

# **One Hope United**

Consolidated Financial Report  
June 30, 2017

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RSM US LLP

## 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, 2017 and 2016, 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, the 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, 2017 and 2016, 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 18, 2017

**One Hope United**

**Consolidated Statements of Financial Position  
June 30, 2017 and 2016**

|  | 2017                 | 2016                 |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Current assets:  |                      |                      |
| Cash   | \$ 1,452,849         | \$ 1,855,699         |
| Cash in restricted construction account  | -                    | 253,209              |
| Accounts receivable, less allowances for doubtful accounts<br>of \$85,897 in 2017 and \$56,981 in 2016 | 7,143,250            | 6,362,792            |
| Other current assets   | 1,521,068            | 1,483,695            |
| <b>Total current assets</b>  | <b>10,117,167</b>    | <b>9,955,395</b>     |
| Contribution receivable - restricted   | 157,167              | 157,167              |
| Property and equipment:  |                      |                      |
| Land and buildings   | 19,108,739           | 19,108,739           |
| Building improvements  | 3,433,866            | 3,169,861            |
| Furniture and equipment  | 3,026,315            | 2,997,936            |
| Vehicles   | 345,232              | 354,498              |
| Leasehold improvements   | 641,348              | 246,809              |
| Construction in progress   | -                    | 116,772              |
|  | <b>26,555,500</b>    | <b>25,994,615</b>    |
| Less accumulated depreciation  | <b>11,223,756</b>    | <b>10,300,581</b>    |
| Total property and equipment   | <b>15,331,744</b>    | <b>15,694,034</b>    |
| Long-term assets:  |                      |                      |
| Investments in securities  | 11,544,572           | 10,154,271           |
| Investments in farm land   | 4,192,000            | 4,827,280            |
| Leveraged loan receivable  | 6,910,576            | 6,910,576            |
| Beneficial interest in perpetual trusts  | 2,760,918            | 2,391,459            |
| Investments held for deferred compensation   | 225,554              | 435,386              |
| Note receivable  | 125,000              | 125,000              |
| Other long-term assets   | 41,200               | 22,000               |
| Total long-term assets   | <b>25,799,820</b>    | <b>24,865,972</b>    |
|  | <b>\$ 51,405,898</b> | <b>\$ 50,672,568</b> |
| <b>Liabilities and Net Assets</b>  |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable   | \$ 870,884           | \$ 1,025,411         |
| Accrued expenses   | 3,571,734            | 3,148,868            |
| Deferred revenue   | 683,247              | 1,751,163            |
| Note payable - Dunham fund   | 125,000              | -                    |
| Mortgage loan  | 1,695,594            | 205,701              |
| <b>Total current liabilities</b>   | <b>6,946,459</b>     | <b>6,131,143</b>     |
| Long-term liabilities:   |                      |                      |
| Investments held for deferred compensation   | 225,554              | 435,386              |
| Mortgage loan, less current portion  | -                    | 1,853,330            |
| Note payable - Dunham fund   | -                    | 125,000              |
| NMTC notes payable, net  | 9,727,219            | 9,662,400            |
| Total liabilities  | <b>16,899,232</b>    | <b>18,207,259</b>    |
| Net assets:  |                      |                      |
| Unrestricted   | 31,396,615           | 29,773,588           |
| Temporarily restricted   | 349,133              | 300,262              |
| Permanently restricted   | 2,760,918            | 2,391,459            |
| Total net assets   | <b>34,506,666</b>    | <b>32,465,309</b>    |
|  | <b>\$ 51,405,898</b> | <b>\$ 50,672,568</b> |

See notes to consolidated financial statements.

**One Hope United**

**Consolidated Statements of Activities  
Years Ended June 30, 2017 and 2016**

|  | 2017                 | 2016                 |
|--|----------------------|----------------------|
| Changes in unrestricted net assets:                        |                      |                      |
| Public support and revenue:                                |                      |                      |
| Dept. of Children and Family Services - Illinois           | \$ 19,328,518        | \$ 19,193,976        |
| Dept. of Human Services - Illinois                         | 9,209,946            | 8,853,051            |
| Other government funding                                   | 6,123,431            | 5,415,047            |
| Program service fees                                       | 4,448,093            | 4,550,874            |
| Contributions and bequests                                 | 1,235,573            | 1,367,682            |
| In-kind contributions                                      | 103,684              | 137,056              |
| Investment gains (losses)                                  | 1,105,139            | (491,664)            |
| United Way agencies  | 335,090              | 338,421              |
| Florida case management services:                          |                      |                      |
| Community Based Care of Central Florida                    | 3,567,487            | 3,513,234            |
| Heartland  | 3,175,272            | 2,949,616            |
| Eckerd Youth Services                                      | -                    | 2,915,872            |
| Ounce of Prevention  | 1,910,095            | 1,801,275            |
| Omni Youth Services  | 270,388              | 270,388              |
| Choices  | -                    | 10,866               |
| Conscience Community Network                               | 58,524               | -                    |
| Rental income  | 86,839               | 90,973               |
| Farm income  | 65,642               | 59,436               |
| Miscellaneous  | 1,268,234            | 773,529              |
| Net assets released from restrictions                      | 8,529                | 3,106,883            |
| <b>Total public support and revenue</b>                    | <b>52,300,484</b>    | <b>54,856,515</b>    |
| Expenses:  |                      |                      |
| Program services   | 43,134,010           | 45,412,703           |
| General fundraising  | 1,076,661            | 849,215              |
| Management and general                                     | 6,047,380            | 5,661,041            |
| Other services   | 419,406              | 273,143              |
| <b>Total expenses</b>                                      | <b>50,677,457</b>    | <b>52,196,102</b>    |
| <b>Change in unrestricted net assets</b>                   | <b>1,623,027</b>     | <b>2,660,413</b>     |
| Changes in temporarily restricted net assets:              |                      |                      |
| Contributions  | 57,400               | 81,400               |
| Net assets released from restrictions                      | (8,529)              | (3,106,883)          |
| <b>Change in temporarily restricted net assets</b>         | <b>48,871</b>        | <b>(3,025,483)</b>   |
| Changes in permanently restricted net assets:              |                      |                      |
| Change in value of beneficial interest in perpetual trusts | 369,459              | (158,362)            |
| <b>Change in net assets</b>                                | <b>2,041,357</b>     | <b>(523,432)</b>     |
| Net assets:  |                      |                      |
| Beginning  | 32,465,309           | 32,988,741           |
| Ending   | <b>\$ 34,506,666</b> | <b>\$ 32,465,309</b> |

See notes to consolidated financial statements.

**One Hope United**

**Consolidated Statement of Functional Expenses  
Year Ended June 30, 2017**

|  | Program Services                           |                       |   | Total<br>Program<br>Services |
|--|--|-----------------------|---|------------------------------|
|  | Early Learning<br>and Child<br>Development | Placement<br>Services | Community<br>Based Family<br>Support Services |                              |
| Expenses:                                  |  |                       |   |                              |
| Salaries                                   | \$ 9,491,242                               | \$ 10,891,337         | \$ 5,045,925                                  | \$ 25,428,504                |
| Salary-related expenses                    | 1,793,347                                  | 2,157,954             | 962,724                                       | 4,914,025                    |
| <b>Total salaries and related expenses</b> | 11,284,589                                 | 13,049,291            | 6,008,649                                     | 30,342,529                   |
| Professional liability insurance           | 115,845                                    | 146,471               | 60,495  | 322,811                      |
| Bad debt                                   | 64,969                                     | 70,274                | 49,239  | 184,482                      |
| Professional fees and contract services    | 304,696                                    | 357,088               | 183,761                                       | 845,545                      |
| Legal fees                                 | 16,377                                     | 17,668                | 12,817  | 46,862                       |
| Audit fees                                 | -  | -                     | -   | -                            |
| Interest                                   | 201,911                                    | 15,875                | 4,748   | 222,534                      |
| Supplies                                   | 1,519,102                                  | 419,943               | 55,815  | 1,994,860                    |
| Telephone                                  | 161,798                                    | 261,727               | 169,339                                       | 592,864                      |
| Postage and shipping                       | 5,585                                      | 12,710                | 9,183   | 27,478                       |
| Rent                                       | 881,651                                    | 278,325               | 397,644                                       | 1,557,620                    |
| Other occupancy                            | 907,829                                    | 473,177               | 133,505                                       | 1,514,511                    |
| Local transportation                       | 93,011                                     | 751,710               | 560,550                                       | 1,405,271                    |
| Conferences, meetings and seminars         | 60,270                                     | 59,516                | 20,375  | 140,161                      |
| Specific assistance to individuals         | 54,589                                     | 1,987,858             | 330,214                                       | 2,372,661                    |
| Membership dues                            | 6,116                                      | 1,583                 | 1,881   | 9,580                        |
| Equipment purchases                        | 24,165                                     | 38,327                | 16,080  | 78,572                       |
| Equipment rentals                          | 38,600                                     | 64,507                | 40,416  | 143,523                      |
| In-kind contributions                      | 16,306                                     | 57,577                | 29,801  | 103,684                      |
| Printing                                   | 32,173                                     | 2,414                 | 5,399   | 39,986                       |
| Miscellaneous                              | 24,917                                     | 23,899                | 10,432  | 59,248                       |
| <b>Total expenses before depreciation</b>  | 15,814,499                                 | 18,089,940            | 8,100,343                                     | 42,004,782                   |
| Depreciation                               | 844,155                                    | 240,112               | 44,961  | 1,129,228                    |
| <b>Total expenses</b>                      | <b>\$ 16,658,654</b>                       | <b>\$ 18,330,052</b>  | <b>\$ 8,145,304</b>                           | <b>\$ 43,134,010</b>         |

(Continued)

**One Hope United**

**Consolidated Statement of Functional Expenses (Continued)**  
**Year Ended June 30, 2017**

|  | General<br>Fund Raising | Management<br>and General | Other Services    | Totals               |
|--|-------------------------|---------------------------|-------------------|----------------------|
| <b>Expenses:</b>                           |                         |                           |                   |                      |
| Salaries                                   | \$ 584,870              | \$ 3,103,332              | \$ 251,498        | \$ 29,368,204        |
| Salary-related expenses                    | 95,483                  | 528,561                   | 30,334            | 5,568,403            |
| <b>Total salaries and related expenses</b> | 680,353                 | 3,631,893                 | 281,832           | 34,936,607           |
| Professional liability insurance           | 25                      | 933                       | -                 | 323,769              |
| Bad debt                                   | -                       | -                         | -                 | 184,482              |
| Professional fees and contract services    | 101,703                 | 1,553,965                 | 49,636            | 2,550,849            |
| Legal fees                                 | 955                     | 134,719                   | 478               | 183,014              |
| Audit fees                                 | -                       | 87,784                    | -                 | 87,784               |
| Interest                                   | -                       | -                         | 312               | 222,846              |
| Supplies                                   | 5,635                   | 35,431                    | 1,818             | 2,037,744            |
| Telephone                                  | 5,765                   | 50,552                    | 1,068             | 650,249              |
| Postage and shipping                       | 1,262                   | 27,523                    | 36                | 56,299               |
| Rent                                       | -                       | 145,251                   | 77,800            | 1,780,671            |
| Other occupancy                            | 11,286                  | 49,165                    | 638               | 1,575,600            |
| Local transportation                       | 13,336                  | 134,670                   | 409               | 1,553,686            |
| Conferences, meetings and seminars         | 3,064                   | 15,751                    | 457               | 159,433              |
| Specific assistance to individuals         | 116                     | 280                       | (55)              | 2,373,002            |
| Membership dues                            | 2,829                   | 70,477                    | -                 | 82,886               |
| Equipment purchases                        | 27,053                  | 23,344                    | 17                | 128,986              |
| Equipment rentals                          | 205                     | 1,301                     | 2,811             | 147,840              |
| In-kind contributions                      | -                       | -                         | -                 | 103,684              |
| Printing                                   | 25,993                  | 10,659                    | 484               | 77,122               |
| Miscellaneous                              | 193,689                 | 50,298                    | 1,665             | 304,900              |
| <b>Total expenses before depreciation</b>  | 1,073,269               | 6,023,996                 | 419,406           | 49,521,453           |
| Depreciation                               | 3,392                   | 23,384                    | -                 | 1,156,004            |
| <b>Total expenses</b>                      | <u>\$ 1,076,661</u>     | <u>\$ 6,047,380</u>       | <u>\$ 419,406</u> | <u>\$ 50,677,457</u> |

See notes to consolidated financial statements.



One Hope United

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2016

|  | Program Services                           |                       |   |                              |
|--|--|-----------------------|---|------------------------------|
|  | Early Learning<br>and Child<br>Development | Placement<br>Services | Community<br>Based Family<br>Support Services | Total<br>Program<br>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                                   | 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                                   | 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                            | 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                                   | 45,016                                     | 5,874                 | 3,590   | 54,480                       |
| Miscellaneous                              | 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<br>Fund Raising | Management<br>and General | Other Services    | Totals               |
|--|-------------------------|---------------------------|-------------------|----------------------|
| Expenses:                                  |                         |                           |                   |                      |
| 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                                   | -                       | -                         | -                 | 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                                   | -                       | -                         | 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                            | 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                                   | 26,771                  | 5,309                     | -                 | 86,560               |
| Miscellaneous                              | 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>                      | <u>\$ 849,215</u>       | <u>\$ 5,661,041</u>       | <u>\$ 273,143</u> | <u>\$ 52,196,102</u> |

See notes to consolidated financial statements.

**One Hope United**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Change in net assets  | \$ 2,041,357        | \$ (523,432)        |
| Adjustments to reconcile change in net assets to net cash flows provided by (used in) operating activities: |                     |                     |
| Depreciation  | 1,156,004           | 1,014,357           |
| Amortization of capitalized financing fees  | 64,819              | 64,820              |
| Bad debt expense  | 184,482             | 68,660              |
| Net realized and unrealized (gain) loss on investments  | (1,039,526)         | 326,924             |
| Net unrealized loss on investments in farm land   | 175,280             | 388,720             |
| Net gain on disposals of fixed assets   | (329)               | (74,763)            |
| Change in value of beneficial interest in perpetual trusts  | (369,459)           | 158,362             |
| Changes in:   |                     |                     |
| Accounts receivable   | (964,940)           | (910,299)           |
| Accounts payable and accrued expenses   | 151,568             | (463,587)           |
| Deferred revenue  | (1,067,916)         | (169,901)           |
| Other assets  | (56,573)            | 71,052              |
| <b>Net cash provided by (used in) operating activities</b>  | <b>274,767</b>      | <b>(49,087)</b>     |
| Cash flows from investing activities:   |                     |                     |
| Proceeds from sales and maturities of investments   | 3,243,189           | 5,228,659           |
| Purchases of investments  | (3,593,965)         | (4,959,050)         |
| Purchases of property and equipment   | (677,788)           | (501,988)           |
| Proceeds from sale of farm land   | 460,000             | -                   |
| Proceeds from sale of equipment   | 1,175               | 6,106               |
| Cash paid in exchange for note receivable   | -                   | (125,000)           |
| <b>Net cash used in investing activities</b>  | <b>(567,389)</b>    | <b>(351,273)</b>    |
| Cash flows from financing activities:   |                     |                     |
| Repayment on mortgage loan and note payable   | (363,437)           | (327,547)           |
| Change in cash in restricted construction account   | 253,209             | 218,303             |
| Proceeds from issuance of note payable  | -                   | 125,000             |
| <b>Net cash (used in) provided by financing activities</b>  | <b>(110,228)</b>    | <b>15,756</b>       |
| <b>Net decrease in cash</b>   | <b>(402,850)</b>    | <b>(384,604)</b>    |
| Cash:   |                     |                     |
| Beginning   | 1,855,699           | 2,240,303           |
| Ending  | <b>\$ 1,452,849</b> | <b>\$ 1,855,699</b> |
| Supplemental disclosure of cash flow information:   |                     |                     |
| Cash paid for interest  | <b>\$ 226,995</b>   | <b>\$ 232,101</b>   |
| Supplemental schedule of noncash investing activities:  |                     |                     |
| Net (decrease) increase in investments held for deferred compensation/accrued expenses                      | <b>\$ (209,832)</b> | <b>\$ 9,143</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 OHU, 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.

Effective July 1, 2017, OHU and each of the partner agencies merged into one entity, named One Hope United.

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, Illinois and 503 Parks Ave., Joliet, Illinois. THC also holds title to the land and buildings of the Aurora Early Learning Center, 525 College Ave., Aurora, Illinois. 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 accounting principles generally accepted in the United States (U.S. 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 was reflected as restricted cash on the June 30, 2016 consolidated statement of financial position. Its use was restricted to the Joliet Project and the disbursements were subject to a blocked account agreement. In June 2017, the remaining balance of unspent cash, \$151,627, was released from all restrictions.

**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 allowance 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.

**Property and equipment:** Property and equipment 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.

**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 \$64,819 and \$64,820 for the years ended June 30, 2017 and 2016, respectively. Deferred financing costs are presented as a direct reduction from the NMTC notes payable on the consolidated statements of financial position.

**In-kind contributions:** OHU received contributions of services from outside corporations, including printing, advertising, and various goods, in the amount of \$103,684 and \$137,056 during the years ended June 30, 2017 and 2016, respectively, which it distributed to the families it serves. The receipt and subsequent distribution of these goods and services are shown as revenue and expenses 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, 2017 and 2016, consist of:

|                          | 2017              | 2016              |
|--------------------------|-------------------|-------------------|
| Educational scholarships | \$ 212,052        | \$ 199,652        |
| Daycare programs         | 39,210            | 39,210            |
| Other capital projects   | 97,871            | 61,400            |
|                          | <u>\$ 349,133</u> | <u>\$ 300,262</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 2014. The One Hope United Hudelson Region 2015 Form 990 is currently under audit by the IRS.

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, 2016, and 2017.

**Adopted accounting pronouncement:** In 2017, OHU adopted FASB Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The ASU requires debt issuance costs be presented in the statement of financial position as a direct reduction from the carrying amount of the debt liability, in the same manner as debt discounts or premiums. Accordingly, OHU has presented its unamortized deferred financing costs net of its NMTC notes payable, including reclassifying \$337,600 of net deferred financing costs as of June 30, 2016, previously reported as long-term assets, as a reduction of NMTC notes payable.

**Pending accounting pronouncements:** 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 for its fiscal year ending June 30, 2020. OHU's management has not yet selected a transition method.

## One Hope United

### Notes to Consolidated Financial Statements

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

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, with early adoption permitted.

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.

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.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires that the statement of cash flows explain the change during the period of total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The new standard is effective for OHU for its fiscal year ending June 30, 2020, with early adoption permitted.

OHU's management is currently evaluating the impact these updates will have on OHU's consolidated financial statements.

#### Note 2. Accounts Receivable

Accounts receivable as of June 30, 2017 and 2016, net of allowances for doubtful accounts of \$85,897 and \$56,981, respectively, are summarized as follows:

|                            | 2017                | 2016                |
|----------------------------|---------------------|---------------------|
| Supporting agencies:       |                     |                     |
| DCFS - Illinois            | \$ 2,135,943        | \$ 1,775,622        |
| DHS - Illinois             | 1,380,273           | 1,299,529           |
| Florida case management    | 1,190,871           | 1,256,422           |
| Other governmental funding | 1,519,982           | 1,351,715           |
| Other                      | 916,181             | 679,504             |
|                            | <u>\$ 7,143,250</u> | <u>\$ 6,362,792</u> |

## One Hope United

### Notes to Consolidated Financial Statements

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#### Note 3. Investment Gain (Loss)

Investment gain (loss) for the years ended June 30, 2017 and 2016, is comprised of the following:

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| Interest and dividend income                                      | \$ 240,891          | \$ 223,980          |
| Realized and unrealized gains (losses) - securities               | 1,039,526           | (326,924)           |
| Realized and unrealized gains (losses) - investments in farm land | (175,278)           | (388,720)           |
|   | <u>\$ 1,105,139</u> | <u>\$ (491,664)</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.

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.

For the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 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, and hedge 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 was 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 the fair value hierarchy for OHU's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016:

| Description  | June 30, 2017        |                      |                   |                     |
|--|----------------------|----------------------|-------------------|---------------------|
|  | Total                | Level 1              | Level 2           | Level 3             |
| <b>Assets</b>  |                      |                      |                   |                     |
| Investments in securities:   |                      |                      |                   |                     |
| Money market funds   | \$ 556,385           | \$ 556,385           | \$ -              | \$ -                |
| Equity securities:   |                      |                      |                   |                     |
| U.S. small cap   | 5,913                | 5,913                | -                 | -                   |
| U.S. mid cap   | -                    | -                    | -                 | -                   |
| U.S. large cap   | 3,479,105            | 3,479,105            | -                 | -                   |
| International equities   | 2,505,809            | 2,505,809            | -                 | -                   |
| Global equities  | 756,540              | 756,540              | -                 | -                   |
| Fixed income securities:   |                      |                      |                   |                     |
| U.S. fixed income funds  | 2,143,162            | 2,143,162            | -                 | -                   |
| Non-U.S. fixed income funds  | 1,003,198            | 1,003,198            | -                 | -                   |
| Other securities:  |                      |                      |                   |                     |
| Hedge funds  | 1,094,460            | 1,094,460            | -                 | -                   |
|  | <u>\$ 11,544,572</u> | <u>\$ 11,544,572</u> | <u>\$ -</u>       | <u>\$ -</u>         |
| Investments in farm land   | <u>\$ 4,192,000</u>  | <u>\$ -</u>          | <u>\$ -</u>       | <u>\$ 4,192,000</u> |
| Beneficial interest in perpetual trusts                                  | <u>\$ 2,760,918</u>  | <u>\$ -</u>          | <u>\$ -</u>       | <u>\$ 2,760,918</u> |
| Investments held for deferred compensation in a pooled separate account: |                      |                      |                   |                     |
| Money market funds   | \$ 23,254            | \$ 23,254            | \$ -              | \$ -                |
| Equity funds   | 159,258              | -                    | 159,258           | -                   |
| Fixed income funds   | 43,042               | -                    | 43,042            | -                   |
|  | <u>\$ 225,554</u>    | <u>\$ 23,254</u>     | <u>\$ 202,300</u> | <u>\$ -</u>         |

**One Hope United**

**Notes to Consolidated Financial Statements**

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

| 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)

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, 2017 and 2016:

|   | June 30, 2017                  |   | June 30, 2016                  |   |
|---|--------------------------------|---|--------------------------------|---|
|   | Investments<br>in<br>Farm Land | Beneficial<br>Interest in<br>Perpetual Trusts | Investments<br>in<br>Farm Land | Beneficial<br>Interest in<br>Perpetual Trusts |
| Balance, beginning of year                                | \$ 4,827,280                   | \$ 2,391,459                                  | \$ 5,216,000                   | \$ 2,549,821                                  |
| Sales   | (460,000)                      | -   | -                              | -   |
| Change in value of perpetual trusts                       | -                              | 369,459                                       | -                              | (158,362)                                     |
| Realized and unrealized losses - investments in farm land | (175,280)                      | -   | (388,720)                      | -   |
| Balance, end of year                                      | <u>\$ 4,192,000</u>            | <u>\$ 2,760,918</u>                           | <u>\$ 4,827,280</u>            | <u>\$ 2,391,459</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, 2017 and 2016:

|           | June 30, 2017<br>Fair Value | June 30, 2016<br>Fair Value | Valuation<br>Technique          | Unobservable Inputs                                   | Range<br>(Per Acre) |
|-----------|-----------------------------|-----------------------------|---------------------------------|---|---------------------|
| Farm land | \$ 4,192,000                | \$ 4,827,280                | Market<br>(comparable<br>sales) | Time (since comparable sale)                          | \$0 - \$225         |
|           |                             |                             |                                 | Size/shape  | \$0 - \$150         |
|           |                             |                             |                                 | Location  | \$0 - \$500         |
|           |                             |                             |                                 | Land quality (e.g. tillable percentage, soil quality) | \$0 - \$675         |
|           |                             |                             |                                 | Topography/drainage                                   | \$0 - \$600         |

#### 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, 2017 and 2016, cash in both trusts combined was \$81,223 and \$64,429, respectively, and the estimated fair market value of the 360 acres of farm land was \$3,600,000 and \$3,124,183, 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 \$2,760,918 and \$2,391,459 at June 30, 2017 and 2016, respectively. The income from the trusts is to be paid annually. During the years ended June 30, 2017 and 2016, OHU received \$65,231 and \$57,066, 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 quarterly payments 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, 2017 and 2016, are as follows:

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| 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 for each of the years ended June 30, 2017 and 2016.

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

OHU's mortgage loan and note payable and collateral pledged thereon consisted of the following as of June 30, 2017 and 2016:

|  | 2017             | 2016                |
|--|------------------|---------------------|
| Mortgage loan payable, bank, 2.6% annual interest, 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. | \$ 1,695,594     | \$ 2,059,031        |
| Note payable, Dunham fund loan, 0.25% annual interest, with a balloon payment due December 2017  | 125,000          | 125,000             |
|  | <u>1,820,594</u> | <u>2,184,031</u>    |
| Less current portion   | 1,820,594        | 205,701             |
|  | <u>\$ -</u>      | <u>\$ 1,978,330</u> |

OHU has a \$7,000,000 revolving bank line of credit. Interest is payable monthly at floating LIBOR (1.17 percent at June 30, 2017) plus 1.50 percent. The revolving line of credit matures on March 31, 2018. Borrowings under the line of credit are collateralized by certain account assets. There were no borrowings during the years ended June 30, 2017 and 2016.

The mortgage loan is subject to certain covenant requirements including liquidity and minimum debt service coverage.

## One Hope United

### Notes to Consolidated Financial Statements

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#### 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, 2017 and 2016, were as follows:

|   |                     |                     |
|---|---------------------|---------------------|
| 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>   |
| Less unamortized deferred financing costs         | (272,781)           | (337,600)           |
|   | <u>\$ 9,727,219</u> | <u>\$ 9,662,400</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. 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, 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 \$34,700,000 and \$33,450,000 of its support and revenue from the State of Illinois and other governmental agencies during the years ended June 30, 2017 and 2016, 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.

## One Hope United

### Notes to Consolidated Financial Statements

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#### Note 10. Leases and Commitments

OHU leases office space and office equipment. These leases expire at various dates through June 2024. At June 30, 2017, 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: |                     |
| 2018                  | \$ 1,798,489        |
| 2019                  | 1,362,942           |
| 2020                  | 796,498             |
| 2021                  | 446,720             |
| 2022                  | 390,498             |
| Thereafter            | 1,082,424           |
|                       | <u>\$ 5,877,571</u> |

Rental expense under operating leases was \$1,988,611 and \$2,207,861 for the years ended June 30, 2017 and 2016, 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 3 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 recognized expense for contributions to the plan of \$143,656 and \$0 for the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, \$63,982 and \$0, respectively, was accrued for this benefit.

#### 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, 2017 and 2016. OHU accounts for the assets held by this plan as long-term investments held for deferred compensation, as described in Note 4, with the related liability recorded within long-term liabilities.

#### Note 13. Subsequent Events

OHU has evaluated subsequent events for potential recognition and/or disclosure through December 18, 2017, the date the consolidated financial statements were available to be issued.