

One Hope United

Consolidated Financial Report
June 30, 2019

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Independent Auditor's Report

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

One Hope United adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2019. The adoption of the standard resulted in additional footnote disclosures and changes to classification of net assets and the disclosures related to net assets. Our opinion is not modified with respect to this matter.

RSM US LLP

Chicago, Illinois
April 21, 2020

One Hope United

Consolidated Statements of Financial Position June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 1,303,258	\$ 452,860
Accounts receivable, less allowances for doubtful accounts of \$133,633 in 2019 and \$125,830 in 2018	6,921,913	7,514,883
Other current assets	1,577,605	1,632,848
Total current assets	<u>9,802,776</u>	<u>9,600,591</u>
Property and equipment:		
Land and buildings	19,096,263	19,096,263
Building improvements	3,967,875	3,720,503
Furniture and equipment	2,323,729	2,371,655
Vehicles	278,605	278,605
Leasehold improvements	974,228	869,182
Works in progress	4,892	-
	<u>26,645,592</u>	<u>26,336,208</u>
Less accumulated depreciation	11,802,244	10,792,332
Total property and equipment	<u>14,843,348</u>	<u>15,543,876</u>
Long-term assets:		
Investments in securities	12,099,695	11,960,214
Investments in farm land	2,996,000	3,045,840
Leveraged loan receivable	6,910,576	6,910,576
Beneficial interest in perpetual trusts	2,702,247	2,705,248
Note receivable	14,428	9,946
Other long-term assets	-	41,200
Total long-term assets	<u>24,722,946</u>	<u>24,673,024</u>
	<u>\$ 49,369,070</u>	<u>\$ 49,817,491</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 970,931	\$ 992,745
Accrued expenses	3,729,718	3,707,964
Deferred revenue	470,820	600,517
Line of credit	-	2,555,000
Total current liabilities	<u>5,171,469</u>	<u>7,856,226</u>
Long-term liabilities:		
Note payable	1,380,000	-
NMTC notes payable, net	9,856,858	9,792,038
Total long-term liabilities	<u>11,236,858</u>	<u>9,792,038</u>
	<u>16,408,327</u>	<u>17,648,264</u>
Net assets:		
Without donor restrictions	29,971,611	29,182,233
With donor restrictions	2,989,132	2,986,994
Total net assets	<u>32,960,743</u>	<u>32,169,227</u>
	<u>\$ 49,369,070</u>	<u>\$ 49,817,491</u>

See notes to financial statements.

One Hope United

**Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018**

	2019	2018
Changes in net assets without donor restrictions:		
Revenues:		
Program support:		
Government sources	\$ 36,671,262	\$ 34,917,821
Private sources	15,600,115	14,080,145
Total program support	<u>52,271,377</u>	48,997,966
Public support:		
Contributions and bequests	973,507	1,391,677
In-kind contributions	95,298	53,971
Net assets released from restrictions	48,771	96,512
United Way agencies	269,451	386,276
Total public support	<u>1,387,027</u>	1,928,436
Investment gains	708,680	587,513
Other sources	1,310,191	1,293,901
Total revenues	<u>55,677,275</u>	<u>52,807,816</u>
Expenses:		
Program services	47,755,310	46,983,170
General fundraising	773,983	979,024
Management and general	6,001,170	6,362,592
Other services	357,434	697,412
Total expenses	<u>54,887,897</u>	<u>55,022,198</u>
Change in net assets without donor restrictions	<u>789,378</u>	<u>(2,214,382)</u>
Changes in net assets with donor restrictions:		
Contributions	53,910	29,125
Change in value of beneficial interest in perpetual trusts	(3,001)	(55,670)
Net assets released from restrictions	(48,771)	(96,512)
Change in net assets with donor restrictions	<u>2,138</u>	<u>(123,057)</u>
Change in net assets	<u>791,516</u>	<u>(2,337,439)</u>
Net assets:		
Beginning	<u>32,169,227</u>	34,506,666
Ending	<u>\$ 32,960,743</u>	<u>\$ 32,169,227</u>

See notes to financial statements.

One Hope United

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2019**

	Program Services			
	Early Learning and Child Development	Placement Services	Community- Based Family Support Services	Total Program Services
Expenses:				
Salaries	\$ 9,684,870	\$ 9,708,426	\$ 8,574,449	\$ 27,967,745
Salary-related expenses	2,310,291	2,359,834	2,029,723	6,699,848
Total salaries and related expenses	11,995,161	12,068,260	10,604,172	34,667,593
Professional liability insurance	101,783	72,773	62,574	237,130
Bad debt provision (recovery)	(25,400)	32,800	92,501	99,901
Professional fees and contract services	297,928	177,292	340,008	815,228
Legal fees	2,152	7,211	12,433	21,796
Audit fees	-	-	-	-
Interest	267,645	15,369	6,087	289,101
Supplies	1,409,976	329,075	94,800	1,833,851
Telephone	122,125	186,287	243,389	551,801
Postage and shipping	3,706	7,656	16,377	27,739
Rent	968,773	200,008	548,455	1,717,236
Other occupancy	989,359	385,384	201,465	1,576,208
Local transportation	104,674	806,898	1,154,806	2,066,378
Conferences, meetings and seminars	57,251	47,705	31,439	136,395
Specific assistance to individuals	35,187	428,059	1,665,010	2,128,256
Membership dues	4,146	23,149	1,520	28,815
Equipment purchases	14,277	57,537	32,523	104,337
Equipment rentals	26,901	14,135	22,722	63,758
In-kind contributions	11,913	28,000	55,385	95,298
Printing	18,232	2,951	5,037	26,220
Miscellaneous	12,815	51,394	14,190	78,399
Total expenses before depreciation	16,418,604	14,941,943	15,204,893	46,565,440
Depreciation	824,874	299,834	65,162	1,189,870
Total expenses	\$ 17,243,478	\$ 15,241,777	\$ 15,270,055	\$ 47,755,310

(Continued)

One Hope United

Consolidated Statement of Functional Expenses (Continued)
Year Ended June 30, 2019

	General Fundraising	Management and General	Other Services	Totals
Expenses:				
Salaries	\$ 358,245	\$ 3,032,038	\$ 161,062	\$ 31,519,090
Salary-related expenses	50,641	451,459	27,211	7,229,159
Total salaries and related expenses	408,886	3,483,497	188,273	38,748,249
Professional liability insurance	-	-	-	237,130
Bad debt provision	-	-	-	99,901
Professional fees and contract services	79,115	1,651,986	59,946	2,606,275
Legal fees	-	103,185	140	125,121
Audit fees	-	86,648	-	86,648
Interest	-	26,292	-	315,393
Supplies	1,644	13,530	1,422	1,850,447
Telephone	4,514	43,886	761	600,962
Postage and shipping	3,565	38,244	37	69,585
Rent	-	125,812	91,486	1,934,534
Other occupancy	4,478	57,744	736	1,639,166
Local transportation	15,023	182,170	-	2,263,571
Conferences, meetings and seminars	1,228	29,376	-	166,999
Specific assistance to individuals	14	49	-	2,128,319
Membership dues	1,837	34,917	-	65,569
Equipment purchases	557	13,980	-	118,874
Equipment rentals	507	(283)	7,204	71,186
In-kind contributions	-	-	-	95,298
Printing	29,190	14,546	2,391	72,347
Miscellaneous	220,559	70,166	5,038	374,162
Total expenses before depreciation	771,117	5,975,745	357,434	53,669,736
Depreciation	2,866	25,425	-	1,218,161
Total expenses	\$ 773,983	\$ 6,001,170	\$ 357,434	\$ 54,887,897

See notes to financial statements.

One Hope United

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2018**

	Program Services			
	Early Learning and Child Development	Placement Services	Community- Based Family Support Services	Total Program Services
Expenses:				
Salaries	\$ 9,970,015	\$ 11,283,442	\$ 5,743,717	\$ 26,997,174
Salary-related expenses	2,199,927	2,663,972	1,327,015	6,190,914
Total salaries and related expenses	12,169,942	13,947,414	7,070,732	33,188,088
Professional liability insurance	100,615	97,608	44,456	242,679
Bad debt provision	270,167	66,063	25,278	361,508
Professional fees and contract services	322,693	434,225	290,075	1,046,993
Legal fees	13,488	29,231	5,509	48,228
Audit fees	-	-	-	-
Interest	261,238	12,883	3,964	278,085
Supplies	1,469,827	338,388	58,343	1,866,558
Telephone	166,800	295,163	219,384	681,347
Postage and shipping	5,816	16,804	11,101	33,721
Rent	982,264	284,930	446,210	1,713,404
Other occupancy	965,686	548,983	137,153	1,651,822
Local transportation	103,117	1,019,078	689,630	1,811,825
Conferences, meetings and seminars	82,789	46,573	37,548	166,910
Specific assistance to individuals	36,133	1,910,807	328,898	2,275,838
Membership dues	8,667	4,054	1,236	13,957
Equipment purchases	49,723	32,218	36,585	118,526
Equipment rentals	45,260	23,141	21,218	89,619
In-kind contributions	7,488	14,809	28,674	50,971
Printing	44,098	5,726	9,829	59,653
Miscellaneous	63,505	51,853	2,184	117,542
Total expenses before depreciation	17,169,316	19,179,951	9,468,007	45,817,274
Depreciation	824,623	291,164	50,109	1,165,896
Total expenses	\$ 17,993,939	\$ 19,471,115	\$ 9,518,116	\$ 46,983,170

(Continued)

One Hope United

Consolidated Statement of Functional Expenses (Continued)
Year Ended June 30, 2018

	General Fundraising	Management and General	Other Services	Totals
Expenses:				
Salaries	\$ 524,547	\$ 3,320,549	\$ 232,455	\$ 31,074,725
Salary-related expenses	65,307	584,386	293,349	7,133,956
Total salaries and related expenses	589,854	3,904,935	525,804	38,208,681
Professional liability insurance	-	(480)	-	242,199
Bad debt provision	-	-	-	361,508
Professional fees and contract services	84,056	1,392,085	56,533	2,579,667
Legal fees	494	187,487	-	236,209
Audit fees	-	130,092	-	130,092
Interest	-	23,886	-	301,971
Supplies	3,615	16,918	779	1,887,870
Telephone	6,736	57,038	753	745,874
Postage and shipping	4,239	49,921	-	87,881
Rent	-	138,131	81,073	1,932,608
Other occupancy	10,455	51,312	992	1,714,581
Local transportation	15,858	195,630	9,385	2,032,698
Conferences, meetings and seminars	3,602	37,340	3,457	211,309
Specific assistance to individuals	-	506	12	2,276,356
Membership dues	3,516	50,854	-	68,327
Equipment purchases	15,006	15,692	-	149,224
Equipment rentals	188	1,431	7,224	98,462
In-kind contributions	-	-	-	50,971
Printing	19,401	13,408	10,688	103,150
Miscellaneous	218,478	74,583	712	411,315
Total expenses before depreciation	975,498	6,340,769	697,412	53,830,953
Depreciation	3,526	21,823	-	1,191,245
Total expenses	\$ 979,024	\$ 6,362,592	\$ 697,412	\$ 55,022,198

See notes to financial statements.

One Hope United

Consolidated Statements of Cash Flows Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 791,516	\$ (2,337,439)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,218,161	1,191,245
Amortization of deferred financing costs	64,819	64,819
Bad debt provision	99,901	361,508
Net realized and unrealized gain on investments	(463,564)	(515,228)
Net realized and unrealized loss on investments in farm land	49,840	194,965
Net loss on disposals of fixed assets	24,421	21,937
Change in value of beneficial interest in perpetual trusts	3,001	55,670
Changes in:		
Accounts receivable	493,069	(575,974)
Accounts payable and accrued expenses	(60)	161,759
Deferred revenue	(129,697)	(82,730)
Other assets	96,443	(111,780)
Net cash provided by (used in) operating activities	2,247,850	(1,571,248)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	12,080,191	1,984,965
Purchases of investments	(11,756,107)	(1,885,379)
Purchases of property and equipment	(542,054)	(1,334,603)
Proceeds from sale of farm land	-	951,195
Proceeds from sale of equipment	-	5,621
Cash paid in exchange for note receivable	(4,482)	(9,946)
Net cash used in investing activities	(222,452)	(288,147)
Cash flows from financing activities:		
Repayment on mortgage loan and note payable	-	(1,695,594)
Proceeds from note payable	1,380,000	-
Net (repayments) borrowings on line of credit	(2,555,000)	2,555,000
Net cash (used in) provided by financing activities	(1,175,000)	859,406
Net increase (decrease) in cash	850,398	(999,989)
Cash:		
Beginning	452,860	1,452,849
Ending	\$ 1,303,258	\$ 452,860
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 250,577	\$ 237,465
Supplemental schedule of noncash investing activities:		
Net decrease in investments held for deferred compensation/accrued expenses	\$ -	\$ (225,554)
Forgiveness of note receivable	\$ -	\$ 125,000
Supplemental schedule of noncash financing activities:		
Forgiveness of note payable	\$ -	\$ (125,000)

See notes to financial statements.

One Hope United

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

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

OHU 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 Avenue, Joliet, Illinois and 503 Parks Avenue, Joliet, Illinois. THC also holds title to the land and buildings of the Aurora Early Learning Center, 525 College Avenue, 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.

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.

One Hope United

Notes to Financial Statements

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

Functional expenses: Expenses are presented in the consolidated statement of activities on a functional basis, classified according to the significant program activity or supporting service. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related expenses (which are allocated on the basis of actual time and effort), insurance, occupancy and related expenses, and telephone, which are allocated by department headcounts.

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 for each of the years ended June 30, 2019 and 2018. 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 \$95,298 and \$53,971 during the years ended June 30, 2019 and 2018, 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. During the years ended June 30, 2019 and 2018, OHU received contributions of property and equipment in the amount of \$0 and \$3,000, respectively. The receipt of the property and equipment is shown as revenue in the consolidated statements of activities and capitalized as property and equipment on the consolidated statements of financial position.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of OHU management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions may expire either because of the passage of time or because OHU has fulfilled the restriction. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the principal must remain intact. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

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 is exempt from federal income taxes under IRC Section 501(c)(3). THC is exempt from federal income taxes under the provisions of Section 501(c)(2). OHU and THC file Forms 990 in the U.S. federal jurisdiction and Forms AG 990-IL in the State of Illinois.

One Hope United

Notes to Financial Statements

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

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 financial statements. Under this guidance, OHU and THC 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, THC, and the various positions related to the potential sources of unrelated business taxable income (UBIT). OHU and THC have determined that there were no uncertain tax positions during the reported periods covered by these financial statements.

Adopted accounting pronouncement: In 2019, the OHU adopted FASB Accounting Standards Update (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. Certain provisions, as required, have been retrospectively applied to 2018.

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. The updated standard will be effective for OHU for its fiscal year ending June 30, 2020.

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 will be effective for OHU for its fiscal year ending June 30, 2022, with early adoption permitted.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides guidance surrounding the categorization of certain transactions as contributions or exchange transactions. It further clarifies when contributions should be deemed conditional. The new standard will be effective for OHU for its fiscal year ending June 30, 2020.

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

Reclassifications: Certain 2018 amounts have been reclassified to conform to the current year presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

One Hope United

Notes to Financial Statements

Note 2. Accounts Receivable

Accounts receivable as of June 30, 2019 and 2018, net of allowances for doubtful accounts of \$133,633 and \$125,830, respectively, are summarized as follows:

	2019	2018
Supporting agencies:		
DCFS - Illinois	\$ 2,683,530	\$ 2,406,437
DHS - Illinois	797,597	1,390,607
Florida case management	1,090,921	1,117,899
Other governmental funding	1,467,276	1,609,612
Other	882,589	990,328
	<u>\$ 6,921,913</u>	<u>\$ 7,514,883</u>

Note 3. Investment Gains

Investment gains for the years ended June 30, 2019 and 2018, are comprised of the following:

	2019	2018
Interest and dividend income	\$ 294,956	\$ 267,250
Realized and unrealized gains - securities	463,564	515,228
Realized and unrealized losses - investments in farm land	(49,840)	(194,965)
	<u>\$ 708,680</u>	<u>\$ 587,513</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 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 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.

One Hope United

Notes to Financial Statements

Note 4. Fair Value Disclosures (Continued)

For the years ended June 30, 2019 and 2018, 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, 2019 and 2018, there were no such instances.

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 money market funds, equity securities, fixed income funds, and other 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 farmland. The valuations include certain unobservable inputs and are, therefore, classified as Level 3.

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Notes to 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, 2019 and 2018:

Description	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Assets				
Investments in securities:				
Money market funds	\$ 42,478	\$ 42,478	\$ -	\$ -
Equity securities:				
U.S. small cap	6,107	6,107	-	-
U.S. large cap	4,628,392	4,628,392	-	-
International equities	2,271,075	2,271,075	-	-
Fixed income securities:				
U.S. fixed income funds	4,103,084	4,103,084	-	-
Other funds	1,048,559	1,048,559	-	-
	<u>\$ 12,099,695</u>	<u>\$ 12,099,695</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in farm land	<u>\$ 2,996,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,996,000</u>
Beneficial interest in perpetual trusts	<u>\$ 2,702,247</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,702,247</u>
June 30, 2018				
Description	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Assets				
Investments in securities:				
Money market funds	\$ 28,112	\$ 28,112	\$ -	\$ -
Equity securities:				
U.S. small cap	5,718	5,718	-	-
U.S. large cap	4,020,269	4,020,269	-	-
International equities	2,435,565	2,435,565	-	-
Global equities	597,033	597,033	-	-
Fixed income securities:				
U.S. fixed income funds	2,829,659	2,829,659	-	-
Other securities:				
Other funds	858,548	858,548	-	-
Hedge funds	1,185,310	1,185,310	-	-
	<u>\$ 11,960,214</u>	<u>\$ 11,960,214</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in farm land	<u>\$ 3,045,840</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,045,840</u>
Beneficial interest in perpetual trusts	<u>\$ 2,705,248</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,705,248</u>

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Notes to 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, 2019 and 2018:

	June 30, 2019		June 30, 2018	
	Investments in Farm Land	Beneficial Interest in Perpetual Trusts	Investments in Farm Land	Beneficial Interest in Perpetual Trusts
Balance, beginning of year	\$ 3,045,840	\$ 2,705,248	\$ 4,192,000	\$ 2,760,918
Sales	-	-	(951,195)	-
Change in value of perpetual trusts	-	(3,001)	-	(55,670)
Realized and unrealized losses - investments in farm land	(49,840)	-	(194,965)	-
Balance, end of year	<u>\$ 2,996,000</u>	<u>\$ 2,702,247</u>	<u>\$ 3,045,840</u>	<u>\$ 2,705,248</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, 2019 and 2018:

	June 30, 2019 Fair Value	June 30, 2018 Fair Value	Valuation Technique	Unobservable Inputs	Range (Per Acre)
Farm land	\$ 2,996,000	\$ 3,045,840	Market (comparable sales)	Time (since comparable sale)	\$0 - \$225
				Land quality (e.g. tillable percentage, soil quality)	\$0 - \$675
				Topography/drainage	\$0 - \$600

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Notes to Financial Statements

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, 2019 and 2018, cash in both trusts combined was \$74,996 and \$78,997, respectively, and the estimated fair market value of the 360 acres of farm land was \$3,528,000. 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 \$2,702,247 and \$2,705,248 at June 30, 2019 and 2018, respectively. The income from the trusts is to be paid annually. During the years ended June 30, 2019 and 2018, OHU received \$54,828 and \$45,001, respectively, of income from the trusts and these amounts are included in miscellaneous revenue on the consolidated statements of activities.

Note 6. Leveraged Loan Receivable

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

The loans accrue interest at a fixed rate, with interest-only 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, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
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 THC's debt described in Note 8. Interest income was \$69,131 for each of the years ended June 30, 2019 and 2018.

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. Line of Credit and Note Payable

OHU has a \$7,000,000 revolving bank line of credit. Interest is payable monthly at floating LIBOR (2.40 percent and 2.09 percent at June 30, 2019 and 2018, respectively) plus 1.50 percent. In August 2018, the revolving line of credit was renewed and the maturity date was extended to March 31, 2020. Borrowings under the line of credit are collateralized by certain account assets. A total of \$0 and \$2,555,000 was outstanding as of June 30, 2019 and 2018, respectively.

In August 2018, OHU executed a \$1,380,000 term promissory note to a bank. Interest only payments are due monthly at 4.40 percent. The term promissory note matures on August 31, 2021, at which time all unpaid principal and interest become due. The note is collateralized by certain investments.

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Notes to Financial Statements

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 qualified 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, 2019 and 2018, were as follows:

	2019	2018
SCORE Sub-CDE 3, LLC Note A	\$ 5,000,000	\$ 5,000,000
Stonehenge Community Development LXIV, LLC Note A	1,910,576	1,910,576
Stonehenge 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	143,142	207,962
	<u>\$ 9,856,858</u>	<u>\$ 9,792,038</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 the year ending June 30, 2045. The loans can be repaid any time after the Compliance Period.

There are put and call agreements between THC and the investor in the QEI funds (which has ownership interest in the CDEs making the loans above). If the investor does not exercise their put option, THC has the ability to call the ownership in the interest in the QEI funds for fair market value. It is anticipated that the NMTC investor will put their option and THC will own the QEI funds at the end of the Compliance Period. However, if the investor does not put their interest, 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. Net Assets with Donor Restrictions

Net assets with donor restrictions carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Restrictions may expire either because of the passage of time or because OHU has fulfilled the restriction. Donor-restricted gifts are reported as restricted contributions regardless of when the net assets are expended. Transfers of net assets with donor restrictions 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.

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Notes to Financial Statements

Note 9. Net Assets with Donor Restrictions (Continued)

Net assets with donor restrictions at June 30, 2019 and 2018, consist of:

	2019	2018
Purpose restricted:		
Educational scholarships	\$ 210,790	\$ 210,790
Daycare programs	39,210	39,210
Other capital projects	36,885	31,746
Beneficial interest in perpetual trusts	2,702,247	2,705,248
	<u>\$ 2,989,132</u>	<u>\$ 2,986,994</u>

Beneficial interest in perpetual trusts consists of two related perpetual trusts to be held in perpetuity (as described in Note 5). Earnings generated from the perpetual trusts are without donor restrictions.

Note 10. Available Resources and Liquidity

OHU regularly monitors liquidity required to meet its annual operating needs and other commitments while also striving to maximize the return on investments of its funds not required for annual operations. As of June 30, 2019 and June 30, 2018, the following financial assets were available to meet the annual operating needs of the future fiscal year.

	2019	2018
Financial assets at year end:		
Cash	\$ 1,303,258	\$ 452,860
Accounts receivable, less allowances for doubtful accounts	6,921,913	7,514,883
Investments in securities	12,099,695	11,960,214
Leveraged loan receivable	6,910,576	6,910,576
Note receivable	14,428	9,946
Total financial assets	<u>27,249,870</u>	<u>26,848,479</u>
Less amounts not available to be used within one year:		
Investments used as loan collateral	(1,380,000)	-
Leveraged loan receivable due after one year	(6,910,576)	(6,910,576)
Cash and investments with donor restrictions	(286,885)	(281,746)
Financial assets not available to be used within one year	<u>(8,577,461)</u>	<u>(7,192,322)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 18,672,409</u>	<u>\$ 19,656,157</u>

Investments not subject to donor restrictions or collateral requirements are available to meet general expenditures, but any withdrawals are subject to approval by the Board. In the years ended June 30, 2019 and 2018, the Board approved spending distributions of 5 percent of the value of investments in securities, which value is calculated on a lagged-basis. Any additional drawdowns are subject to further Board approval.

OHU's \$1,380,000 note payable is collateralized by investments in securities and therefore such investments are not available for liquidity purposes as of June 30, 2019.

See also Note 7 for information about OHU's revolving bank line of credit which provides an additional resource for liquidity.

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Notes to Financial Statements

Note 11. State and Local Government Agency Support

OHU received approximately \$36,671,000 and \$34,925,000 of its support and revenue from the State of Illinois and other governmental agencies during the years ended June 30, 2019 and 2018, 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 12. Leases and Commitments

OHU leases office space and office equipment. These leases expire at various dates through October 2026. At June 30, 2019, 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:	
2020	\$ 2,012,177
2021	1,417,400
2022	951,078
2023	707,961
2024	576,916
Thereafter	642,458
	<u>\$ 6,307,990</u>

Rental expense under operating leases was \$2,142,474 and \$2,166,364 for the years ended June 30, 2019 and 2018, respectively.

Note 13. Retirement Plan

OHU employees participated 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 suspended employer contributions effective the last June pay date, June 22, 2018. OHU recognized expense for contributions to the plan of \$0 and \$301,155 for the years ended June 30, 2019 and 2018, respectively.

Effective November 1, 2018, OHU closed the American Baptist Retirement and Death 403(b) Plan and established a new plan with Fifth Third. Employer contributions vest ratably over six years. OHU recognized expense for contributions to the plan of \$0 for the year ended June 30, 2019.

Note 14. Related Party Transactions

One Hope United is a member of Conscience Community Network LLC ("CCN"), a member LLC with four other members. One Hope United has been determined to be the managing member of the LLC under the amended operating agreement dated September 18, 2015. Each member has 1/5th ownership in CCN. A senior leader of OHU serves as OHU's representative on the board of managers.

OHU provides program services to clients on behalf of CCN and is paid accordingly under a service provider agreement between OHU and CCN. In addition, OHU serves as the employer of record for CCN staff and is reimbursed by CCN for its costs under an employment agreement between OHU and CCN. During fiscal year 2019, CCN's board of managers provided a contribution to each of the members, including OHU.

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Notes to Financial Statements

Note 14. Related Party Transactions (Continued)

Payment to OHU by CCN for the years ended June 30, 2019 and June 30, 2018 are as follows:

	2019	2018
Service payments	\$ 137,212	\$ 22,034
Employment payments	191,020	271,072
Contributions	48,230	-
	<u>\$ 376,462</u>	<u>\$ 293,106</u>

The amounts due to OHU by CCN for the years ended June 30, 2019 and June 30, 2019 are as follows:

	2019	2018
Service payments	\$ 55,403	\$ 9,311
Employment payments	18,380	23,658
	<u>\$ 73,783</u>	<u>\$ 32,969</u>

Note 15. Commitments and Contingencies

OHU is involved in various legal proceedings in the normal course of business. OHU has been named as a defendant in a lawsuit. OHU is working with its insurance carrier and attorneys to defend itself from the lawsuit. Although the outcome of this matter cannot be forecast with certainty, OHU management is of the opinion that its final disposition is not expected to have a material adverse effect on OHU's financial position or results of operations.

Note 16. Subsequent Events

Effects of COVID-19: On January 30, 2020, the World Health Organization declared the COVID-19 coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on local, regional and global economies, including the geographical area in which OHU operates. Additionally, stock markets in the United States and globally have recently experienced significant declines attributed to coronavirus concerns. It is unknown how long these conditions will last and what the complete financial effect will be to OHU.

OHU has evaluated subsequent events for potential recognition and/or disclosure through April 21, 2020, the date the financial statements were available to be issued.