.89%, due in monthly payments of $443 including interest, due October 2015, collateralized by a van.	$ 1,342	$ 6,397
Mortgage loan payable, bank, 2.6%, due in monthly principal payments of $22,109, with a balloon payment on June 30, 2018, collateralized by OHU property including buildings and accounts receivable.	2,385,236	2,703,126
	2,386,578	2,709,523
Less current portion	201,769	199,934
	$ 2,184,809	$ 2,509,589

Debt service requirements under these obligations are as follows:

Years ending June 30:	
2016	$ 201,769
2017	205,701
2018	1,979,108
	$ 2,386,578

Note 7. Mortgage Loan and Note Payable (Continued)

OHU has a $4,000,000 revolving bank line of credit. Interest is payable monthly at floating LIBOR (0.19 percent at June 30, 2015) plus 1.85 percent. The LIBOR rate is subject to a 1 percent floor. The revolving line of credit matures on February 28, 2017. Borrowings under the line of credit are collateralized by certain properties and OHU's net accounts receivable. There were borrowings of $1,500,000 during the year ended June 30, 2015, which were all repaid by year-end. There were no borrowings during the year ended June 30, 2014.

The bank line of credit and mortgage loan are subject to certain covenant requirements including liquidity and minimum debt service coverage. OHU did not comply with one of the financial covenants at June 30, 2015. The bank has issued a waiver for this covenant.

Note 8. NMTC Notes Payable

In September 2014, THC obtained financing in an arrangement structured under the NMTC program. This program, enacted by Congress as part of the Community Renewal Tax Relief Act of 2000, permits individual and corporate taxpayers to receive a credit against federal income taxes for making a quality equity investment (QEI) in qualified community development entities (CDEs). The CDEs used substantially all of each QEI to make qualified low-income community investment (QLICI) loans on favorable terms to THC as a qualified active low-income community business (QALICB). These loans made to THC by the CDEs on September 15, 2014, and outstanding at June 30, 2015, were as follows:

SCORE Sub-CDE 3, LLC Note A	$ 5,000,000
Stonehedge Community Development LXIV, LLC Note A	1,910,576
Stonehedge Community Development LXIV, LLC Note B	3,089,424
	$ 10,000,000

THC used some proceeds from the loans to purchase certain assets from OHU and to begin construction of the Project (Note 13).

All loans have a maturity date of September 30, 2044. Applicable Interest rates range between 1.02 percent and 1.73 percent simple interest. Quarterly interest payments commenced December 10, 2014. Interest capitalized was $47,097 for the year ended June 30, 2015.

The first seven years of the notes are defined as the Compliance Period. Only interest is paid during the Compliance Period. Thereafter, the loans are amortized with principal and interest payments required through the maturity date in Fiscal Year 2045. The loans can be repaid any time after the Compliance Period.

There are put and call agreements between THC and the investor in the QEI funds (which has ownership interest in the CDEs making the loans above). If the investor does not exercise their put option, THC has the ability to call the ownership in the interest in the QEI funds for fair market value. It is anticipated that the NMTC investor will put their option and THC will own the QEI funds at the end of the Compliance Period. However, if the investor does not put their interest, management plans to exercise its option to call. By acquiring the ownership interests, THC would be in a position whereby it can forgive the NMTC notes payable, resulting in a substantial reduction in outstanding debt at that point in time and recognition of the benefits from the NMTC program (in turn, it is expected that THC would forgive the NMTC notes receivable). The loans are collateralized by essentially all THC property and equipment.

Note 9. State and Local Government Agency Support

OHU received approximately $32,475,000 and $32,500,000 of its support and revenue from the State of Illinois and other governmental agencies during the years ended June 30, 2015 and 2014, respectively. A significant reduction in the level of this support, if it were to occur, could have a significant effect on OHU's programs and activities. A portion of this support is subject to review and final determination by these state and governmental agencies. OHU does not anticipate any significant adjustments upon final review and determination.

The Governor of the State of Illinois has enacted significant reductions in spending to help balance the State's budget. These reductions have adversely affected OHU. Funding for the Early Learning and Child Development programs is not expected to be provided for certain children who previously qualified for Illinois Department of Human Services (DHS) assistance, until a budget is passed and any changes in eligibility are determined. It is currently unknown when a budget will be passed by the State. For the year ended June 30, 2015, the Early Learning and Child Development programs recorded approximately $8,709,000 in revenue from the state of Illinois DHS relating to this program. The program within the organization most impacted by this reduction is the Joliet project referred to in note 13. This center opened for service on July 6, 2015 serving 8 children. The above funding reduction is having a direct impact on the financial operations of this center.

Note 10. Leases and Commitments

OHU leases office space and office equipment. These leases expire at various dates through June 2020. At June 30, 2014, future minimum lease payments under noncancelable operating leases with initial or remaining lease terms in excess of one year were as follows:

Years ending June 30:	
2016	$ 1,932,023
2017	1,381,016
2018	1,182,251
2019	872,339
2020	414,148
Thereafter	18,349
	$ 5,800,126

Rental expense under operating leases was $2,121,419 and $2,070,133 for the years ended June 30, 2015 and 2014, respectively.

OHU had a contract related to information technology services management. The contract term was 36 months and expired May 21, 2015. The cost was approximately $82,000 per month. This contract was not renewed.

Note 11. Retirement Plan

OHU employees participate in the American Baptist Retirement and Death 403(b) Plan, a defined contribution plan. Under this plan, OHU contributes scheduled amounts that are a matched contribution up to 4 percent of salary. All OHU employees become eligible to participate in the Plan upon achieving service level requirements. Employees vest ratably over six years. OHU made contributions of $0 and $145,557 to the plan during the years ended June 30, 2015 and 2014, respectively.

Note 12. Deferred Compensation Plan

OHU offers a deferred compensation plan created in accordance with IRC Section 457. The plan, available to certain OHU employees, permits them to defer a portion of their salary until future years. OHU did not make any contributions to the plan for the years ended June 30, 2015 and 2014. OHU accounts for the assets held by this plan as investments held for deferred compensation, as described in Note 4, with the related liability recorded as accrued expenses.

Note 13. Joliet Project

OHU's Joliet project is a $6.5 million project to purchase and renovate a former elementary school in Joliet, Illinois into an early learning center. OHU purchased the facility in 2013, and the renovation is 100 percent complete at June 30, 2015. As of June 30, 2015 and 2014, OHU had capitalized $5,380,212 and $1,734,124 in costs related to the purchase, renovation and construction of the facility, respectively. The new facility was placed into service, July 6, 2015.

OHU was awarded approximately $3.1 million from the Illinois Capital Board for the project. OHU has recognized $157,167 and $2,465,123 of the Illinois Capital Board grant as a temporarily restricted contribution during the years ended June 30, 2015 and 2014, respectively. On September 15, 2014, OHU entered into state and federal New Market Tax Credits (NMTC) financings for the Joliet facility and refinancing of its Aurora child care facility. These two properties were transferred to One Hope United Title Holding Corporation, a newly formed 501(c)(2) special purpose not-for-profit title holding company, wholly-owned by OHU, which received the NMTC financing. The NMTC financing (described in Notes 6 and 8) completed the financing for the project and resulted in $1.1 million of additional net financing available for the project.

Note 14. Subsequent Event

OHU has evaluated subsequent events for potential recognition and/or disclosure through February 9, 2016, the date the consolidated financial statements were available to be issued.