

# **One Hope United**

Consolidated Financial Report  
June 30, 2016

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## Independent Auditor's Report

To the Board of Directors  
One Hope United

### 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, 2016 and 2015, 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 (collectively, financial statements).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of One Hope United as of June 30, 2016 and 2015, 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  
December 15, 2016

**One Hope United**

**Consolidated Statements of Financial Position  
June 30, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Current assets:		
Cash	\$ 1,855,699	\$ 2,240,303
Cash in restricted construction account	253,209	471,512
Accounts receivable, less allowance for doubtful accounts of \$56,981 in 2016 and \$48,209 in 2015	6,362,792	5,521,153
Other current assets	1,483,695	1,554,747
<b>Total current assets</b>	<b>9,955,395</b>	<b>9,787,715</b>
Contribution receivable - restricted	157,167	157,167
Fixed assets:		
Land and buildings	19,108,739	13,766,669
Building improvements	3,169,861	3,039,862
Furniture and equipment	2,997,936	3,790,028
Vehicles	354,498	367,917
Leasehold improvements	246,809	234,177
Construction in progress	116,772	5,380,212
	25,994,615	26,578,865
Less accumulated depreciation	10,300,581	10,441,119
<b>Total fixed assets</b>	<b>15,694,034</b>	<b>16,137,746</b>
Long-term assets:		
Investments in securities	10,154,271	10,529,623
Investments in farm land	4,827,280	5,216,000
Leveraged loan receivable	6,910,576	6,910,576
Beneficial interest in perpetual trusts	2,391,459	2,549,821
Deferred financing costs, less accumulated amortization of \$116,135 in 2016 and \$51,315 in 2015	337,600	402,420
Investments held for deferred compensation	435,386	647,424
Note receivable	125,000	-
Other long-term assets	22,000	22,000
<b>Total long-term assets</b>	<b>25,203,572</b>	<b>26,277,864</b>
	<b>\$ 51,010,168</b>	<b>\$ 52,360,492</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 1,025,411	\$ 1,494,706
Accrued expenses	3,148,868	2,921,979
Deferred revenue	1,751,163	1,921,064
Mortgage loan and notes payable	205,701	201,769
<b>Total current liabilities</b>	<b>6,131,143</b>	<b>6,539,518</b>
Long-term liabilities:		
Investments held for deferred compensation	435,386	647,424
Mortgage loan and note payable, less current portion	1,853,330	2,184,809
Note payable - Dunham fund	125,000	-
NMTC notes payable	10,000,000	10,000,000
<b>Total liabilities</b>	<b>18,544,859</b>	<b>19,371,751</b>
Net assets:		
Unrestricted	29,773,588	27,113,175
Temporarily restricted	300,262	3,325,745
Permanently restricted	2,391,459	2,549,821
<b>Total net assets</b>	<b>32,465,309</b>	<b>32,988,741</b>
	<b>\$ 51,010,168</b>	<b>\$ 52,360,492</b>

See notes to consolidated financial statements.

## One Hope United

### Consolidated Statements of Activities Years Ended June 30, 2016 and 2015

	2016	2015
Changes in unrestricted net assets:		
Public support and revenue:		
Dept. of Children and Family Services - Illinois	\$ 19,193,976	\$ 17,903,551
Dept. of Human Services - Illinois	8,853,051	9,198,577
Other government funding	5,415,047	5,288,909
Program service fees	4,550,874	5,724,638
Contributions and bequests	1,367,682	1,005,721
In-kind contributions	137,056	303,875
Investment loss	(491,664)	(199,265)
United Way agencies	338,421	288,962
Florida case management services:		
Community Based Care of Central Florida	3,513,234	3,507,698
Heartland	2,949,616	2,918,003
Eckerd Youth Services	2,915,872	2,936,132
Ounce of Prevention	1,801,275	1,844,497
Omni Youth Services	270,388	214,633
Choices	10,866	50,158
Rental income	90,973	107,531
Farm income	59,436	56,815
Miscellaneous	773,529	655,179
Net assets released from restrictions	3,106,883	145
<b>Total public support and revenue</b>	<b>54,856,515</b>	<b>51,805,759</b>
Expenses:		
Program services	45,412,703	46,890,512
General fundraising	849,215	784,261
Management and general	5,661,041	5,657,781
Other services	273,143	299,415
<b>Total expenses</b>	<b>52,196,102</b>	<b>53,631,969</b>
<b>Change in unrestricted net assets</b>	<b>2,660,413</b>	<b>(1,826,210)</b>
Changes in temporarily restricted net assets:		
Contributions	81,400	192,426
Net assets released from restrictions	(3,106,883)	(145)
<b>Change in temporarily restricted net assets</b>	<b>(3,025,483)</b>	<b>192,281</b>
Changes in permanently restricted net assets:		
Change in value of beneficial interest in perpetual trusts	(158,362)	(191,645)
<b>Change in net assets</b>	<b>(523,432)</b>	<b>(1,825,574)</b>
Net assets:		
Beginning	32,988,741	34,814,315
Ending	<b>\$ 32,465,309</b>	<b>\$ 32,988,741</b>

See notes to consolidated financial statements.

One Hope United

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2016

	Program Services			Total Program Services
	Early Learning and Child Development	Placement Services	Community Based Family Support Services	
Expenses:				
Salaries	\$ 9,057,242	\$ 12,011,366	\$ 4,906,617	\$ 25,975,225
Salary-related expenses	2,042,988	2,617,580	1,134,753	5,795,321
<b>Total salaries and related expenses</b>	11,100,230	14,628,946	6,041,370	31,770,546
Professional liability insurance	113,936	147,963	57,508	319,407
Bad debt expense	20,952	24,434	23,274	68,660
Professional fees and contract services	279,581	746,385	357,233	1,383,199
Legal fees	25,511	5,194	22,296	53,001
Audit fees	-	-	-	-
Interest expense	207,024	18,443	5,927	231,394
Supplies	1,381,529	437,210	56,158	1,874,897
Telephone	173,083	294,246	166,311	633,640
Postage and shipping	8,876	18,313	14,283	41,472
Rent	895,982	489,753	401,770	1,787,505
Other occupancy expenses	726,824	454,249	127,740	1,308,813
Local transportation	85,985	974,449	526,693	1,587,127
Conferences, meetings and seminars	54,102	48,284	15,754	118,140
Specific assistance to individuals	72,148	2,319,925	334,817	2,726,890
Membership dues	9,557	10,996	9,720	30,273
Equipment purchases	33,457	53,495	15,602	102,554
Equipment rentals	54,192	56,997	44,295	155,484
In-kind contributions	20,370	61,862	51,512	133,744
Printing expense	45,016	5,874	3,590	54,480
Miscellaneous expenses	32,127	10,948	3,753	46,828
<b>Total expenses before depreciation</b>	15,340,482	20,807,966	8,279,606	44,428,054
Depreciation	700,973	232,907	50,769	984,649
<b>Total expenses</b>	<b>\$ 16,041,455</b>	<b>\$ 21,040,873</b>	<b>\$ 8,330,375</b>	<b>\$ 45,412,703</b>

(Continued)

**One Hope United**

**Consolidated Statement of Functional Expenses (Continued)**  
**Year Ended June 30, 2016**

	General Fund Raising	Management and General	Other Services	Totals
<b>Expenses:</b>				
Salaries	\$ 419,165	\$ 2,715,256	\$ 52,305	\$ 29,161,951
Salary-related expenses	68,909	509,499	5,304	6,379,033
<b>Total salaries and related expenses</b>	488,074	3,224,755	57,609	35,540,984
Professional liability insurance	40	2,461	7,970	329,878
Bad debt expense	-	-	-	68,660
Professional fees and contract services	168,757	1,750,835	62,413	3,365,204
Legal fees	822	78,260	40,996	173,079
Audit fees	-	114,064	-	114,064
Interest expense	-	-	469	231,863
Supplies	5,988	23,457	5,987	1,910,329
Telephone	5,848	61,364	739	701,591
Postage and shipping	3,197	(833)	39	43,875
Rent	-	129,817	82,601	1,999,923
Other occupancy expenses	8,891	38,389	398	1,356,491
Local transportation	10,109	96,342	81	1,693,659
Conferences, meetings and seminars	16,560	8,221	1,120	144,041
Specific assistance to individuals	3	10	18	2,726,921
Membership dues	4,361	40,170	-	74,804
Equipment purchases	1,340	30,104	3,843	137,841
Equipment rentals	587	9,019	4,985	170,075
In-kind contributions	-	-	3,312	137,056
Printing expense	26,771	5,309	-	86,560
Miscellaneous expenses	104,928	22,528	563	174,847
<b>Total expenses before depreciation</b>	846,276	5,634,272	273,143	51,181,745
Depreciation	2,939	26,769	-	1,014,357
<b>Total expenses</b>	<b>\$ 849,215</b>	<b>\$ 5,661,041</b>	<b>\$ 273,143</b>	<b>\$ 52,196,102</b>

See notes to consolidated financial statements.



One Hope United

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2015

	Program Services			Total Program Services
	Early Learning and Child Development	Placement Services	Community Based Family Support 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
<b>Total salaries and related expenses</b>	<b>11,587,634</b>	<b>14,154,209</b>	<b>6,323,656</b>	<b>32,065,499</b>
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	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
<b>Total expenses before depreciation</b>	<b>16,294,340</b>	<b>20,896,224</b>	<b>8,778,645</b>	<b>45,969,209</b>
Depreciation	547,308	280,795	93,200	921,303
<b>Total expenses</b>	<b>\$ 16,841,648</b>	<b>\$ 21,177,019</b>	<b>\$ 8,871,845</b>	<b>\$ 46,890,512</b>

(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
<b>Total salaries and related expenses</b>	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	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
<b>Total expenses before depreciation</b>	781,445	5,629,696	299,400	52,679,750
Depreciation	2,816	28,085	15	952,219
<b>Total expenses</b>	<u>\$ 784,261</u>	<u>\$ 5,657,781</u>	<u>\$ 299,415</u>	<u>\$ 53,631,969</u>

See notes to consolidated financial statements.

**One Hope United**

**Consolidated Statements of Cash Flows  
Years Ended June 30, 2016 and 2015**

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (523,432)	\$ (1,825,574)
Adjustments to reconcile change in net assets to net cash flows provided by (used in) operating activities:		
Depreciation	1,014,357	952,219
Amortization of capitalized financing fees	64,820	51,315
Bad debt expense	68,660	85,802
Net realized and unrealized loss on investments	326,924	20,665
Net unrealized loss on investments in farm land	388,720	407,800
Net gain on disposals of fixed assets	(74,763)	(296)
Change in value of beneficial interest in perpetual trusts	158,362	191,645
Contribution restricted for capital purposes	-	(10,259)
Changes in:		
Accounts receivable	(910,299)	760,950
Contribution receivable	-	1,728,837
Accounts payable and accrued expenses	(463,587)	(995,980)
Deferred revenue	(169,901)	(263,368)
Other assets	71,052	(40,776)
<b>Net cash provided by (used in) operating activities</b>	<b>(49,087)</b>	<b>1,062,980</b>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	5,228,659	3,979,480
Purchases of investments	(4,959,050)	(3,572,498)
Purchases of fixed assets	(501,988)	(4,138,770)
Cash paid in exchange for leveraged loan receivable	-	(6,910,576)
Proceeds from sale of equipment	6,106	296
Cash paid in exchange for note receivable	(125,000)	-
<b>Net cash used in investing activities</b>	<b>(351,273)</b>	<b>(10,642,068)</b>
Cash flows from financing activities:		
Repayment on mortgage loan and note payable	(327,547)	(322,945)
Proceeds from issuance of NMTC notes payable	-	10,000,000
Change in cash in restricted construction account	218,303	(471,512)
Increase in deferred financing costs	-	(453,735)
Contribution restricted for capital purposes	-	10,259
Proceeds from issuance of note payable	125,000	-
<b>Net cash provided by financing activities</b>	<b>15,756</b>	<b>8,762,067</b>
<b>Net decrease in cash</b>	<b>(384,604)</b>	<b>(817,021)</b>
Cash:		
Beginning	2,240,303	3,057,324
Ending	<b>\$ 1,855,699</b>	<b>\$ 2,240,303</b>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<b>\$ 232,101</b>	<b>\$ 162,063</b>
Supplemental schedule of noncash investing activities:		
Net increase in investments held for deferred compensation/accrued expenses	<b>\$ 9,143</b>	<b>\$ 15,459</b>
Construction in progress included in accounts payable	<b>\$ -</b>	<b>\$ 23,476</b>

See notes to consolidated financial statements.

## One Hope United

### Notes to Consolidated Financial Statements

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#### 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 Hudson 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 Early Learning Center 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 Early Learning Center projects. Throughout the remainder of these notes the term OHU will refer to both OHU and THC unless otherwise indicated.

**Principles of consolidation:** The 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 financial statements requires management to make estimates and assumptions that affect the amounts reported in the 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.

## One Hope United

### Notes to Consolidated Financial Statements

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#### 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 statements 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 \$64,820 and \$51,315 for the years ended June 30, 2016 and 2015, respectively.

**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 \$137,056 and \$303,875 during the years ended June 30, 2016 and 2015, 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. The Joliet capital project was placed into service in fiscal year 2016 and the related restriction was released. Temporarily restricted net assets at June 30, 2016 and 2015 consist of:

	2016	2015
Educational scholarships	\$ 199,652	\$ 254,652
Daycare programs	39,210	39,210
Joliet capital project	-	2,956,883
Other capital projects	61,400	75,000
	<u>\$ 300,262</u>	<u>\$ 3,325,745</u>

## One Hope United

### Notes to Consolidated Financial Statements

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#### 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, the earnings from which are unrestricted.

**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 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 2013.

THC files Forms 990 in the U.S. federal jurisdiction and in the State of Illinois. THC is subject to examination by the Internal Revenue Service for its fiscal years 2015 and 2016.

**Pending accounting pronouncements:** In May 2014, the FASB issued Accounting Standards Update (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 for its fiscal year ending June 30, 2020. 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.

## One Hope United

### Notes to Consolidated Financial Statements

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

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard will be effective for OHU for its fiscal year ending June 30, 2017. OHU's management believes that this update will not have a significant effect on OHU's consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. 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 standard is effective for OHU for its fiscal year ending June 30, 2018. Early adoption is permitted. OHU's management is currently evaluating the impact this update will have on OHU's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the OHU for its fiscal year ending June 30, 2021, with early adoption permitted. OHU's management is currently evaluating the impact this update will have on OHU's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard is effective for OHU for its fiscal year ending June 30, 2019, with early adoption permitted. OHU's management is currently evaluating the impact this update will have on OHU's consolidated financial statements.

#### Note 2. Accounts Receivable

Accounts receivable as of June 30, 2016 and 2015, net of allowances for doubtful accounts of \$56,981 and \$48,209, respectively, are summarized as follows:

	2016	2015
Supporting agencies:		
DCFS - Illinois	\$ 1,775,622	\$ 1,448,238
DHS - Illinois	1,299,529	906,427
Florida case management	1,256,422	1,310,273
Other governmental funding	1,351,715	1,169,284
Other	679,504	686,931
	<u>\$ 6,362,792</u>	<u>\$ 5,521,153</u>

## One Hope United

### Notes to Consolidated Financial Statements

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#### Note 3. Investment Loss

Investment loss for the years ended June 30, 2016 and 2015 is comprised of the following:

	2016	2015
Interest and dividend income	\$ 223,980	\$ 229,200
Unrealized losses - securities	(290,470)	(99,906)
Unrealized losses - investments in farm land	(388,720)	(407,800)
Realized (losses) gains	(36,454)	79,241
	<u>\$ (491,664)</u>	<u>\$ (199,265)</u>

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 Measurement 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, 2016 and 2015, 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, 2016 and 2015, there were no such instances.



## One Hope United

### Notes to Consolidated Financial Statements

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#### **Note 4. Fair Value Disclosures (Continued)**

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

##### *Investments in 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.

##### *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 net asset value (NAV), as determined by the Fund Manager. In determining NAV, 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.

## One Hope United

### Notes to Consolidated Financial Statements

#### 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, 2016 and 2015:

Description	June 30, 2016			
	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments in securities:				
Money market funds	\$ 459,594	\$ 459,594	\$ -	\$ -
Equity securities:				
U.S. small cap	6,333	6,333	-	-
U.S. mid cap	331,198	331,198	-	-
U.S. large cap	2,825,209	2,825,209	-	-
International equities	1,823,207	1,823,207	-	-
Global equities	629,139	629,139	-	-
Fixed income securities:				
Fixed income funds	2,864,325	2,864,325	-	-
Other securities:				
Hedge funds	1,215,266	1,215,266	-	-
	<u>\$ 10,154,271</u>	<u>\$ 10,154,271</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in farm land	<u>\$ 4,827,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,827,280</u>
Beneficial interest in perpetual trusts	<u>\$ 2,391,459</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,391,459</u>
Investments held for deferred compensation in a pooled separate account:				
Money market funds	\$ 23,048	\$ 23,048	\$ -	\$ -
Equity funds	173,306	-	173,306	-
Fixed income funds	120,870	-	120,870	-
Balanced funds	118,162	-	118,162	-
	<u>\$ 435,386</u>	<u>\$ 23,048</u>	<u>\$ 412,338</u>	<u>\$ -</u>

**One Hope United**

**Notes to Consolidated Financial Statements**

**Note 4. Fair Value Disclosures (Continued)**

Description	June 30, 2015			
	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
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	-	-
	<u>\$ 10,529,623</u>	<u>\$ 10,529,623</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in farm land	<u>\$ 5,216,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,216,000</u>
Beneficial interest in perpetual trusts	<u>\$ 2,549,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,549,821</u>
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	-
	<u>\$ 647,424</u>	<u>\$ 209,016</u>	<u>\$ 438,408</u>	<u>\$ -</u>

## One Hope United

### Notes to Consolidated Financial Statements

#### 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, 2016 and 2015:

	June 30, 2016		June 30, 2015	
	Investments in Farm Land	Beneficial Interest in Perpetual Trusts	Investments in Farm Land	Beneficial Interest in Perpetual Trusts
Balance, beginning of year	\$ 5,216,000	\$ 2,549,821	\$ 5,623,800	\$ 2,741,466
Change in value of perpetual trusts	-	(158,362)	-	(191,645)
Unrealized losses - investments in farm land	(388,720)	-	(407,800)	-
Balance, end of year	<u>\$ 4,827,280</u>	<u>\$ 2,391,459</u>	<u>\$ 5,216,000</u>	<u>\$ 2,549,821</u>

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 at June 30, 2016 and 2015:

	June 30, 2016 Fair Value	June 30, 2015 Fair Value	Valuation Technique	Unobservable Inputs	Range (Per Acre)
Farm land	\$ 4,827,280	\$ 5,216,000	Market (comparable sales)	Time (since comparable sale) Location Land quality (e.g. tillable percentage, soil quality, drainage) Improvements	\$100 - \$425 \$0 - \$250 \$25 - \$825 \$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, 2016 and 2015, cash in both trusts combined was \$64,429 and \$40,425, respectively, and the estimated fair market value of the 360 acres of farm land was \$3,124,183 and \$3,359,336, 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 \$2,391,459 and \$2,549,821 at June 30, 2016 and 2015, respectively. The income from the trusts is to be paid annually. During the years ended June 30, 2016 and 2015, OHU received \$57,066 and \$48,601, respectively, of income from the trusts and these amounts are included in miscellaneous revenue on the consolidated statements of activities.

## One Hope United

### Notes to Consolidated Financial Statements

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#### 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, 2016 and 2015, are as follows:

	2016	2015
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.	<u>\$ 6,910,576</u>	<u>\$ 6,910,576</u>

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, THC 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 \$69,131 and \$54,920 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Note payable, GMAC, 5.89%, due in monthly payments of \$443 including interest, repaid in October 2015, collateralized by a van.	\$ -	\$ 1,342
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.	2,059,031	2,385,236
Note payable, Dunham fund loan, 0.25% annual interest, with a balloon payment due December 2017	125,000	-
	<u>2,184,031</u>	<u>2,386,578</u>
Less current portion	205,701	201,769
	<u>\$ 1,978,330</u>	<u>\$ 2,184,809</u>

## One Hope United

### Notes to Consolidated Financial Statements

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#### Note 7. Mortgage Loan and Note Payable (Continued)

Debt service requirements under these obligations are as follows:

Years ending June 30:

2017	\$ 205,701
2018	1,978,330
	<u>\$ 2,184,031</u>

OHU has a \$4,000,000 revolving bank line of credit. Interest is payable monthly at floating LIBOR (0.47 percent at June 30, 2016) 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 no borrowings during the year ended June 30, 2016. There were borrowings of \$1,500,000 during the year ended June 30, 2015, which were all repaid by year-end.

The bank line of credit and mortgage loan are subject to certain covenant requirements including liquidity and minimum debt service coverage.

#### 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, 2016 and 2015, were as follows:

	2016	2015
SCORE Sub-CDE 3, LLC Note A	\$ 5,000,000	\$ 5,000,000
Stonehedge Community Development LXIV, LLC Note A	1,910,576	1,910,576
Stonehedge Community Development LXIV, LLC Note b	3,089,424	3,089,424
	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>

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.

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.

## One Hope United

### Notes to Consolidated Financial Statements

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#### Note 8. NMTC Notes Payable (Continued)

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, THC 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 \$33,450,000 and \$32,475,000 of its support and revenue from the State of Illinois and other governmental agencies during the years ended June 30, 2016 and 2015, 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.

#### Note 10. Leases and Commitments

OHU leases office space and office equipment. These leases expire at various dates through June 2024. At June 30, 2016, 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:	
2017	\$ 1,725,142
2018	1,516,974
2019	1,191,783
2020	738,529
2021	312,310
Thereafter	1,167,973
	<u>\$ 6,652,711</u>

Rental expense under operating leases was \$2,207,861 and \$2,121,419 for the years ended June 30, 2016 and 2015, respectively.

#### 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 may contribute 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. Employer contributions vest ratably over six years. OHU has not made any contributions to the plan for the years ended June 30, 2016 and June 30, 2015.

## **One Hope United**

### **Notes to Consolidated Financial Statements**

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#### **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, 2016 and 2015. 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 within accrued expenses.

#### **Note 13. Subsequent Events**

OHU has evaluated subsequent events for potential recognition and/or disclosure through December 15, 2016, the date the consolidated financial statements were available to be issued.