# Heartland Alliance for Human Needs & Human Rights

Consolidated Financial Report
June 30, 2014

**Contents**

McGladrey

## Independent Auditor's Report

To the Board of Directors
Heartland Alliance for Human Needs & Human Rights
Chicago, Illinois

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Heartland Alliance for Human Needs & Human Rights (the Organization) which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heartland Alliance for Human Needs & Human Rights as of June 30, 2014 and 2013, and 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.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other supplementary information is presented for purposes of additional analysis rather than to present the financial position, change in net assets, and cash flows of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and other supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Chicago, Illinois
November 4, 2014

**Heartland Alliance for Human Needs & Human Rights**

**Consolidated Statements of Financial Position**
**June 30, 2014 and 2013**

| | 2014 | 2013 |
|---|---|---|
| **Assets** | | |
| Cash | **$ 12,081,379** | $ 10,605,800 |
| Restricted cash | **3,950,859** | 1,918,348 |
| Investments | **10,225,432** | 8,506,170 |
| Accounts receivable: | | |
| Program service grants and fees | **11,368,389** | 10,564,598 |
| Pledges receivable | **3,493,387** | 3,962,218 |
| Patient services | **639,302** | 404,004 |
| Other | **209,713** | 365,906 |
| Allowance for contractual adjustments, discounts and bad debts | **(515,311)** | (582,087) |
| Prepaid expenses and other current assets | **2,283,494** | 2,546,526 |
| Investment in limited partnerships | **36,125** | 36,125 |
| Other investments | **900,262** | 793,248 |
| Notes receivable | **8,159,732** | 7,978,609 |
| Receivables due from limited partnerships | **564,431** | 540,335 |
| Property and equipment, net | **123,112,331** | 91,577,508 |
| Escrow and reserve accounts | **7,447,515** | 10,062,007 |
| Deferred fees, net | **1,658,148** | 1,891,142 |
| Residual interest | **6,068,116** | 6,068,116 |
| **Total assets** | **$ 191,683,304** | $ 157,238,573 |
| **Liabilities and Net Assets** | | |
| Liabilities | | |
| Accounts payable and other accrued expenses | **$ 10,724,202** | $ 5,440,057 |
| Accrued payroll and related liabilities | **3,435,617** | 3,078,359 |
| Deferred revenue | **12,662,968** | 10,697,750 |
| Liability for self-insurance claims | **1,900,000** | 1,900,000 |
| Deferred rent liability | **654,604** | 207,779 |
| Deferred compensation plan liability | **483,174** | 380,482 |
| Construction costs payable | **5,043,943** | 1,455,843 |
| Accrued interest payable | **1,175,027** | 1,061,289 |
| Debt obligations | **73,629,280** | 52,758,391 |
| **Total liabilities** | **109,708,815** | 76,979,950 |
| Net Assets | | |
| Unrestricted: | | |
| Undesignated and controlling interests | **47,826,952** | 48,653,839 |
| Non-controlling interests | **19,466,823** | 18,054,595 |
| Board designated | **1,242,579** | 1,222,579 |
| **Total unrestricted net assets** | **68,536,354** | 67,931,013 |
| Temporarily restricted | **13,250,100** | 12,139,575 |
| Permanently restricted | **188,035** | 188,035 |
| **Total net assets** | **81,974,489** | 80,258,623 |
| **Total liabilities and net assets** | **$ 191,683,304** | $ 157,238,573 |

See Notes to Consolidated Financial Statements.

**Heartland Alliance for Human Needs & Human Rights**

**Consolidated Statement of Activities**
**Year Ended June 30, 2014**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Contributions | $ 1,889,384 | $ 9,870,130 | $ - | $ 11,759,514 |
| Program services: | | | | |
| Grants, contracts, reimbursements and client fees | 75,803,510 | - | - | 75,803,510 |
| Allocation from United Way of Chicago | 13,642 | 243,000 | - | 256,642 |
| Contributed services and non-cash contributions | 3,285,284 | - | - | 3,285,284 |
| Patient services, net of contractual adjustments and discounts | 1,657,404 | - | - | 1,657,404 |
| Rental income | 6,183,547 | - | - | 6,183,547 |
| Housing development | 1,399,203 | - | - | 1,399,203 |
| Interest and investment income | 1,482,545 | - | - | 1,482,545 |
| Other income | 1,020,021 | - | - | 1,020,021 |
| Net assets released from restrictions | 9,002,605 | (9,002,605) | - | - |
| | 101,737,145 | 1,110,525 | - | 102,847,670 |
| Expenses: | | | | |
| Program services | 82,998,746 | - | - | 82,998,746 |
| Supporting services: | | | | |
| Management and general | 13,759,898 | - | - | 13,759,898 |
| Fundraising | 1,579,120 | - | - | 1,579,120 |
| | 98,337,764 | - | - | 98,337,764 |
| **Increase in net assets before non-budgetary items** | 3,399,381 | 1,110,525 | - | 4,509,906 |
| Non-budgetary items: | | | | |
| Depreciation and amortization | (5,688,468) | - | - | (5,688,468) |
| Other non-operating expense | (3,147,800) | - | - | (3,147,800) |
| | (8,836,268) | - | - | (8,836,268) |
| **Increase (decrease) in net assets before non-controlling interests and other items** | (5,436,887) | 1,110,525 | - | (4,326,362) |
| Add back loss attributable to non-controlling interests included in above increase | 4,630,000 | - | - | 4,630,000 |
| **Increase (decrease) in net assets attributable to controlling interests** | (806,887) | 1,110,525 | - | 303,638 |
| Less loss attributable to non-controlling interests | (4,630,000) | - | - | (4,630,000) |
| **Increase (decrease) in net assets before other items** | (5,436,887) | 1,110,525 | - | (4,326,362) |
| Other items: | | | | |
| Capital contributions to limited partnerships and other entities | 6,269,630 | - | - | 6,269,630 |
| Capital distributions to limited partnerships and other entities | (187,402) | - | - | (187,402) |
| Offering costs, non-controlling interests | (40,000) | - | - | (40,000) |
| | 6,042,228 | - | - | 6,042,228 |
| **Increase in net assets** | 605,341 | 1,110,525 | - | 1,715,866 |
| Net assets, beginning of year | 67,931,013 | 12,139,575 | 188,035 | 80,258,623 |
| Net assets, end of year | $ 68,536,354 | $ 13,250,100 | $ 188,035 | $ 81,974,489 |

See Notes to Consolidated Financial Statements.

**Heartland Alliance for Human Needs & Human Rights**

**Consolidated Statement of Activities**
**Year Ended June 30, 2013**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Contributions | $ 2,996,542 | $ 7,764,360 | $ - | $ 10,760,902 |
| Program services: | | | | |
| Grants, contracts, reimbursements and client fees | 68,855,927 | - | - | 68,855,927 |
| Allocation from United Way of Chicago | 177,000 | 100,000 | - | 277,000 |
| Contributed services and non-cash contributions | 5,398,528 | - | - | 5,398,528 |
| Patient services, net of contractual adjustments and discounts | 1,066,912 | - | - | 1,066,912 |
| Rental income | 5,639,411 | - | - | 5,639,411 |
| Housing development | 3,966,001 | - | - | 3,966,001 |
| Interest and investment income | 1,445,609 | - | - | 1,445,609 |
| Other income | 1,027,865 | - | - | 1,027,865 |
| Net assets released from restrictions | 6,903,715 | (6,903,715) | - | - |
| | 97,477,510 | 960,645 | - | 98,438,155 |
| Expenses: | | | | |
| Program services | 75,260,586 | - | - | 75,260,586 |
| Supporting services: | | | | |
| Management and general | 11,982,491 | - | - | 11,982,491 |
| Fundraising | 1,700,986 | - | - | 1,700,986 |
| | 88,944,063 | - | - | 88,944,063 |
| **Increase in net assets before non-budgetary items** | 8,533,447 | 960,645 | - | 9,494,092 |
| Non-budgetary items: | | | | |
| Depreciation and amortization | (4,017,712) | - | - | (4,017,712) |
| **Increase in net assets before non-controlling interests and other items** | 4,515,735 | 960,645 | - | 5,476,380 |
| Add back loss attributable to non-controlling interests included in above increase | 2,666,512 | - | - | 2,666,512 |
| **Increase in net assets attributable to controlling interests** | 7,182,247 | 960,645 | - | 8,142,892 |
| Less loss attributable to non-controlling interests | (2,666,512) | - | - | (2,666,512) |
| **Increase in net assets before other items** | 4,515,735 | 960,645 | - | 5,476,380 |
| Other items: | | | | |
| Capital contributions in limited partnerships and other entities | 11,330,137 | - | - | 11,330,137 |
| **Increase in net assets** | 15,845,872 | 960,645 | - | 16,806,517 |
| Net assets, beginning of year | 52,085,141 | 11,178,930 | 188,035 | 63,452,106 |
| Net assets, end of year | $ 67,931,013 | $ 12,139,575 | $ 188,035 | $ 80,258,623 |

See Notes to Consolidated Financial Statements.

**Heartland Alliance for Human Needs & Human Rights**

**Consolidated Statement of Functional Expenses**
**Year Ended June 30, 2014**

| | Program Services | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Youth and Residential Services | Supportive Housing Services | Wellness and Prevention | Employment and Economic Advancement | Housing, Community & Specialized Services | Integrated Health Care Services | Healthcare Quality, Research, TA & Training Services | Health Promotion & Nutrition | Cross Cultural & Interpreting Services |
| Salaries and wages | $ 13,534,187 | $ 3,132,378 | $ 3,619,181 | $ 1,351,323 | $ 4,026,474 | $ 3,887,863 | $ 796,224 | $ 439,471 | $ 205,771 |
| Payroll taxes and fringe benefits | 3,088,408 | 793,766 | 905,220 | 336,147 | 1,038,120 | 806,971 | 156,621 | 93,375 | 64,855 |
| Staff expenses | 163,250 | 77,531 | 83,774 | 51,382 | 61,600 | 141,058 | 78,376 | 5,620 | 11,061 |
| Other fundraising expenses | - | - | 12,315 | 1,627 | 3,021 | 1,679 | - | 1,482 | 141 |
| Professional expenses | 841,337 | 237,429 | 136,514 | 32,113 | 105,365 | 774,961 | 580,581 | 17,297 | 518,293 |
| Office services | 246,884 | 93,118 | 160,738 | 62,189 | 121,890 | 345,436 | 33,456 | 31,140 | 16,993 |
| Occupancy | 1,721,435 | 403,442 | 327,879 | 265,469 | 268,736 | 441,799 | 25,502 | 159,624 | 23,059 |
| Equipment | 369,735 | 149,960 | 96,038 | 34,853 | 103,686 | 90,500 | 18,389 | 46,854 | 11,660 |
| Client support and supplies | 3,346,026 | 3,122,223 | 204,902 | 618,495 | 1,160,954 | 666,595 | 16,825 | 331,904 | - |
| Subrecipients | - | 8,973 | 209,811 | 545,462 | - | 48,306 | - | - | - |
| Contributed services and in-kind expenses | 357,384 | 34,068 | 325,978 | 324,707 | 524,578 | 256,083 | - | - | - |
| Real estate development and property management | 61,710 | - | 416 | 44 | 363,233 | - | 10,155 | - | - |
| Interest expense | 472,257 | - | - | - | 5,321 | 11,325 | 611 | 224 | 476 |
| Uncollectible accounts | - | - | (29,997) | (99,529) | 746 | 56,180 | 3,719 | 3,052 | 23,554 |
| | 24,202,613 | 8,052,888 | 6,052,769 | 3,524,282 | 7,783,724 | 7,528,756 | 1,720,459 | 1,130,043 | 875,863 |
| Depreciation and amortization | 781,357 | 2,864 | 16,158 | 1,007 | 44,075 | 288,427 | 3,534 | - | - |
| Other non-operating expense | - | - | - | - | - | - | - | - | - |
| | 781,357 | 2,864 | 16,158 | 1,007 | 44,075 | 288,427 | 3,534 | - | - |
| | $ 24,983,970 | $ 8,055,752 | $ 6,068,927 | $ 3,525,289 | $ 7,827,799 | $ 7,817,183 | $ 1,723,993 | $ 1,130,043 | $ 875,863 |

See Notes to Consolidated Financial Statements.

**Heartland Alliance for Human Needs & Human Rights**

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

| | Program Services (Continued) | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Housing Development | International Programs | Justice Services | Other | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total 2014 |
| Salaries and wages | $ 1,611,797 | $ 2,749,335 | $ 3,308,574 | $ 28,363 | $ 38,690,941 | $ 7,436,334 | $ 722,859 | $ 8,159,193 | $ 46,850,134 |
| Payroll taxes and fringe benefits | 432,553 | 541,221 | 779,134 | 8,495 | 9,044,886 | 1,529,644 | 165,962 | 1,695,606 | 10,740,492 |
| Staff expenses | 50,070 | 646,445 | 257,261 | 8,529 | 1,635,957 | 357,792 | 106,583 | 464,375 | 2,100,332 |
| Other fundraising expenses | 228 | 27,449 | 67,914 | 165 | 116,021 | 42,987 | 258,140 | 301,127 | 417,148 |
| Professional expenses | 28,720 | 491,714 | 239,507 | 62,027 | 4,065,858 | 1,393,085 | 28,612 | 1,421,697 | 5,487,555 |
| Office services | 11,575 | 209,748 | 122,812 | 693 | 1,456,672 | 717,649 | 68,091 | 785,740 | 2,242,412 |
| Occupancy | 989,188 | 282,140 | 439,710 | 135 | 5,348,118 | 658,064 | 70,845 | 728,909 | 6,077,027 |
| Equipment | 5,853 | 120,242 | 57,424 | 5,928 | 1,111,122 | 260,200 | 10,844 | 271,044 | 1,382,166 |
| Client support and supplies | 1,446 | 455,578 | 128,460 | 7,528 | 10,060,936 | 48,382 | 27,514 | 75,896 | 10,136,832 |
| Subrecipients | - | 2,947,255 | 234,953 | - | 3,994,760 | 26,465 | - | 26,465 | 4,021,225 |
| Contributed services and in-kind expenses | - | 80 | 115,913 | - | 1,938,791 | 1,242,079 | 101,165 | 1,343,244 | 3,282,035 |
| Real estate development and property management | 2,374,858 | - | - | 443 | 2,810,859 | 41,102 | - | 41,102 | 2,851,961 |
| Interest expense | 2,111,316 | - | 2,500 | - | 2,604,030 | 6,065 | - | 6,065 | 2,610,095 |
| Uncollectible accounts | 152,070 | - | 10,000 | - | 119,795 | 50 | 18,505 | 18,555 | 138,350 |
| | 7,769,674 | 8,471,207 | 5,764,162 | 122,306 | 82,998,746 | 13,759,898 | 1,579,120 | 15,339,018 | 98,337,764 |
| Depreciation and amortization | 4,165,294 | 17,126 | 3,181 | 4,527 | 5,327,550 | 345,435 | 15,483 | 360,918 | 5,688,468 |
| Other non-operating expense | - | - | - | - | - | 3,147,800 | - | 3,147,800 | 3,147,800 |
| | 4,165,294 | 17,126 | 3,181 | 4,527 | 5,327,550 | 3,493,235 | 15,483 | 3,508,718 | 8,836,268 |
| | $ 11,934,968 | $ 8,488,333 | $ 5,767,343 | $ 126,833 | $ 88,326,296 | $ 17,253,133 | $ 1,594,603 | $ 18,847,736 | $ 107,174,032 |

See Notes to Consolidated Financial Statements.

**Heartland Alliance for Human Needs & Human Rights**

**Consolidated Statement of Functional Expenses**
**Year Ended June 30, 2013**

| | Program Services | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Youth and Residential Services | Supportive Housing Services | Wellness and Prevention | Employment and Economic Advancement | Housing, Community & Specialized Services | Integrated Health Care Services | Healthcare Quality, Research, TA & Training Services | Health Promotion & Nutrition | Cross Cultural & Interpreting Services |
| Salaries and wages | $ 11,101,638 | $ 2,532,079 | $ 3,530,688 | $ 1,477,851 | $ 4,069,036 | $ 3,466,791 | $ 664,231 | $ 443,069 | $ 195,432 |
| Payroll taxes and fringe benefits | 2,586,519 | 699,685 | 974,366 | 388,324 | 1,108,870 | 761,021 | 127,677 | 94,939 | 67,409 |
| Staff expenses | 105,130 | 55,737 | 64,854 | 53,712 | 61,459 | 125,661 | 59,034 | 5,871 | 12,752 |
| Other fundraising expenses | (253) | 492 | 4,552 | 1,542 | - | 637 | - | 1,250 | 132 |
| Professional expenses | 870,640 | 198,732 | 164,719 | 79,672 | 61,088 | 523,358 | 56,764 | 1,011 | 471,694 |
| Office services | 247,108 | 122,584 | 116,307 | 71,249 | 118,209 | 244,855 | 23,651 | 29,260 | 16,335 |
| Occupancy | 1,871,004 | 370,952 | 356,089 | 304,450 | 321,318 | 335,170 | 12,088 | 211,355 | 36,677 |
| Equipment | 375,979 | 147,792 | 53,853 | 52,605 | 76,015 | 54,347 | 4,086 | 29,357 | 5,292 |
| Client support and supplies | 3,151,256 | 2,822,116 | 203,756 | 796,897 | 1,583,192 | 597,125 | 27,942 | 308,812 | 169 |
| Subrecipients | 16,100 | 98,876 | 94,689 | 908,630 | - | 428,835 | - | - | - |
| Contributed services and in-kind expenses | 206,130 | 14,243 | 203,515 | 300,037 | - | 535,746 | - | 715 | - |
| Real estate development and property management | - | - | - | - | 355,882 | 150 | 7,031 | - | - |
| Interest expense | 46,698 | - | - | - | 8,638 | 19,752 | 182 | 300 | 1,048 |
| Uncollectible accounts | 16 | 4,717 | 88,002 | 105,474 | 4,001 | (29,636) | 9,728 | 5,384 | 17,081 |
| | 20,577,965 | 7,068,005 | 5,855,390 | 4,540,443 | 7,767,708 | 7,063,812 | 992,414 | 1,131,323 | 824,021 |
| Depreciation and amortization | 396,613 | 3,074 | 24,034 | 23,309 | 44,430 | 350,994 | 3,534 | - | - |
| | $ 20,974,578 | $ 7,071,079 | $ 5,879,424 | $ 4,563,752 | $ 7,812,138 | $ 7,414,806 | $ 995,948 | $ 1,131,323 | $ 824,021 |

See Notes to Consolidated Financial Statements.

**Heartland Alliance for Human Needs & Human Rights**

**Consolidated Statement of Functional Expenses (Continued)**
**Year Ended June 30, 2013**

| | Program Services (Continued) | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Housing Development | International Programs | Justice Services | Other | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total 2013 |
| Salaries and wages | $ 1,091,551 | $ 3,183,820 | $ 3,026,883 | $ 66,847 | $ 34,849,916 | $ 7,118,382 | $ 560,255 | $ 7,678,637 | $ 42,528,553 |
| Payroll taxes and fringe benefits | 316,931 | 454,793 | 706,926 | 35,967 | 8,323,427 | 1,410,822 | (210,758) | 1,200,064 | 9,523,491 |
| Staff expenses | 11,538 | 802,652 | 260,018 | 15,559 | 1,633,977 | 321,857 | 132,799 | 454,656 | 2,088,633 |
| Other fundraising expenses | - | 246,717 | 88,807 | (6) | 343,870 | 55,781 | 282,034 | 337,815 | 681,685 |
| Professional expenses | 114,956 | 562,155 | 208,048 | (286,149) | 3,026,688 | 758,259 | 149,973 | 908,232 | 3,934,920 |
| Office services | - | 213,396 | 138,378 | 841 | 1,342,173 | 586,278 | 101,347 | 687,625 | 2,029,798 |
| Occupancy | 720,128 | 380,027 | 397,592 | 3,077 | 5,319,927 | 692,867 | 134,417 | 827,284 | 6,147,211 |
| Equipment | - | 115,854 | 76,046 | 54 | 991,280 | 203,240 | 66,710 | 269,950 | 1,261,230 |
| Client support and supplies | - | 98,063 | 26,985 | (29,000) | 9,587,313 | (62,180) | 66,553 | 4,373 | 9,591,686 |
| Subrecipients | - | 2,585,602 | 99,512 | (135,998) | 4,096,246 | 22,708 | - | 22,708 | 4,118,954 |
| Contributed services and in-kind expenses | 1,100 | 1,000 | 35,500 | - | 1,297,986 | 626,925 | 417,656 | 1,044,581 | 2,342,567 |
| Real estate development and property management | 1,981,315 | - | - | - | 2,344,378 | 13,466 | - | 13,466 | 2,357,844 |
| Interest expense | 1,638,342 | - | - | (17,730) | 1,697,230 | 55,596 | - | 55,596 | 1,752,826 |
| Uncollectible accounts | 199,857 | - | 1,551 | - | 406,175 | 178,490 | - | 178,490 | 584,665 |
| | 6,075,718 | 8,644,079 | 5,066,246 | (346,538) | 75,260,586 | 11,982,491 | 1,700,986 | 13,683,477 | 88,944,063 |
| Depreciation and amortization | 3,164,610 | 41,980 | 2,941 | - | 4,055,519 | (61,656) | 23,849 | (37,807) | 4,017,712 |
| | $ 9,240,328 | $ 8,686,059 | $ 5,069,187 | $ (346,538) | $ 79,316,105 | $ 11,920,835 | $ 1,724,835 | $ 13,645,670 | $ 92,961,775 |

See Notes to Consolidated Financial Statements.

**Heartland Alliance for Human Needs & Human Rights**

**Consolidated Statements of Cash Flows**
**Years Ended June 30, 2014 and 2013**

| | 2014 | 2013 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Increase in net assets | $ 1,715,866 | $ 16,806,517 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,688,468 | 4,017,712 |
| Provision for bad debts | 196,453 | - |
| Loss on disposal of property and equipment | 56,150 | - |
| Contributed land and building | - | (3,050,000) |
| Gains on investments | (521,348) | (65,505) |
| Earnings from other investments | (73,681) | (117,883) |
| Non-cash contribution to Together4Health, LLC | - | (250,000) |
| Capital contributions to limited partnerships and other entities | (6,269,630) | (11,330,137) |
| Capital distributions to limited partnerships and other entities | 187,402 | - |
| Offering costs, noncontrolling interests | 40,000 | - |
| Effects of changes in operating assets and liabilities: | | |
| Restricted cash | (2,032,511) | (172,448) |
| Accounts receivable: | | |
| Program service grants and fees | (959,588) | 2,706,524 |
| Patient services | (235,298) | (155,195) |
| Pledges receivable | 468,831 | (169,706) |
| Other | 156,193 | (165,651) |
| Prepaid expenses and other current assets | 263,032 | (719,124) |
| Receivables due from limited partnerships | (24,096) | (24,096) |
| Accounts payable and other accrued expenses | 5,284,145 | (739,555) |
| Accrued payroll and related liabilities | 357,258 | (686) |
| Liability for self-insurance claims | - | 775,000 |
| Accrued interest payable | 113,738 | 187,108 |
| Deferred rent liability | 446,825 | (18,889) |
| Deferred compensation plan liability | 102,692 | 126,726 |
| Deferred revenue | 1,965,218 | 1,864,015 |
| **Net cash provided by operating activities** | 6,926,119 | 9,504,727 |
| Cash Flows from Investing Activities | | |
| Additions to property and equipment | (33,423,770) | (15,950,286) |
| Proceeds from sale of property and equipment | - | 287,328 |
| Purchases of investments | (1,431,678) | (1,428,223) |
| Proceeds from sale of investments | 233,764 | 738,625 |
| Issuance of notes receivable | (344,136) | - |
| Proceeds and collections from notes receivable | 55,581 | 374,541 |
| Deposits to escrow accounts | (1,711,963) | (4,376,106) |
| Releases from escrow accounts | 4,326,455 | 558,085 |
| Capital contributions - other investments | (23,333) | - |
| **Net cash used in investing activities** | (32,319,080) | (19,796,036) |

**Heartland Alliance for Human Needs & Human Rights**

**Consolidated Statements of Cash Flows (Continued)**
**Years Ended June 30, 2014 and 2013**

| | **2014** | 2013 |
|---|---|---|
| Cash Flows from Financing Activities | | |
| Capital contributions in limited partnerships and other entities | **$ 6,269,630** | $ 11,315,137 |
| Capital distributions to limited partnerships and other entities | **(197,402)** | - |
| Offering costs, noncontrolling interests | **(40,000)** | - |
| Repayments of borrowings | **(8,069,090)** | (10,798,701) |
| Proceeds from borrowings | **28,939,979** | 13,576,622 |
| Deferred financing fees | **(18,268)** | (215,496) |
| Tax credit fees | **(16,309)** | (195,367) |
| **Net cash provided by financing activities** | **26,868,540** | 13,682,195 |
| **Increase in cash** | **1,475,579** | 3,390,886 |
| Cash: | | |
| Beginning of year | **10,605,800** | 7,214,914 |
| End of year | **$ 12,081,379** | $ 10,605,800 |
| Supplemental Disclosure of Cash Flow Information | | |
| Interest paid | **$ 2,610,095** | $ 1,752,826 |
| Non-cash investing activity-donated property, net | **$ -** | $ 3,050,000 |

See Notes to Consolidated Financial Statements.

## Note 1. Nature of Activities and Significant Accounting Policies

Heartland Alliance for Human Needs & Human Rights (the Organization, or Heartland Alliance) is a leading anti-poverty organization in the Midwestern United States and believes that all people deserve the opportunity to improve their lives. Each year, the Organization helps ensure this opportunity for more than one million people around the world who are homeless, living in poverty, or seeking safety. The Organization's policy efforts strengthen communities; its comprehensive services empower those it serves to rebuild and transform their lives.

The Organization conducts its activities from its office headquarters in Chicago, Illinois. The Organization operates both in the United States (primarily Chicago area) and around the world providing a wide array of services that equip people with the four essential tools they need to rebuild their lives – housing, health care, jobs, and justice.

The accompanying consolidated financial statements include the activities of Heartland Alliance and its affiliated organizations, Heartland Alliance International, LLC (HAI), Heartland Health Outreach, Inc. (HHO), Heartland Human Care Services, Inc. (HHCS), and Heartland Housing Inc. (HH), whose respective by-laws designate the Organization as their sole voting member. Heartland Alliance and these affiliated organizations are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

HAI was formed by the Organization in 2013 and works to secure the rights and well-being of marginalized people and communities around the world by administering programs in comprehensive health and social and economic justice through its model of engagement, integration and leadership.

HHO provides health care that addresses the physical, mental and social needs for those who are homeless or have serious disabling conditions. HHO goes outside the walls of its clinics and into the community—like the streets and parks—to provide health care.

HHCS assists individuals and families living in poverty to meet their basic human needs and create opportunities for economic success. HHCS relentlessly works with people in harm's way to move them to places of stability and success.

HH develops quality, affordable housing with supportive services that help struggling low-income individuals live with stability and success. HH specializes in working with those others see as hard-to-house who'd likely live on the streets without the Organization. HH operates in the states of Illinois and Wisconsin.

HH is the sole voting member of several corporations which were formed to hold ownership interests in real estate projects. As a result of its level of control and economic interest in these corporations, HH consolidates their balances and activities. Several of the corporations each hold an ownership interest in a limited partnership or limited liability company, which owns a real estate project. As a result of its controlling interest, each of the corporations consolidate the balances and activities of the limited partnership or limited liability company.

The Organization, as used in these consolidated financial statements, refers to Heartland Alliance for Human Needs & Human Rights individually or collectively with its affiliated organizations. Significant accounting policies followed by the Organization are described below.

**Principles of consolidation**: Due to its control and economic interest, Heartland Alliance's consolidated financial statements include the accounts and activities of the various affiliated organizations as described above.

Non-controlling interests are ownership interests in real estate projects that are not attributable to the Organization, HH, or the various HH consolidated entities. The balances and activities of the real estate projects are fully included in the consolidated financial statements, and the non-controlling interests are reflected as a separate component of consolidated unrestricted net assets and changes in unrestricted net assets.

Significant transactions and balances between and among the Organization and its various consolidated affiliates have been eliminated in consolidation.

**Basis of accounting**: The consolidated financial statements have been prepared using the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

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

**Basis of presentation**: The Organization follows the accounting guidance for financial statements of nonprofit organizations which requires that net assets and related revenue, expenses, gains and losses be classified into three classes of net assets - unrestricted, temporarily restricted and permanently restricted, based upon the existence or absence of donor-imposed restrictions. These net asset classes are described as follows:

*Unrestricted:* Those resources with no donor-imposed restrictions, including designated amounts the Organization's Board of Directors have set aside for discretionary purposes.

*Temporarily restricted:* Temporarily restricted net assets arise from contributions whose use is limited by donor-imposed restrictions that either expire with the passage of time or can be fulfilled by actions of the Organization pursuant to those restrictions. When a donor restriction expires or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction.

*Permanently restricted:* Permanently restricted net assets are subject to the restrictions of gift instruments requiring the principal to be maintained intact and the income to be used for the general operating purposes of the Organization.

**Revenue recognition**: Contributions and promises to give are recorded in the period received as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. A conditional promise to give (such as a matching grant) is recognized when the condition is satisfied.

Bequests are recorded as revenue when the Organization has received notice of an unconditional beneficial interest and the amount can be reasonably estimated.

Contributed land and buildings are recorded as in-kind revenue at estimated fair value, based on appraisals.

Revenues derived from services (primarily through grants) are recorded in the period the services are provided.

Program activity revenue is recorded in the fiscal year the activity takes place. Amounts received as advance payment for these activities are deferred, and are recorded in the consolidated financial statements as deferred revenue. Expense-driven grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met.

Patient services revenue is reported at estimated net realizable amounts from patients, third-party payers and other payers for medical services rendered, including retroactive adjustments under reimbursement agreements with third-party payers, which are subject to audit by administrating agencies. These adjustments are considered in the recognition of revenue on an estimated basis and are adjusted in future periods, as final settlements are determined. The Organization provides care to certain patients under Medicare and Medicaid payment arrangements. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Real estate projects generate apartment rental income which is recognized as revenue when rentals become due. Certain real estate projects obtain governmental rental assistance as a component of rental income. Rental payments received in advance are deferred until earned. All leases between the real estate projects and the tenants are operating leases.

**Concentrations**: The Organization receives a substantial portion of its operating funds from grants and awards. These funds are reported as unrestricted revenues as the grants reimburse the Organization for services provided. Grant funding from the federal government represented approximately 62 percent and 60 percent of total revenue for the years ended June 30, 2014 and 2013, respectively. Federal grant funding from one specific contract with the U.S. Department of Health and Human Services represented approximately 24 percent and 21 percent of total revenue for the years ended June 30, 2014 and 2013, respectively. If this revenue were discontinued, it would have a material adverse effect on the Organization.

**Cash**: The Organization maintains its cash balances in bank and money market accounts which may exceed Federal Deposit Insurance Corporation limits from time-to-time. The Organization has not experienced any losses in such accounts and management believes that the Organization is not exposed to any significant credit risk on cash.

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

**Restricted cash**: Restricted cash represents funds that are segregated for contractual obligations and for participant pass-through accounts. This cash is available exclusively for designated purposes and not for general operations.

**Investments**: Investments in equity securities with readily determinable fair values and all debt securities are stated at fair value as of the reporting date, based on quoted market prices. Changes in fair value are recorded as unrealized gains and losses and are included in interest and investment income in the consolidated statement of activities.

**Accounts receivable**: Accounts receivable is comprised of amounts due from different funding sources, donors and other parties. Program service grants and fees primarily represent amounts owed under multiple government grants. Management closely monitors outstanding balances and allows for, as of year-end, any balances that are not expected to be fully collected. The allowance at June 30, 2014 and 2013 totaled approximately $384,000 and $514,000, respectively.

Accounts receivable also include amounts due for patient services rendered. Patient services receivable where a third-party payer is responsible for the payment are carried at a net amount determined by the original charge for the service provided, less an estimate for contractual adjustments or discounts provided to third-party payers. Patient services receivable due directly from patients are carried at the original charge for the service provided, less amounts covered by third-party payers. An estimated allowance for doubtful accounts is also recorded. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Patient accounts receivable are written-off when deemed uncollectible. Recoveries of accounts receivable previously written-off are recorded as a reduction of the provision for uncollectible accounts when received. The Organization determines when an account is past due based on payer classifications. The Organization does not charge interest on past due accounts. The allowance at June 30, 2014 and 2013 totaled approximately $131,000 and $68,000, respectively.

Pledges receivable are recorded for donors' unconditional promises to give to the Organization and represent future collections on promised amounts. Conditional promises to give are recognized in the consolidated financial statements when the applicable conditions are substantially met. Management reviews outstanding balances and determines an allowance for uncollectible amounts based on historical experience and an analysis of specific accounts. Uncollectible accounts are written-off in the year they are deemed to be worthless. As all balances are deemed fully collectible by management, no allowance has been provided for the years ended June 30, 2014 and 2013.

Pledges receivable are also recorded net of a discount to present value applied to the long-term portion of any multi-year pledge. The discount rate used is an estimate made by management and represents a risk-adjusted rate of return. The amount of the computed discount is amortized over the term of the pledge and is recorded as contribution revenue.

**Other investments**: The Organization's investments in various companies are accounted for using the cost or equity method of accounting, depending on the level of ownership interest. If management determined that the fair value of an investment was less than cost, the Organization would consider the investment to be impaired, and the balance recorded on the financial statements would be reduced by an impairment charge to fair value. Management believes its investments were not impaired at June 30, 2014 and 2013, respectively.

**Property and equipment**: All acquisitions of property and equipment with a cost of $5,000 or more are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is being provided using the straight-line method over the estimated useful lives of the assets which range from 5 to 40 years for buildings and improvements and 3 to 7 years for furniture, equipment, and vehicles. Amortization of leasehold improvements is generally being provided over 5 to 10 years, representing the lesser of the estimated useful lives of the improvements or the term of the lease.

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

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

**Deferred fees**: Certain fees paid in connection with the HH's debt are capitalized as financing fees and are amortized using the straight-line method over the term of the loans. Other fees paid in connection with obtaining tax credits are capitalized and amortized using the straight-line method over the tax credit award period. Amortization expense for the years ended June 30, 2014 and 2013 totaled $267,572 and $109,031, respectively.

**Liability for self-insurance claims**: Under its self-insurance plan, the Organization accrues the estimated expense of health care claims costs based on claims filed subsequent to year-end and an additional amount for incurred but not yet reported claims based on historical experience. The accrued liability for self-insurance was $1,900,000 for the years ended June 30, 2014 and 2013. Claim payments based on actual claims ultimately filed could differ from this estimate.

**Deferred rent liability**: Base rent under the lease for the Organization administrative office is being recognized as rental expense on the straight-line basis over the lease term. The cumulative excess of rental expense recognized over rentals paid is recorded as a deferred rent liability.

**Deferred revenue**: Deferred revenue is recorded for government funds and other amounts received in advance and which will be recognized as revenue in the year when the related services are provided or expenses are incurred. Deferred revenue is also recorded for rental property, grant income, and developer fee and tax increment financing notes received. Revenue will be recognized over the expected term of the asset or in accordance with the expected payment schedule of the tax increment financing note.

**Contributed services and non-cash contributions**: The Organization records the fair market value of contributed services if the contributed services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation. The Organization uses the services of various professionals and other volunteers possessing specialized skills without charge for various program and administrative functions. During the years ended June 30, 2014 and 2013, the Organization received approximately 115,000 and 60,000 hours of these contributed services and has recorded the value of such as revenue and expense in the consolidated statements of activities. The Organization also coordinated over 80,000 and 72,500 hours of donated legal services during the years ended June 30, 2014 and 2013, respectively. However, the Organization acted merely as an intermediary between pro-bono attorneys and beneficiaries of those services, and considers these to be Organization transactions. Therefore, the Organization does not recognize these services in its consolidated financial statements. Other volunteer services received during the year are also not reflected in the consolidated financial statements because they do not meet the criteria for recognition as contributed services.

Donated supplies are recorded at their fair market value on the date of donation. The Organization has recorded the value of such supplies received as revenue and expense in the consolidated statements of activities. The estimated value of these supplies was valued at approximately $289,000 and $571,000 for the years ended June 30, 2014 and 2013, respectively.

Donated rent is recorded at the approximate fair market value for the year under lease. The Organization has recorded the value of donated rent received as revenue and expense in the consolidated statements of activities, totaling approximately $200,000 for the years ended June 30, 2014 and 2013.

During fiscal 2013, the City of Chicago donated property to HH with an appraised value of $3,050,000.

**Real estate taxes**: The Organization accrues real estate taxes in connection with real estate projects for the period they are assessed; when final tax bills have not been issued for an assessment period, real estate taxes are estimated based on previous assessments and based on known changes to a property's assessed value. The Hollywood LP property has not been billed for property taxes for the period January 1, 2009 through June 30, 2014. HH expects the entity to receive the first property tax bill covering the untaxed period during 2015. As of June 30, 2014 and 2013, Hollywood LP has accrued $1,100,000 and $900,000, respectively, to cover the untaxed period.

**Fair value of financial instruments**: The fair value of the Organization's financial instruments, including accounts receivable, accounts payable and accrued liabilities approximate fair value due o the short maturity of these instruments. The carrying amounts for notes and pledges receivable and debt obligations approximate their respective fair values because discount and interest rates applied are consistent with current market rates. Management has estimated the fair values by discounting expected cash flows using interest rates that management believes are approximately equal to the interest rates currently available for similar financing arrangements.

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

**Functional expenses**: Operating expenses directly identified with a functional area are charged to that area and, where those expenses affect more than one area, they are allocated based on estimates made by management.

**Income taxes**: The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization 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 the Organization, and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Management has determined that there are no uncertain tax positions during the reporting periods covered by these consolidated financial statements.

The Organization's tax filings are generally no longer subject to examination by the Internal Revenue Service for tax years before 2011.

**Use of estimates**: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Reclassifications**: Certain amounts on the 2013 financial statements have been reclassified to conform to the current year presentation. These reclassifications have no effect on the 2013 net assets or changes in net assets.

### Note 2. Fair Value Measurements

The Organization records its investments at fair value. Fair value is 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. The Organization utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. 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 as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

> Level 1. Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
>
> Level 2. Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.
>
> Level 3. Valuations based on inputs that are unobservable and significant to the overall fair value measurement. 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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Organization assesses the levels of the investments at each measurement date. Transfers between levels are required to be recognized on the actual date of the event or change in circumstances that caused the transfer. For the years ended June 30, 2014 and 2013, there were no such transfers.

### Note 2. Fair Value Measurements (Continued)

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments. Investments are exposed to various risks such as interest rate, market and credit risks. It is reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported. Investments received as contributions are recorded at fair value, based upon quoted market prices.

At June 30, 2014 and 2013, the Organization's investments were comprised primarily of mutual funds listed on a national securities exchange and stated at the last reported sales price on the day of valuation. These financial investments are classified as Level 1 in the fair value hierarchy.

### Note 3. Investments

Investments consisted of the following at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Certificates of deposit | $ 2,116,277 | $ 1,586,260 |
| Mutual funds: | | |
| Domestic bond | 2,679,010 | 2,540,339 |
| International bond | 922,661 | 628,182 |
| Domestic equity | 3,523,677 | 2,815,046 |
| International equity | 565,902 | 803,674 |
| | 9,807,527 | 8,373,501 |
| Cash and equivalents | 417,905 | 132,669 |
| | $ 10,225,432 | $ 8,506,170 |

A portion of the investment balance totaling $483,174 and $380,482 is reserved for the Organization's deferred compensation plan at June 30, 2014 and 2013, respectively.

Investment management fees totaled $46,106 and $32,592 in fiscal years 2014 and 2013, respectively.

For fiscal years 2014 and 2013, interest and dividend income totaled $275,315 and $296,515, respectively. Unrealized and realized gains on the investment portfolio for fiscal years 2014 and 2013 totaled $521,348 and $65,505, respectively.

### Note 4. Pledges Receivable

Pledges receivable are as follows at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Expected collections in less than one year | $ 2,979,203 | $ 3,389,429 |
| Expected collections in one to five years | 525,000 | 583,559 |
| | 3,504,203 | 3,972,988 |
| Less discount to present value (rates of 1 to 2 percent) | (10,816) | (10,770) |
| | $ 3,493,387 | $ 3,962,218 |

## Note 5. Investments in Limited Partnerships and Other Entities

Several HH affiliate corporations hold general partner interests in various limited partnerships and member interests in various limited liability companies. The limited partnerships and other entities own and operate residential apartment buildings which qualify for low income housing tax credits. The Organization's consolidated financial statements include the balances and accounts of the entities, including the residential real estate projects owned by the limited partnerships and other entities.

The limited partnerships have received an allocation of low income housing tax credits from a state or federal agency to assist in developing, operating, and managing affordable housing developments. Each property from these developments has qualified for and has been allocated low income housing tax credits pursuant to Internal Revenue Code Section 42, which regulates the use of the development as to occupant eligibility and unit gross rent, among other requirements. The properties for several of these real estate projects are also subject to various other contractual limitations. After the 15-year tax credit compliance periods lapse, the Organization generally has options to acquire the non-controlling interests in the real estate projects, at prices to be negotiated with the non-controlling interests, which should result in the Organization acquiring those interests without a material expenditure.

The limited partnership and operating agreements include provisions which may result in annual income and loss allocations different from the ownership percentages presented above. In addition, the respective partnership agreements provide for various obligations of the general partners, including their obligation to provide funds for any development and operating deficits.

*Residual interest*

In July 2007, HH entered into a subordinate note receivable due from one of the limited partnerships, Roosevelt Square II LP (RS II) in the amount of $6,068,116, in exchange for a 99-year lease to certain land parcels. The lease had been donated to HH by the Chicago Housing Authority, and HH then assigned it to RS II. The note provides for interest at 5.15 percent compounded annually, and matures in July 2047. No principal or interest payments are due before maturity. HH considers its asset to be the residual interest in the note collateral (the land leasehold).

*Receivables due from limited partnerships*

Two other subordinated notes due from RS II in the aggregate amount of $564,431 and $540,335 are included in the consolidated financial statements as receivables due from limited partnerships as of June 30, 2014 and 2013, respectively. These notes are reported net of an interest rate discount that was imputed when the loans were funded in 2007. HH is not presently accruing interest on the notes, since no present payments are required and they do not mature until 2047. For years ended June 30, 2014 and 2013, RS II had approximately $35,000,000 and $33,000,000, respectively, of mortgage debt outstanding, including $3,154,223 face amount of the two notes described above.

*Other limited partnership matters*

In fiscal 2013, Center Buffum, LLC began a new development in the City of Milwaukee, Wisconsin, a 37-unit permanent supportive housing for families in Milwaukee's Harambee Neighborhood. Construction for the project began in early 2013 and was completed in January 2014. The project is being developed for an estimated total cost of $10,100,000, including a $7,600,000 construction contract; financing sources include Low Income Housing Tax Credits from Wisconsin Housing and Economic Development Authority, and the City of Milwaukee Housing Trust Fund. As of June 30, 2014 and 2013, the outstanding commitment related to the construction project is approximately $1,260,000 and $6,680,000, respectively.

In fiscal year 2013, HH received from the City of Chicago and recorded as in-kind revenue donated land and building with an estimated fair value of $2,970,000. This property is the site for a redevelopment, Halsted LP's 81-unit affordable senior rental community. Construction for the project began in fiscal year 2013 and was completed in August 2014. The project is being redeveloped for an estimated total cost of $26,700,000, including a $17,700,000 construction contract; financing sources include low income housing tax credits from the Illinois Housing Development Authority (IHDA), Illinois state affordable housing tax credits and a Citibank construction loan. The donated land and building, the fair value of which has been recorded on the financial statements as unrestricted in-kind revenue, are subject to various contractual limitations. As of June 30, 2014 and 2013, the outstanding commitment related to the construction project is approximately $6,120,000 and $21,400,000, respectively.

**Note 5. Investments in Limited Partnerships and Other Entities (Continued)**

HH is required under tax credit, development, and operating agreements to provide guarantees that ensure the projects stay in compliance with the regulatory Organization, construction of the project is completed, and the project operates within investor projections and continues to be financially sustainable over the course of the compliance period. Except for North Avenue LP, Mayfield LP and Leland LP, HH could be called upon to fund these guarantees in the future. The operating guarantee is calculated by making adjustments to changes in net assets for depreciation, accruals and reserves withdrawals.

**Note 6. Other Investments**

The Organization's other investments are as follows at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Alliance of Chicago Community Health Services, L3C | $ 668,762 | $ 571,748 |
| Together4Health, LLC | 200,000 | 190,000 |
| Lathrop Community Partners LLC | 31,500 | 31,500 |
| | $ 900,262 | $ 793,248 |

**Note 7. Notes Receivable**

Notes receivable at June 30, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Tax Increment Financing (TIF) note due from City of Chicago to Hollywood House LP, in annual payments on March 1 of $576,845, including interest at a rate of 7.09 percent, through 2028. No payment was received from the City of Chicago in fiscal 2014 as the Organization and the City of Chicago are restructuring the note. | $ 5,470,316 | $ 5,470,316 |
| Junior mortgage note due from Monteclare Senior Residences of Avalon Park Phase I, LLC to HHCS, bearing interest at 4.32 percent per annum; principal and any accrued unpaid interest are due in 2046; interest is payable beginning in 2030 from net cash flow in a manner set forth in the operating agreement. | 1,530,000 | 1,530,000 |
| Junior mortgage note due from Monteclare Senior Residences of Avalon Park Phase I, LLC to HHCS, bearing interest at 2.50 percent per annum; principal and interest are due in 2046. | 688,431 | 688,431 |
| Promissory note due from Together4Health, LLC to HHO bearing interest at 5.75 percent per annum, due on November 15, 2016. | 75,000 | 75,000 |
| Promissory note due from Together4Health, LLC to HHO bearing interest at 3.00 percent per annum, due on August 1, 2016. | 288,555 | - |
| Other | 107,430 | 214,862 |
| | $ 8,159,732 | $ 7,978,609 |

### Note 7. Notes Receivable (Continued)

The above TIF note in the original amount of $5,900,000 from the City of Chicago was issued December 18, 2008 and accrues interest annually effective April 1, 2011. Payments are made to the extent the tax increment is available from property taxes paid in the local real estate tax district as long as the developer is in compliance with the terms of the redevelopment agreement. The initial payment on March 1, 2011 was $287,912. Hollywood House LP established a tax increment deficiency fund in the amount of $1,229,552 to service Hollywood's debt obligation to the City of Chicago in the case that the tax increment is insufficient to pay the debt service on the note. Due to the uncertainty of collection, Hollywood House LP has recorded the TIF note as notes receivable with an offset account in deferred revenue. Interest and TIF revenue is recognized as TIF payments are received. The TIF note is closed to prepayment until March 1, 2018. As of June 30, 2014 and 2013, the balance of the note is $5,470,316.

The property had not been assessed by the County and was classified as exempt since it was purchased in 2008 and as a result in fiscal year 2014, the City of Chicago determined that it would temporarily stop making payments on the TIF until such time the property was back on the tax role. Hollywood House LP was able to fund its debt obligations associated with the TIF-supported debt instrument by making a withdrawal from the tax escrow. The amount withdrawn was $576,845 and was made on August 5, 2014.

Scheduled future maturities of the TIF note are as follows:

| | |
|---|---|
| 2015 | $ 402,808 |
| 2016 | 223,789 |
| 2017 | 240,178 |
| 2018 | 257,768 |
| 2019 | 276,645 |
| Thereafter | 4,069,128 |
| | $ 5,470,316 |

As part of its expansion into supportive housing and social services to seniors, HHCS entered into a transaction with an unrelated real estate developer to assist in the acquisition of a property in the Woodlawn neighborhood of Chicago in return for a long-term service contract at the facility called Monteclare Senior Residences of Avalon Park Phase I, LLC (Monteclare). In October 2008, the City of Chicago deeded land in the Woodlawn neighborhood to HHCS with an appraised value of $1,530,000. The land was immediately transferred to Monteclare in exchange for a junior mortgage in the same amount. At the same time, the City of Chicago also transferred to HHCS a Donation Tax Credit in the amount of $688,431, which was sold to Bank of America. The proceeds from this sale were lent to Monteclare in return for a note receivable secured by a junior mortgage on the facility.

In July 2010, HHO received a program related investment (PRI) from the Washington Square Health Foundation (Foundation) in amounts totaling $100,000 in support of the Alliance of Chicago Community Health Services (the Alliance; an affiliated, equity-method investee). The PRI includes HHO's obligation under promissory notes payable to the Foundation, secured by the assets of the Alliance. HHO then entered into a reciprocal agreement with the Alliance, which includes notes receivable from the Alliance with similar terms. HHO is a pass-through organization for the PRI to the Alliance due to its tax-exempt status. The purpose of the PRI was to support the Alliance's Health Information Technology Enhancement Project. HHO has recorded in its accounting records notes payable and notes receivable, respectively, but has netted their balances for financial reporting purposes. The respective notes are payable in annual installments of $23,097, including interest at a 5.0 percent annual rate, through October 2015, and the outstanding balance of each note was $40,000 and $60,000 at June 30, 2014 and 2013, respectively.

## Note 8. Property and Equipment

Property and equipment consisted of the following at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Land | $ 8,297,497 | $ 6,392,235 |
| Building and improvements | 114,267,171 | 96,818,510 |
| Furniture, equipment and vehicles | 7,849,931 | 5,323,998 |
| Leasehold improvements | 3,982,437 | 3,215,145 |
| Construction in progress | 19,739,324 | 5,745,632 |
| | 154,136,360 | 117,495,520 |
| Less accumulated depreciation and amortization | 31,024,029 | 25,918,012 |
| | $ 123,112,331 | $ 91,577,508 |

HHCS is the sole member of a single purpose entity, 3500 South Giles, LLC, which purchased a property located in Chicago in July 2013. The purchase was from the previous landlord of building, with the purchase price being $11,552,300. The allocation of the purchase price for the purchase of the property was comprised of the building and related building improvements totaling $10,252,300, and $1,300,000 in land.

As of June 30, 2014, construction in progress relates primarily to a construction project of HH (Halsted LP) totaling $19,491,812. Construction on this project was substantially complete in August 2014. As of June 30, 2013, construction in progress related primarily to HH projects totaled $5,228,448. In addition, HA had recorded construction in progress totaling $318,837 related to the build-out of the Heartland Alliance downtown Chicago office space, which was completed in November 2013.

Depreciation and amortization expense on property and equipment was $5,420,896 and $3,908,681 for the years ended June 30, 2014 and 2013, respectively.

## Note 9. Escrow and Reserve Accounts

In connection with the development of their properties, certain Organization affiliates are required to maintain various escrow and reserve accounts. Balances in these accounts were as follows at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Reserves for replacements | $ 1,384,568 | $ 2,607,937 |
| Real estate tax and insurance escrows | 1,517,977 | 1,672,111 |
| Construction escrows | 61,105 | 2,827,637 |
| Reserve, tax increment financing | 1,085,552 | 1,674,524 |
| Reserve for operating deficits | 2,219,254 | 588,353 |
| Negative arbitrage reserve | 703,679 | 691,445 |
| Reserve for special purposes | 475,380 | - |
| | $ 7,447,515 | $ 10,062,007 |

### Note 10. Debt Obligations

Debt obligations of the Organization and its wholly-owned subsidiaries are comprised of notes payable, many of which are subject to certain requirements, including financial covenants, consisted of:

| | 2014 | 2013 |
|---|---|---|
| **Heartland Alliance** | | |
| Secured line of credit with U.S. Bank National Association (U.S. Bank) for general operations. Credit availability under the line is $2,000,000 with the interest rate either being one-month LIBOR plus 1.25 percent or one, two or three-month LIBOR plus 0.75 percent. The line of credit expires March 20, 2015. | $ - | $ - |
| Note payable to the Ford Foundation for use by HH for the Roosevelt Square project; total available under the arrangement is $1,500,000, of which $500,000 was funded in June 2008 (subsequent fundings are subject to program performance). Annual interest is 1.00 percent and maturity is June 5, 2016. This note was paid in full in December 2013. | - | 500,000 |
| Unsecured line of credit through Bank of America for general operations. Credit availability under the line is $3,000,000 and the related interest rate is either the Bank of America prime rate plus 1.00 percent or LIBOR plus 1.25 percent. A non-use fee of 0.20 percent is applicable. The line of credit expired on January 31, 2014 and was not renewed. | - | 232,000 |
| Term loan through Bank of America used for the construction renovation project for the new offices at the Organization's Chicago headquarters. Total term loan is for $300,000 broken down into two separate notes for $200,000 and $100,000. Both portions of the loan have an interest rate of 1.69 percent and are due on September 30, 2015. This loan was paid in full during fiscal 2014. | - | 300,000 |
| Term loan through U.S. Bank used for the construction renovation project for the new offices at the Organization's Chicago headquarters. Total term loan is for $1,500,000. Payments are due in monthly installments of $9,583, including interest at one-month LIBOR plus 0.75 percent. This loan matures on March 21, 2017 when all unpaid principal becomes due. | 966,687 | - |
| Certain of the Agency's assets are pledged to secure these notes. | | |
| **HHCS** | | |
| Note payable to Citibank issued to refinance the 1620-24 W. Chase building. Payments are due in monthly installments of $10,867, including interest at 6.81 percent, maturing on November 26, 2016. | 291,368 | 391,790 |
| Non-interest bearing note payable to City of Chicago Department of Housing with principal due in 2036. | 645,028 | 645,028 |
| First mortgage loan payable to IFF (a nonprofit community development financial institution). Payments are due in monthly installments of $2,835 including interest of 4.17 percent. The loan matures in November 2019 when all unpaid principal and accrued interest becomes due. | 164,689 | 191,238 |
| Mortgage loan payable to IFF. Payments are due in monthly installments of $8,110, including interest of 6.00 percent, maturing on January 1, 2017. | 222,387 | 305,198 |
| Mortgage loan payable to Lancaster Pollard Mortgage to finance the 3500 South Giles property and building. Payments are due in monthly installments of $55,152, including interest of 4.00 percent. The loan matures on August 1, 2043. | 11,383,333 | - |
| **HHO** | | |
| Five-year note payable to IFF with interest at 5.00 percent and secured by certain property and equipment. Payments are due in monthly installments of $10,568. The note matures on February 1, 2015. | 82,980 | 202,387 |

**Note 10. Debt Obligations (Continued)**

| | 2014 | 2013 |
|---|---|---|
| **HH** | | |
| Third mortgage loan payable to the City of Milwaukee. The proceeds come from the portion of federal stimulus Neighborhood Stabilization Program (NSP). The note matures on August 19, 2030, at which time all remaining principal will become due. The note is secured by a mortgage on the property and an assignments of rents and leases. | $ 441,188 | $ 441,188 |
| Note payable to Bank of America Community Development Corp. Interest payments are due monthly at a rate of 30-day LIBOR plus 2.25 percent and $1,800 of principal is paid monthly. Final payment is due May 31, 2015. | 176,294 | 196,094 |
| Non-interest bearing federal forgivable loan grant in the amount of $250,000 due to BMO Harris Bank, N.A. (BMO) on July 31, 2044. Proceeds are received via BMO from the Federal Home Loan Bank of Chicago, pursuant to its Affordable Housing Program. HH has agreed to lend the proceeds to Center Buffum, LLC in connection with the development and construction of Maskani Place. The loan to Center Buffum LLC was eliminated in consolidation of HH entities. | 250,000 | - |
| Other | 8,676 | - |
| **Argyle** | | |
| First mortgage loan payable to Community Investment Corporation, (a nonprofit mortgage lender) in the amount of $333,000, due in monthly installments of $2,120, including interest at 5.875 percent through January 1, 2030, at which time any unpaid principal and interest is due. The interest rate is adjusted every five years until the maturity date. | 306,914 | 312,821 |
| Non-interest bearing second mortgage loan payable to the City of Chicago Department of Housing in the amount of $2,162,013 due in monthly principal installments of $2,083 through June 14, 2033, at which time all principal comes due. | 1,968,711 | 1,993,711 |
| Non-interest bearing third mortgage loan payable to IHDA in the amount of $350,000, due in annual principal payments in the amount of $2,400 until June 14, 2033, at which time the remaining principal comes due. | 321,683 | 324,083 |
| Certain Argyle assets are pledged to secure the mortgage loans payable. | | |
| **Diversey** | | |
| First mortgage loan payable to U.S. Bank payable over 15 years in monthly installments of $7,578, including interest, through April 1, 2016, at which time the remaining principal and accrued interest come due. Payments on the loan, which bears interest at 9.00 percent, are calculated on a 17 ½ year amortization schedule. | 122,704 | 188,732 |
| Junior mortgage loan payable to the City of Chicago Department of Housing. Interest accrues annually at 3.0 percent. The entire principal balance plus accrued interest is due on June 23, 2016 or upon repayment of the first mortgage, if earlier. | 1,073,955 | 1,073,955 |
| Non-interest bearing third mortgage loan payable to IHDA, due 2026. | 494,483 | 494,483 |
| Certain Diversey assets are pledged to secure the mortgage loans payable. | | |

### Note 10. Debt Obligations (Continued)

| | 2014 | 2013 |
|---|---|---|
| **Ellis** | | |
| Non-interest bearing first mortgage loan payable to the City of Chicago Department of Housing. Payable in monthly principal installments of $305 through 2036, at which time the remaining principal is due. | $ 2,028,313 | $ 2,031,972 |
| Non-interest bearing second mortgage loan payable to IHDA maturing in 2035, payable annually in amounts equivalent to 10 percent of annual surplus cash, as defined. | 212,616 | 213,991 |
| Certain Ellis assets are pledged to secure the mortgage loans payable. | | |
| **Limited Partnerships and Limited Liability Companies** | | |
| Debt obligations also consist of interest and non-interest bearing notes payable of various limited partnerships and limited liability companies in which HH affiliate corporations hold general partner interests. These obligations are all mortgage obligations secured by the respective properties, with various maturity dates through 2050, and can readily be categorized by those that provide for fixed monthly debt service payments, others with no debt service payments prior to maturity, construction loans, and obligations that require debt service payments only if the secured property produces cash flow as defined. These obligations typically provide for operating restrictions related to the incomes earned by, and the rents charged to, the property tenants. Construction obligations are retired at maturity from the capital contributions of the respective noncontrolling interest. Accordingly, the details of these obligations (and the range of interest rates) as of June 30, 2014 and 2013 have been summarized as follows: | | |
| Non-interest loans payable to IHDA | 5,991,643 | 6,005,784 |
| Non-interest loans payable to city agencies | 5,706,151 | 5,706,151 |
| Non-interest cash flow loans | 6,381,117 | 3,700,000 |
| Interest bearing loans payable to city agencies (1.00 percent to 6.44 percent) | 5,461,929 | 5,461,929 |
| Interest bearing first mortgage loans (2.25 percent to 9.00 percent; requiring monthly fixed debt service payments, based on amortization from note issuance through maturity) | 12,682,865 | 12,961,324 |
| Interest bearing construction loans (2.65 percent to 5.00 percent) | 16,243,566 | 8,884,532 |
| | $ 73,629,280 | $ 52,758,391 |

Future principal payments required under the above obligations are as follows:

| | |
|---|---|
| 2015 | $ 14,298,977 |
| 2016 | 6,186,271 |
| 2017 | 1,875,899 |
| 2018 | 1,103,995 |
| 2019 | 1,128,236 |
| Thereafter | 49,035,902 |
| | $ 73,629,280 |

Description of Series A Tax-Exempt Bonds

Included in long-term debt is $11,510,000 of Multi-Family Housing Revenue Bonds Series 2008A issued on December 18, 2008 and maturing serially from February 20, 2012 to August 20, 2050, backed by the full faith and credit of the United States of America through GNMA certificates. The bonds were issued pursuant to an ordinance adopted by the City of Chicago Council on September 10, 2008. The proceeds of the bonds were used to: (a) finance a portion of the costs of the acquisition, construction, rehabilitation and equipping of a multi-family mixed income rental development (Hollywood House), (b) establish a bond reserve and project fund in accordance with the trust agreement, and (c) pay costs incurred to issue the bonds. The coupon rates for the bonds range from 3.30 percent to 6.50 percent and interest is payable in February and August each year, starting August 2009. The bonds were discounted by $260,200 to the market interest rate when issued.

### Note 10. Debt Obligations (Continued)

Certain bonds which total $7,260,000 are subject to mandatory redemption prior to maturity by lot at par. The bonds may be redeemed starting February 20, 2024 through August 20, 2050 through sinking fund installments. After December 2017, all bonds are optionally redeemable at 102 percent through December 2018, 101 percent from December 2018 to December 2019 and at par thereafter.

The proceeds of the bonds were used to purchase GNMA Securities from PNC Bank (the GNMA Issuer) which enabled the Bank to make the mortgage loan to HHLP. At June 30, 2014 and 2013, the amount of the mortgage loan outstanding was $11,870,006 and the GNMA Securities purchased by the bond trustee were $11,870,006. These amounts are netted in long-term debt in the consolidated statements of financial position. The mortgage note bears interest at 6.44 percent and the GNMA Securities bear interest at 6.19 percent. Interest expense relating to the mortgage debt used to renovate and construct the building was capitalized during the construction period. Interest on the bonds is expensed net of the interest income relating to the Guaranteed Investment Contract (GIC) purchased with excess bond proceeds and the GNMA Securities.

The Bonds are secured by the GNMA Securities, the GIC investments and the TIF note in the current amount of $5,470,316, which is recorded as notes receivable on the consolidated statements of financial position (Note 7). All payments scheduled to be made to PNC Bank under the Mortgage Note will be assigned to the bonds. No partner of HHLP has any personal liability with respect to the bonds.

### Note 11. Operating Leases

The Organization occupies its headquarters, effective October 2013, under a fifteen-year lease which provides for monthly base rents ranging from $78,000 to $103,000, plus the Organization's proportionate share of building expenses and real estate taxes. The lease also provided for certain rental incentives, including a tenant allowance for build-out of the new space. A term loan from Bank of America provided funds for the build-out of the office space. For the years ended June 30, 2014 and 2013, a deferred rent liability of $654,604 and $207,779, respectively, represents the cumulative excess of rental expense recognized on a straight-line basis over the term of the lease and the actual cash outlay for base rentals, for the current and previous lease (same landlord).

Approximate future minimum rental payments at June 30, 2014 under the office and various other noncancelable leases are as follows:

| | |
|---|---|
| 2015 | $ 3,390,000 |
| 2016 | 2,103,000 |
| 2017 | 1,673,000 |
| 2018 | 1,665,000 |
| 2019 | 1,637,000 |
| Thereafter | 11,495,000 |
| | $ 21,963,000 |

## Note 12. Changes in Consolidated Unrestricted Net Assets Attributable to Controlling Financial Interests and to Non-Controlling Interests

Changes in the Organization's controlling interests and the non-controlling interests attributable to its investments in consolidated limited partnerships and other entities are as follows:

| | Total | Controlling Interest | Noncontrolling Interest |
|---|---|---|---|
| Balance, July 1, 2012 | $ 52,085,141 | $ 42,694,171 | $ 9,390,970 |
| Change in net assets | 4,515,735 | 7,182,247 | (2,666,512) |
| Capital contributed by non-controlling interests | 11,330,137 | - | 11,330,137 |
| Balance, June 30, 2013 | 67,931,013 | 49,876,418 | 18,054,595 |
| Change in net assets | (5,059,836) | (429,836) | (4,630,000) |
| Capital contributed by non-controlling interests | 6,269,630 | - | 6,269,630 |
| Capital distributions and other reductions | (227,402) | - | (227,402) |
| Balance, June 30, 2014 | $ 68,913,405 | $ 49,446,582 | $ 19,466,823 |

Capital contributed by non-controlling interests represents member or limited partner cash investments received during fiscal years 2014 and 2013 in certain real estate projects:

| | 2014 | 2013 |
|---|---|---|
| Center Buffum MM, LLC | $ - | $ 5,100 |
| Center Buffum, LLC | 218,620 | 2,363,475 |
| Fond du Lac Apartments LLC | - | 3,349,005 |
| Halsted Limited Partnership | - | 3,826,637 |
| Hollywood House Limited Partnership | 153,970 | 300,000 |
| Viceroy Limited Partnership | 5,897,040 | 1,485,920 |
| | $ 6,269,630 | $ 11,330,137 |

At June 30, 2014 and 2013, future unpaid capital commitments from non-controlling interests related to real estate projects were as follows:

| | 2014 | 2013 |
|---|---|---|
| Center Buffum, LLC | $ 7,014,483 | $ 7,233,103 |
| Halsted Limited Partnership | 11,228,663 | 11,228,663 |
| Hollywood House Limited Partnership | 123,810 | 277,780 |
| Viceroy Limited Partnership | 4,960,179 | 10,857,219 |
| Drexel Jazz Limited Partnership | 189,000 | 189,000 |
| | $ 23,516,135 | $ 29,785,765 |

### Note 13. Temporarily Restricted Net Assets

Temporarily restricted net assets balances and activities by category are as follows:

| | Balance June 30, 2013 | Contributions | Released Amounts | Balance June 30, 2014 |
|---|---|---|---|---|
| Youth and Residential Services | $ 1,495 | $ 3,825 | $ 61 | $ 5,259 |
| Supportive Housing Services | 575,026 | 34,441 | 319,935 | 289,532 |
| Wellness and Prevention | 799,217 | 217,060 | 401,260 | 615,017 |
| Employment and Economic Advancement | 162,342 | 320,662 | 334,720 | 148,284 |
| Housing, Community and Specialized Services | 238,655 | 162,500 | 158,708 | 242,447 |
| Integrated Health Care Services | 95,582 | 69,350 | 118,011 | 46,921 |
| Health Care Quality, Research, TA, and Training Services | 226,339 | 618,572 | 529,734 | 315,177 |
| Health Promotion and Nutrition | 29,691 | 40,000 | 29,691 | 40,000 |
| Housing Development | 145,637 | - | 71,216 | 74,421 |
| International Programs | 472,536 | 375,590 | 613,490 | 234,636 |
| Justice Services | 6,202,450 | 6,353,000 | 4,308,956 | 8,246,494 |
| Other Services | 1,614,460 | 663,519 | 277,259 | 2,000,720 |
| Management and General | 817,384 | 965,913 | 1,004,653 | 778,644 |
| Fundraising | 758,761 | 288,698 | 834,911 | 212,548 |
| | $ 12,139,575 | $ 10,113,130 | $ 9,002,605 | $ 13,250,100 |

Management and general represents program funding specified from donors to cover general and administrative expenses not otherwise provided for through other program revenue sources.

Net assets released from restrictions in fiscal 2013 totaled $6,903,715.

### Note 14. Employee 401(k) Plan

The Organization sponsors the Heartland Alliance 401(k) Plan, which is a defined contribution plan that provides retirement, disability or death benefits to eligible employees of the Organization. All money contributed to the 401(k) plan is held in a trust fund maintained by MG Trust, with a separate account maintained for each participant. Employees are eligible to participate in the 401(k) plan after completing six months of service with the Organization. The 401(k) plan is subject to the provisions of the Employee Retirement income Security Act of 1974 (ERISA), as amended.

The 401(k) plan is designed as a qualified cash deferral arrangement pursuant to the Internal Revenue Code and provides for both employee-directed and employer contributions. Employee-directed contributions are made by the Organization at the direction of the employee and deducted from the employee's direct compensation. The aggregate annual amount of each individual employee-directed contribution is limited to federal dollar limits. The Organization contributes a discretionary percentage of each participant's base compensation as specified in the 401(k) plan agreement. Participants must be 21 years of age and have one year of service to receive employer contributions. Participants are immediately vested in their employee-directed contributions and related earnings thereon. Employer contributions are vested 100 percent only after completion of three years of service. The Organization has the right to discontinue its contributions at any time and to terminate the 401(k) plan, subject to the provisions of ERISA. Organization discretionary contributions to the Plan for fiscal years 2014 and 2013 totaled $1,053,485 and $872,553, respectively.

The Organization also maintains a deferred compensation plan for certain of its executives. Total expense relating to this plan for fiscal years 2014 and 2013 totaled $46,000 and $45,500, respectively. The liability for deferred compensation at June 30, 2014 and 2013 was $483,174 and $380,482, respectively.

## Note 15. Transactions with Affiliates

The Organization has entered into an agreement with Heartland International Health Center (Health Center), an affiliated human services Organization, to provide management and administrative services to the Health Center. These management and administrative services consist of fiscal management, accounting, human resources support, insurance and courier services. In addition, the Health Center's employees are eligible to participate in the Organization's 401(k) plan. The agreement with the Health Center is in effect through June 30, 2018. Revenue recognized by the Organization under this agreement amounted to $589,524 and $553,882 for fiscal years ended June 30, 2014 and 2013, respectively.

The Health Center shares one clinical provider with HHO; the value of that service to the Health Center, paid to HHO, was $84,237 and $101,324 for fiscal years ended June 30, 2014 and 2013, respectively.

As of June 30, 2014 and 2013, the Health Center owed the Organization $60,862 and $32,378, respectively.

During fiscal 2008, the Health Center and the Organization entered into an agreement that resulted in a reassessment of previous years' management and general expense charges and a forgiveness of certain other management and general expense charges. At the time of the agreement, $279,357 owed to the Organization by the Heath Center was converted into an unsecured promissory note, due in June 2013. The note is payable in monthly installments of $4,931, including interest at a rate of 2.28 percent. The agreement also included a provision whereby $140,000 of the original amount owed would be reduced by $28,000 per year, over a five-year period, provided all management, general and administrative payments were made on time. During fiscal 2013, the outstanding note balance of $58,080 was paid in full by the Health Center to the Organization, and the remaining $28,000 was forgiven by the Organization for the benefit of the Health Center.

HHO has an ownership interest in and provides certain management services to Together4Health, LLC in exchange for a management fee as well as potential incentive compensation pursuant to the terms of a management agreement. Certain executive employees of the Organization have similar roles for Together4Health, LLC. Total management fees earned by HHO from Together4Health, LLC through June 30, 2014 totaled $395,387. A portion of management fees earned, in addition to other costs incurred by HHO for the benefit of Together4Health, LLC, were converted into unsecured notes receivable from Together4Health, LLC totaling $363,555 at June 30, 2014.

## Note 16. Contingencies

In April 2010, HHCS negotiated and signed a fee-for-service contract with the State of Illinois, and the Illinois Department of Human Services (IDHS) to provide trainee workers with temporary employment during the contract period (April 2010 through September 2010). HHCS successfully employed approximately 27,000 workers during the contract period.

In 2014, IDHS performed an audit of the program and determined in their view that there was $3,147,800 in extrapolated questioned costs. The Organization contests IDHS's audit position. Management has been working with IDHS towards an agreed resolution regarding the questioned costs. For purposes of financial reporting, management has taken a conservative position on the financial statements by reserving for the full amount of the extrapolated questioned costs for the year ended June 30, 2014. The amount is reported as an non-operating expense on the consolidated statement of activities.

From time-to-time, the Organization is subject to claims that arise in the ordinary course of conducting its activities. Management has no reason to believe that any of the claims are not fully covered by the Organization's insurance and in Management's opinion the resolution of these matters would not have a material effect on the financial position of the Organization.

## Note 17. Subsequent Events

The Organization has evaluated subsequent events through November 4, 2014, the date on which the consolidated financial statements were available to be issued.

## Supplementary Information

**Heartland Alliance for Human Needs & Human Rights**

**Consolidating Statement of Financial Position**
**June 30, 2014**

| | Heartland Alliance for Human Needs & Human Rights | Heartland Alliance International, LLC | Heartland Human Care Services, Inc. | Heartland Health Outreach, Inc. | Heartland Housing Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | $ 3,661,989 | $ 1,996,479 | $ 3,215,279 | $ 1,435,171 | $ 1,772,461 | $ - | $ 12,081,379 |
| Restricted cash | 3,362,864 | - | 505,500 | 82,495 | - | - | 3,950,859 |
| Investments | 6,635,113 | - | 3,590,319 | - | - | - | 10,225,432 |
| Accounts receivable: | | | | | | | |
| Program service grants and fees | 539,104 | 881,485 | 6,295,897 | 3,388,180 | 263,723 | - | 11,368,389 |
| Pledges receivable | 2,255,289 | 374,840 | 535,314 | 325,394 | 2,550 | - | 3,493,387 |
| Patient services | - | - | - | 639,302 | - | - | 639,302 |
| Other | 69,875 | 3,627 | 5,175 | 6,310 | 124,726 | - | 209,713 |
| Inter-agency | 2,712,911 | (3,995) | (429,187) | (192,965) | (2,086,764) | - | - |
| Allowance for contractual adjustments, discounts and bad debts | (58,332) | - | (226,089) | (200,946) | (29,944) | - | (515,311) |
| Prepaid expenses and other current assets | 607,285 | 452,207 | 646,761 | 100,798 | 476,443 | - | 2,283,494 |
| Investment in limited partnerships | 1,754,485 | - | - | - | 36,125 | (1,754,485) | 36,125 |
| Other investments | - | - | 25,000 | 843,762 | 31,500 | - | 900,262 |
| Notes receivable | 711,851 | - | 2,325,861 | 363,555 | 5,470,316 | (711,851) | 8,159,732 |
| Receivables due from limited partnerships | - | - | - | - | 564,431 | - | 564,431 |
| Property and equipment, net | 1,747,808 | 460,254 | 14,364,437 | 1,422,640 | 105,117,192 | - | 123,112,331 |
| Escrow and reserve accounts | - | - | 556,020 | - | 6,891,495 | - | 7,447,515 |
| Deferred fees, net | - | - | - | - | 1,658,148 | - | 1,658,148 |
| Residual interest | - | - | - | - | 6,068,116 | - | 6,068,116 |
| **Total assets** | $ 24,000,242 | $ 4,164,897 | $ 31,410,287 | $ 8,213,696 | $ 126,360,518 | $ (2,466,336) | $ 191,683,304 |
| **Liabilities and Net Assets** | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable and other accrued expenses | $ 826,218 | $ 110,711 | $ 4,500,285 | $ 649,830 | $ 4,637,158 | $ - | $ 10,724,202 |
| Accrued payroll and related liabilities | 830,638 | 206,069 | 1,537,273 | 760,048 | 101,589 | - | 3,435,617 |
| Deferred revenue | 290,405 | 1,092,483 | 683,214 | 312,644 | 10,284,222 | - | 12,662,968 |
| Liability for self-insurance claims | 1,900,000 | - | - | - | - | - | 1,900,000 |
| Deferred rent liability | 654,604 | - | - | - | - | - | 654,604 |
| Deferred compensation plan liability | 483,174 | - | - | - | - | - | 483,174 |
| Construction costs payable | - | - | - | - | 5,043,943 | - | 5,043,943 |
| Accrued interest payable | - | - | - | - | 1,175,027 | - | 1,175,027 |
| Debt obligations | 966,687 | 22,098 | 12,706,805 | 772,733 | 59,872,808 | (711,851) | 73,629,280 |
| **Total liabilities** | 5,951,726 | 1,431,361 | 19,427,577 | 2,495,255 | 81,114,747 | (711,851) | 109,708,815 |
| Net Assets | | | | | | | |
| Unrestricted: | | | | | | | |
| Undesignated and controlling interests | 6,154,012 | 2,013,316 | 10,873,941 | 4,835,641 | 25,704,527 | (1,754,485) | 47,826,952 |
| Non-controlling interests | - | - | - | - | 19,466,823 | - | 19,466,823 |
| Board designated | 1,222,579 | 20,000 | - | - | - | - | 1,242,579 |
| **Total unrestricted net assets** | 7,376,591 | 2,033,316 | 10,873,941 | 4,835,641 | 45,171,350 | (1,754,485) | 68,536,354 |
| Temporarily restricted | 10,483,890 | 700,220 | 1,108,769 | 882,800 | 74,421 | - | 13,250,100 |
| Permanently restricted | 188,035 | - | - | - | - | - | 188,035 |
| **Total net assets** | 18,048,516 | 2,733,536 | 11,982,710 | 5,718,441 | 45,245,771 | (1,754,485) | 81,974,489 |
| **Total liabilities and net assets** | $ 24,000,242 | $ 4,164,897 | $ 31,410,287 | $ 8,213,696 | $ 126,360,518 | $ (2,466,336) | $ 191,683,304 |

**Heartland Alliance for Human Needs & Human Rights**

**Consolidating Statement of Financial Position**
**June 30, 2013**

| | Heartland Alliance for Human Needs & Human Rights | Heartland Alliance International, LLC | Heartland Human Care Services, Inc. | Heartland Health Outreach, Inc. | Heartland Housing Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | $ 4,232,462 | $ 931,247 | $ 2,704,535 | $ 1,753,410 | $ 984,146 | $ - | $ 10,605,800 |
| Restricted cash | 1,718,544 | - | 148,397 | 51,407 | - | - | 1,918,348 |
| Investments | 5,296,488 | - | 3,209,682 | - | - | - | 8,506,170 |
| Accounts receivable: | | | | | | | |
| Program service grants and fees | 354,101 | 1,255,892 | 5,672,174 | 2,986,833 | 295,598 | - | 10,564,598 |
| Pledges receivable | 1,884,208 | 245,520 | 1,093,585 | 666,655 | 72,250 | - | 3,962,218 |
| Patient services | - | - | - | 404,004 | - | - | 404,004 |
| Other | 81,786 | - | 9,213 | 7,965 | 266,942 | - | 365,906 |
| Inter-agency | 2,561,931 | (44,948) | (277,722) | (227,612) | (2,011,649) | - | - |
| Allowance for contractual adjustments, discounts and bad debts | (91,038) | - | (349,180) | (89,528) | (52,341) | - | (582,087) |
| Prepaid expenses and other current assets | 601,915 | 514,632 | 789,144 | 116,576 | 524,259 | - | 2,546,526 |
| Investment in limited partnerships | 1,754,485 | - | - | - | 36,125 | (1,754,485) | 36,125 |
| Other investments | - | - | 15,000 | 746,748 | 31,500 | - | 793,248 |
| Notes receivable | 908,116 | - | 2,433,293 | 75,000 | 5,470,316 | (908,116) | 7,978,609 |
| Receivables due from limited partnerships | - | - | - | - | 540,335 | - | 540,335 |
| Property and equipment, net | 804,700 | 429,440 | 3,333,060 | 1,757,610 | 85,252,698 | - | 91,577,508 |
| Escrow and reserve accounts | - | - | - | - | 10,062,007 | - | 10,062,007 |
| Deferred fees, net | - | - | - | - | 1,891,142 | - | 1,891,142 |
| Residual interest | - | - | - | - | 6,068,116 | - | 6,068,116 |
| **Total assets** | $ 20,107,698 | $ 3,331,783 | $ 18,781,181 | $ 8,249,068 | $ 109,431,444 | $ (2,662,601) | $ 157,238,573 |
| **Liabilities and Net Assets** | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable and other accrued expenses | $ 235,052 | $ 96,323 | $ 781,682 | $ 513,194 | $ 3,813,806 | $ - | $ 5,440,057 |
| Accrued payroll and related liabilities | 793,727 | 236,978 | 1,225,761 | 727,539 | 94,354 | - | 3,078,359 |
| Deferred revenue | 315,248 | 202,115 | 364,293 | 257,110 | 9,558,984 | - | 10,697,750 |
| Liability for self-insurance claims | 1,900,000 | - | - | - | - | - | 1,900,000 |
| Deferred rent liability | 207,779 | - | - | - | - | - | 207,779 |
| Deferred compensation plan liability | 380,482 | - | - | - | - | - | 380,482 |
| Construction payable | - | - | - | - | 1,455,843 | - | 1,455,843 |
| Accrued interest payable | - | - | - | - | 1,061,289 | - | 1,061,289 |
| Debt obligations | 1,032,000 | 134,315 | 1,533,254 | 976,188 | 49,990,750 | (908,116) | 52,758,391 |
| **Total liabilities** | 4,864,288 | 669,731 | 3,904,990 | 2,474,031 | 65,975,026 | (908,116) | 76,979,950 |
| Net Assets | | | | | | | |
| Unrestricted: | | | | | | | |
| Undesignated and controlling interests | 5,117,216 | 2,011,341 | 13,336,844 | 4,696,737 | 25,256,186 | (1,754,485) | 48,663,839 |
| Non-controlling interests | - | - | - | - | 18,054,595 | - | 18,054,595 |
| Board designated | 1,212,579 | - | - | - | - | - | 1,212,579 |
| **Total unrestricted net assets** | 6,329,795 | 2,011,341 | 13,336,844 | 4,696,737 | 43,310,781 | (1,754,485) | 67,931,013 |
| Temporarily restricted | 8,725,580 | 650,711 | 1,539,347 | 1,078,300 | 145,637 | - | 12,139,575 |
| Permanently restricted | 188,035 | - | - | - | - | - | 188,035 |
| **Total net assets** | 15,243,410 | 2,662,052 | 14,876,191 | 5,775,037 | 43,456,418 | (1,754,485) | 80,258,623 |
| **Total liabilities and net assets** | $ 20,107,698 | $ 3,331,783 | $ 18,781,181 | $ 8,249,068 | $ 109,431,444 | $ (2,662,601) | $ 157,238,573 |

**Heartland Alliance for Human Needs & Human Rights**

**Consolidating Statement of Activities**
**Year Ended June 30, 2014**

| | Heartland Alliance for Human Needs & Human Rights | Heartland Alliance International, LLC | Heartland Human Care Services, Inc. | Heartland Health Outreach, Inc. | Heartland Housing Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | |
| Contributions | $ 8,499,060 | $ 1,216,068 | $ 649,395 | $ 1,733,382 | $ 147,699 | $ (486,090) | $ 11,759,514 |
| Program services: | | | | | | | |
| Grants, contracts, reimbursements and client fees | 1,793,517 | 8,928,088 | 45,995,551 | 19,086,354 | - | - | 75,803,510 |
| Allocation from United Way of Chicago | 43,617 | 83,000 | 130,000 | 25 | - | - | 256,642 |
| Contributed services and non-cash contributions | 240,611 | 537,509 | 1,661,704 | 845,460 | - | - | 3,285,284 |
| Patient services, net of contractual adjustments and discounts | - | - | - | 1,657,404 | - | - | 1,657,404 |
| Rental income | - | - | 250,486 | - | 6,306,449 | (373,388) | 6,183,547 |
| Housing development | - | - | - | - | 1,399,203 | - | 1,399,203 |
| Interest and investment income | 426,339 | 317 | 296,219 | 78,020 | 693,384 | (11,734) | 1,482,545 |
| Other income | 823,358 | 62,470 | 48,106 | 143,517 | 157,305 | (214,735) | 1,020,021 |
| Total revenue | 11,826,502 | 10,827,452 | 49,031,461 | 23,544,162 | 8,704,040 | (1,085,947) | 102,847,670 |
| Expenses: | | | | | | | |
| Salaries and wages | 9,501,516 | 3,331,629 | 22,195,728 | 10,080,121 | 1,741,140 | - | 46,850,134 |
| Payroll taxes and fringe benefits | 2,061,675 | 694,767 | 5,190,502 | 2,323,809 | 469,739 | - | 10,740,492 |
| Staff expenses | 531,628 | 761,493 | 411,882 | 326,950 | 68,679 | (300) | 2,100,332 |
| Fundraising expenses | 237,394 | 59,044 | 15,799 | 102,911 | 2,000 | - | 417,148 |
| Professional services | 1,244,924 | 594,092 | 1,575,322 | 2,403,543 | 183,376 | (513,702) | 5,487,555 |
| Office services | 771,694 | 230,931 | 585,439 | 634,260 | 20,088 | - | 2,242,412 |
| Occupancy | 960,932 | 333,718 | 2,781,656 | 980,455 | 1,020,266 | - | 6,077,027 |
| Equipment | 314,662 | 116,242 | 661,156 | 284,003 | 6,103 | - | 1,382,166 |
| Client support and supplies | 144,090 | 466,951 | 7,326,169 | 2,602,147 | 1,446 | (403,971) | 10,136,832 |
| Subrecipients | 234,953 | 2,949,340 | 920,486 | 72,686 | - | (156,240) | 4,021,225 |
| Contributed services and in-kind expenses | 239,536 | 537,509 | 1,656,000 | 845,460 | 3,530 | - | 3,282,035 |
| Real estate development and property management | 18,177 | - | 62,223 | 373,388 | 2,398,173 | - | 2,851,961 |
| Interest expense | 14,822 | 1,485 | 472,257 | 17,386 | 2,115,879 | (11,734) | 2,610,095 |
| Uncollectible accounts | 3,513 | - | (139,486) | 122,252 | 152,071 | - | 138,350 |
| | 16,279,516 | 10,077,201 | 43,715,133 | 21,169,371 | 8,182,490 | (1,085,947) | 98,337,764 |
| Allocation of shared services costs | (7,549,751) | 641,200 | 4,219,552 | 2,079,868 | 609,131 | - | - |
| Total expenses | 8,729,765 | 10,718,401 | 47,934,685 | 23,249,239 | 8,791,621 | (1,085,947) | 98,337,764 |
| **Increase (decrease) in net assets before non-budgetary items** | 3,096,737 | 109,051 | 1,096,776 | 294,923 | (87,581) | - | 4,509,906 |
| Non-budgetary items: | | | | | | | |
| Depreciation and amortization | (291,631) | (37,567) | (842,457) | (351,519) | (4,165,294) | - | (5,688,468) |
| Other non-operating expense | - | - | (3,147,800) | - | - | - | (3,147,800) |
| Total non-budgetary expenses | (291,631) | (37,567) | (3,990,257) | (351,519) | (4,165,294) | - | (8,836,268) |
| **Increase (decrease) in net assets before non-controlling interests** | 2,805,106 | 71,484 | (2,893,481) | (56,596) | (4,252,875) | - | (4,326,362) |
| Non-controlling interests: | | | | | | | |
| Capital contributions to limited partnerships and other entities | - | - | - | - | 6,269,630 | - | 6,269,630 |
| Capital distributions to limited partnerships and other entities | - | - | - | - | (187,402) | - | (187,402) |
| Offering costs, non-controlling interests | - | - | - | - | (40,000) | - | (40,000) |
| Total non-controlling interests | - | - | - | - | 6,042,228 | - | 6,042,228 |
| **Increase (decrease) in net assets** | 2,805,106 | 71,484 | (2,893,481) | (56,596) | 1,789,353 | - | 1,715,866 |
| Net assets, beginning of year | 15,243,410 | 2,662,052 | 14,876,191 | 5,775,037 | 43,456,418 | (1,754,485) | 80,258,623 |
| Net assets, end of year | $ 18,048,516 | $ 2,733,536 | $ 11,982,710 | $ 5,718,441 | $ 45,245,771 | $ (1,754,485) | $ 81,974,489 |

**Heartland Alliance for Human Needs & Human Rights**

**Consolidating Statement of Activities**
**Year Ended June 30, 2013**

| | Heartland Alliance for Human Needs & Human Rights | Heartland Alliance International, LLC | Heartland Human Care Services, Inc. | Heartland Health Outreach, Inc. | Heartland Housing Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | |
| Contributions | $ 5,698,826 | $ 1,032,230 | $ 1,604,273 | $ 2,201,400 | $ 224,173 | $ - | $ 10,760,902 |
| Program services: | | | | | | | |
| Grants, contracts, reimbursements and client fees | 1,770,210 | 9,081,789 | 40,596,852 | 17,534,576 | - | (127,500) | 68,855,927 |
| Allocation from United Way of Chicago | - | - | 277,000 | - | - | - | 277,000 |
| Contributed services and non-cash contributions | 238,427 | 22,098 | 1,269,344 | 817,559 | 3,051,100 | - | 5,398,528 |
| Patient services, net of contractual adjustments and discounts | - | - | - | 1,066,912 | - | - | 1,066,912 |
| Rental income | - | - | - | - | 5,639,411 | - | 5,639,411 |
| Housing development | - | - | - | - | 3,966,001 | - | 3,966,001 |
| Interest and investment income | 196,327 | 50 | 77,048 | 83,719 | 1,106,195 | (17,730) | 1,445,609 |
| Other income | 754,284 | 49,549 | 92,253 | 188,505 | 286,163 | (342,889) | 1,027,865 |
| Total revenue | 8,658,074 | 10,185,716 | 43,916,770 | 21,892,671 | 14,273,043 | (488,119) | 98,438,155 |
| Expenses: | | | | | | | |
| Salaries and wages | 8,531,368 | 3,809,965 | 19,014,807 | 9,481,795 | 1,690,618 | - | 42,528,553 |
| Payroll taxes and fringe benefits | 1,513,222 | 562,073 | 4,695,181 | 2,333,080 | 419,935 | - | 9,523,491 |
| Staff expenses | 582,863 | 882,713 | 290,250 | 289,741 | 44,066 | (1,000) | 2,088,633 |
| Fundraising expenses | 259,115 | 277,770 | 7,640 | 135,553 | 1,607 | - | 681,685 |
| Professional services | 915,380 | 632,082 | 1,601,120 | 913,487 | 175,217 | (302,366) | 3,934,920 |
| Office services | 692,954 | 237,868 | 579,403 | 499,621 | 19,952 | - | 2,029,798 |
| Occupancy | 843,014 | 412,926 | 2,964,128 | 1,064,138 | 863,005 | - | 6,147,211 |
| Equipment | 238,931 | 125,090 | 641,967 | 245,662 | 9,580 | - | 1,261,230 |
| Client support and supplies | 48,818 | 110,213 | 6,884,582 | 2,577,128 | (55) | (29,000) | 9,591,686 |
| Subrecipients | 101,536 | 2,608,311 | 1,118,295 | 428,835 | - | (138,023) | 4,118,954 |
| Contributed services and in-kind expenses | 233,464 | 21,100 | 1,269,344 | 817,559 | 1,100 | - | 2,342,567 |
| Real estate development and property management | 4,243 | - | - | 363,248 | 1,990,353 | - | 2,357,844 |
| Interest expense | 8,501 | 1,030 | 46,698 | 73,841 | 1,640,486 | (17,730) | 1,752,826 |
| Uncollectible accounts | 158,128 | - | 198,287 | 8,264 | 219,986 | - | 584,665 |
| | 14,131,537 | 9,681,141 | 39,311,702 | 19,231,952 | 7,075,850 | (488,119) | 88,944,063 |
| Allocation of shared services costs | (6,728,963) | 618,522 | 3,559,518 | 1,965,735 | 585,188 | - | - |
| Total expenses | 7,402,574 | 10,299,663 | 42,871,220 | 21,197,687 | 7,661,038 | (488,119) | 88,944,063 |
| **Increase (decrease) in net assets before non-budgetary items** | 1,255,500 | (113,947) | 1,045,550 | 694,984 | 6,612,005 | - | 9,494,092 |
| Non-budgetary items: | | | | | | | |
| Depreciation and amortization | (185,318) | (71,116) | (475,274) | (422,806) | (2,863,198) | - | (4,017,712) |
| Other transfers of net assets* | (4,261,838) | 2,847,115 | 1,415,723 | - | - | (1,000) | - |
| Total non-budgetary expenses | (4,447,156) | 2,775,999 | 940,449 | (422,806) | (2,863,198) | (1,000) | (4,017,712) |
| **Increase (decrease) in net assets before non-controlling interests** | (3,191,656) | 2,662,052 | 1,985,999 | 272,178 | 3,748,807 | (1,000) | 5,476,380 |
| Non-controlling interests: | | | | | | | |
| Capital contributions in limited partnerships and other entities | - | - | - | - | 11,330,137 | - | 11,330,137 |
| **Increase (decrease) in net assets** | (3,191,656) | 2,662,052 | 1,985,999 | 272,178 | 15,078,944 | (1,000) | 16,806,517 |
| Net assets, beginning of year | 18,435,066 | - | 12,890,192 | 5,502,859 | 28,377,474 | (1,753,485) | 63,452,106 |
| Net assets, end of year | $ 15,243,410 | $ 2,662,052 | $ 14,876,191 | $ 5,775,037 | $ 43,456,418 | $ (1,754,485) | $ 80,258,623 |

* Other transfers of net assets include amounts transferred from Heartland Alliance for Human Needs & Human Rights (Heartland Alliance) to Heartland Alliance International LLC (HAI), in connection with formation of HAI in fiscal year 2013, and adjustments to balances between Heartland Alliance and Heartland Human Care Services, Inc.

**Heartland Alliance for Human Needs & Human Rights**

**Consolidating Statement of Cash Flows**
**Year Ended June 30, 2014**

| | Heartland Alliance for Human Needs & Human Rights | Heartland Alliance International, LLC | Heartland Human Care Services, Inc. | Heartland Health Outreach, Inc. | Heartland Housing Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Cash Flows from Operating Activities | | | | | | | |
| Increase (decrease) in net assets | $ 2,805,106 | $ 71,484 | $ (2,893,481) | $ (56,596) | $ 1,789,353 | $ - | $ 1,715,866 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | | | | | | | |
| Depreciation and amortization | 291,631 | 37,567 | 842,457 | 351,519 | 4,165,294 | - | 5,688,468 |
| Provision for (recovery of) bad debts | - | - | 107,432 | 111,418 | (22,397) | - | 196,453 |
| Loss on disposal of property and equipment | 56,150 | - | - | - | - | - | 56,150 |
| Gain on investments | (251,829) | - | (269,519) | - | - | - | (521,348) |
| Earnings from other investments | - | - | - | (73,681) | - | - | (73,681) |
| Capital contributions to limited partnerships and other entities | - | - | - | - | (6,269,630) | - | (6,269,630) |
| Capital distributions to limited partnerships and other entities | - | - | - | - | 187,402 | - | 187,402 |
| Offering costs, noncontrolling interests | - | - | - | - | 40,000 | - | 40,000 |
| Effects of changes in operating assets and liabilities: | | | | | | | |
| Restricted cash | (1,644,320) | - | (357,103) | (31,088) | - | - | (2,032,511) |
| Accounts receivable: | | | | | | | |
| Program service grants and fees | (217,709) | 374,407 | (746,814) | (401,347) | 31,875 | - | (959,588) |
| Patient services | - | - | - | (235,298) | - | - | (235,298) |
| Pledges receivable | (371,081) | (129,320) | 558,271 | 341,261 | 69,700 | - | 468,831 |
| Other | 11,911 | (3,627) | 4,038 | 1,655 | 142,216 | - | 156,193 |
| Inter-agency | (150,980) | (40,953) | 151,465 | (34,647) | 75,115 | - | - |
| Prepaid expenses and other current assets | (5,370) | 62,425 | 142,383 | 15,778 | 47,816 | - | 263,032 |
| Receivables due from limited partnerships | - | - | - | - | (24,096) | - | (24,096) |
| Accounts payable and other accrued expenses | 591,166 | 14,388 | 3,718,603 | 136,636 | 823,352 | - | 5,284,145 |
| Accrued payroll and related liabilities | 36,911 | (30,909) | 311,512 | 32,509 | 7,235 | - | 357,258 |
| Accrued interest payable | - | - | - | - | 113,738 | - | 113,738 |
| Deferred rent liability | 446,825 | - | - | - | - | - | 446,825 |
| Deferred compensation plan liability | 102,692 | - | - | - | - | - | 102,692 |
| Deferred revenue | (24,843) | 890,368 | 318,921 | 55,534 | 725,238 | - | 1,965,218 |
| **Net cash provided by operating activities** | 1,676,260 | 1,245,830 | 1,888,165 | 213,653 | 1,902,211 | - | 6,926,119 |
| Cash Flows from Investing Activities | | | | | | | |
| Additions to property and equipment | (1,290,889) | (68,381) | (11,873,834) | (16,549) | (20,174,117) | - | (33,423,770) |
| Purchases of investments | (1,203,678) | - | (228,000) | - | - | - | (1,431,678) |
| Proceeds from sale of investments | 116,882 | - | 116,882 | - | - | - | 233,764 |
| Issuance of notes receivable | - | - | - | (344,136) | - | - | (344,136) |
| Proceeds and collections from notes receivable | 196,265 | - | - | 55,581 | - | (196,265) | 55,581 |
| Deposits to escrow accounts | - | - | (556,020) | - | (1,155,943) | - | (1,711,963) |
| Releases from escrow accounts | - | - | - | - | 4,326,455 | - | 4,326,455 |
| Capital contributions - other investments | - | - | - | (23,333) | - | - | (23,333) |
| **Net cash used in investing activities** | (2,181,420) | (68,381) | (12,540,972) | (328,437) | (17,003,605) | (196,265) | (32,319,080) |
| Cash Flows from Financing Activities | | | | | | | |
| Capital contributions to limited partnerships and other entities | - | - | - | - | 6,269,630 | - | 6,269,630 |
| Capital distributions to limited partnerships and other entities | - | - | (10,000) | - | (187,402) | - | (197,402) |
| Offering costs, noncontrolling interests | - | - | - | - | (40,000) | - | (40,000) |
| Repayments of borrowings | (1,032,000) | (112,217) | (378,749) | (203,455) | (6,538,934) | 196,265 | (8,069,090) |
| Proceeds from borrowings | 966,687 | - | 11,552,300 | - | 16,420,992 | - | 28,939,979 |
| Deferred financing fees | - | - | - | - | (18,268) | - | (18,268) |
| Tax credit fees | - | - | - | - | (16,309) | - | (16,309) |
| **Net cash provided by (used in) financing activities** | (65,313) | (112,217) | 11,163,551 | (203,455) | 15,889,709 | 196,265 | 26,868,540 |
| **Net increase (decrease) in cash** | (570,473) | 1,065,232 | 510,744 | (318,239) | 788,315 | - | 1,475,579 |
| Cash: | | | | | | | |
| Beginning of year | 4,232,462 | 931,247 | 2,704,535 | 1,753,410 | 984,146 | - | 10,605,800 |
| End of year | $ 3,661,989 | $ 1,996,479 | $ 3,215,279 | $ 1,435,171 | $ 1,772,461 | $ - | $ 12,081,379 |

**Heartland Alliance for Human Needs & Human Rights**

**Consolidating Statement of Cash Flows**
**Year Ended June 30, 2013**

| | Heartland Alliance for Human Needs & Human Rights | Heartland Alliance International, LLC | Heartland Human Care Services, Inc. | Heartland Health Outreach, Inc. | Heartland Housing Inc. | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Cash Flows from Operating Activities | | | | | | | |
| Increase (decrease) in net assets | $ (3,191,656) | $ 2,662,052 | $ 1,985,999 | $ 272,178 | $ 15,078,944 | $ (1,000) | $ 16,806,517 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | | | | | | | |
| Depreciation and amortization | 185,318 | 71,116 | 475,274 | 422,806 | 2,863,198 | - | 4,017,712 |
| Contributed land and building | - | - | - | - | (3,050,000) | - | (3,050,000) |
| Gain on investments | (28,092) | - | (37,413) | - | - | - | (65,505) |
| Allocated gain from other investments | - | - | - | (117,883) | - | - | (117,883) |
| Capital contributions to limited partnerships and other entities | - | - | - | - | (11,330,137) | - | (11,330,137) |
| Non-cash contribution and equity credit from Together4Health, LLC | - | - | - | (250,000) | - | - | (250,000) |
| Effects of changes in operating assets and liabilities: | | | | | | | |
| Restricted cash | (68,510) | - | (52,531) | (51,407) | - | - | (172,448) |
| Accounts receivable: | | | | | | | |
| Program service grants and fees | 1,271,058 | (1,255,892) | 1,938,632 | 715,628 | 43,798 | (6,700) | 2,706,524 |
| Patient services | - | - | - | (155,195) | - | - | (155,195) |
| Pledges receivable | 745,077 | (245,520) | (641,008) | (152,095) | 123,840 | - | (169,706) |
| Other | (443) | - | 52,887 | (65,712) | (152,383) | - | (165,651) |
| Inter-agency | 1,032,259 | 44,948 | (934,383) | (35,716) | (107,108) | - | - |
| Prepaid expenses and other current assets | (92,812) | (514,632) | (101,853) | 95,046 | (104,873) | - | (719,124) |
| Receivables due from limited partnerships | - | - | - | - | (24,096) | - | (24,096) |
| Accounts payable and other accrued expenses | (210,063) | 96,323 | (94,832) | (188,840) | (348,593) | 6,450 | (739,555) |
| Accrued payroll and related liabilities | (441,526) | 236,978 | 162,865 | 29,453 | 11,544 | - | (686) |
| Accrued interest payable | - | - | - | - | 187,108 | - | 187,108 |
| Self insurance liability | 775,000 | - | - | - | - | - | 775,000 |
| Deferred rent liability | (18,889) | - | - | - | - | - | (18,889) |
| Deferred compensation plan liability | 126,726 | - | - | - | - | - | 126,726 |
| Deferred revenue | 190,913 | 202,115 | 276,332 | 209,681 | 984,974 | - | 1,864,015 |
| **Net cash provided by operating activities** | 274,360 | 1,297,488 | 3,029,969 | 727,944 | 4,176,216 | (1,250) | 9,504,727 |
| Cash Flows from Investing Activities | | | | | | | |
| Additions to property and equipment | (341,626) | (588,056) | (624,501) | (23,304) | (14,372,799) | - | (15,950,286) |
| Proceeds from sale of property and equipment | 199,828 | 87,500 | - | - | - | - | 287,328 |
| Purchases of investments | (1,299,148) | - | (129,075) | - | - | - | (1,428,223) |
| Proceeds from sale of investments | 427,348 | - | - | 311,277 | - | - | 738,625 |
| Issuance of notes receivable | - | - | - | - | - | - | - |
| Proceeds from notes receivable | 268,759 | - | 107,430 | - | 181,032 | (182,680) | 374,541 |
| Deposits to escrow accounts | - | - | - | - | (4,376,106) | - | (4,376,106) |
| Releases from escrow accounts | - | - | - | - | 558,085 | - | 558,085 |
| **Net cash provided by (used in) investing activities** | (744,839) | (500,556) | (646,146) | 287,973 | (18,009,788) | (182,680) | (19,796,036) |
| Cash Flows from Financing Activities | | | | | | | |
| Capital contributions in limited partnerships and other entities | (1,000) | - | (15,000) | - | 11,330,137 | 1,000 | 11,315,137 |
| Repayments of borrowings | (275,375) | (11,685) | (200,252) | (430,589) | (10,063,730) | 182,930 | (10,798,701) |
| Proceeds from borrowings | 300,000 | 146,000 | - | - | 13,130,622 | - | 13,576,622 |
| Deferred financing fees | - | - | - | - | (215,496) | - | (215,496) |
| Tax credit fees | - | - | - | - | (195,367) | - | (195,367) |
| **Net cash provided by (used in) financing activities** | 23,625 | 134,315 | (215,252) | (430,589) | 13,986,166 | 183,930 | 13,682,195 |
| **Net increase (decrease) in cash** | (446,854) | 931,247 | 2,168,571 | 585,328 | 152,594 | - | 3,390,886 |
| Cash: | | | | | | | |
| Beginning of year | 4,679,316 | - | 535,964 | 1,168,082 | 831,552 | - | 7,214,914 |
| End of year | $ 4,232,462 | $ 931,247 | $ 2,704,535 | $ 1,753,410 | $ 984,146 | $ - | $ 10,605,800 |

**Heartland Alliance for Human Needs & Human Rights**

**Statement of Financial Position**
**June 30, 2014**

| | Heartland Alliance for Human Needs & Human Rights | Eliminations | Total * |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 3,661,989 | $ - | $ 3,661,989 |
| Restricted cash | 3,362,864 | - | 3,362,864 |
| Investments | 6,635,113 | - | 6,635,113 |
| Accounts receivable: | | | |
| Program service grants and fees | 539,104 | - | 539,104 |
| Pledges receivable | 2,255,289 | - | 2,255,289 |
| Other | 69,875 | - | 69,875 |
| Inter-agency | 2,712,911 | - | 2,712,911 |
| Allowance for contractual adjustments, discounts and bad debts | (58,332) | - | (58,332) |
| Prepaid expenses and other current assets | 607,285 | - | 607,285 |
| Investment in affiliates and limited partnerships | 1,754,485 | (1,754,485) | - |
| Notes receivable | 711,851 | (711,851) | - |
| Property and equipment, net | 1,747,808 | - | 1,747,808 |
| **Total assets** | $ 24,000,242 | $ (2,466,336) | $ 21,533,906 |
| **Liabilities and Net Assets** | | | |
| Liabilities | | | |
| Accounts payable and other accrued expenses | $ 826,218 | $ - | $ 826,218 |
| Accrued payroll and related liabilities | 830,638 | - | 830,638 |
| Deferred revenue | 290,405 | - | 290,405 |
| Liability for self-insurance claims | 1,900,000 | - | 1,900,000 |
| Deferred rent liability | 654,604 | - | 654,604 |
| Deferred compensation plan liability | 483,174 | - | 483,174 |
| Debt obligations | 966,687 | - | 966,687 |
| **Total liabilities** | 5,951,726 | - | 5,951,726 |
| Net Assets | | | |
| Unrestricted: | | | |
| Undesignated and controlling interests | 6,154,012 | (2,466,336) | 3,687,676 |
| Board designated | 1,222,579 | - | 1,222,579 |
| **Total unrestricted net assets** | 7,376,591 | (2,466,336) | 4,910,255 |
| Temporarily restricted | 10,483,890 | - | 10,483,890 |
| Permanently restricted | 188,035 | - | 188,035 |
| **Total net assets** | 18,048,516 | (2,466,336) | 15,582,180 |
| **Total liabilities and net assets** | $ 24,000,242 | $ (2,466,336) | $ 21,533,906 |

* For purposes of this supplementary information statement, the Organization's management has assigned applicable eliminations from the financial statement consolidation of Heartland Alliance for Human Needs & Human Rights and its affiliated entities to this stand-alone entity. The total after elimination is a memorandum-only total, to demonstrate the effect of eliminations on the entity's reported account balances.

**Heartland Alliance for Human Needs & Human Rights**

**Statement of Activities**
**Year Ended June 30, 2014**

| | Program | Administration | Total |
|---|---|---|---|
| Revenue: | | | |
| Contributions | $ 8,499,060 | $ - | $ 8,499,060 |
| Program services: | | | |
| Grants, contracts, reimbursements and client fees | 1,793,517 | - | 1,793,517 |
| Allocation from United Way of Chicago | 43,617 | - | 43,617 |
| Contributed services and non-cash contributions | 240,611 | - | 240,611 |
| Interest and investment income | 426,339 | - | 426,339 |
| Other income | 823,358 | - | 823,358 |
| Total revenue | 11,826,502 | - | 11,826,502 |
| Expenses: | | | |
| Salaries and wages | 3,336,937 | 6,164,579 | 9,501,516 |
| Payroll taxes and fringe benefits | 787,628 | 1,274,047 | 2,061,675 |
| Staff expenses | 265,790 | 265,838 | 531,628 |
| Fundraising expenses | 68,077 | 169,317 | 237,394 |
| Professional services | 307,294 | 937,630 | 1,244,924 |
| Office services | 123,505 | 648,189 | 771,694 |
| Occupancy | 439,846 | 521,086 | 960,932 |
| Equipment | 63,354 | 251,308 | 314,662 |
| Client support and supplies | 135,986 | 8,104 | 144,090 |
| Subrecipients | 234,953 | - | 234,953 |
| Contributed services and in-kind expenses | 115,914 | 123,622 | 239,536 |
| Real estate development and property management | 441 | 17,736 | 18,177 |
| Interest expense | 2,500 | 12,322 | 14,822 |
| Uncollectible accounts | 10,000 | (6,487) | 3,513 |
| | 5,892,225 | 10,387,291 | 16,279,516 |
| Allocation of shared services costs | - | (7,549,751) | (7,549,751) |
| Total expenses | 5,892,225 | 2,837,540 | 8,729,765 |
| **Increase (decrease) in net assets before non-budgetary items** | 5,934,277 | (2,837,540) | 3,096,737 |
| Non-budgetary items: | | | |
| Depreciation and amortization | | | (291,631) |
| Total non-budgetary items | | | (291,631) |
| **Increase in net assets** | | | 2,805,106 |
| Net assets, beginning of year | | | 15,243,410 |
| Net assets, end of year | | | $ 18,048,516 |

**Heartland Alliance for Human Needs & Human Rights**

**Statement of Cash Flows**
**Year Ended June 30, 2014**

| | | |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Increase in net assets | $ | 2,805,106 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | | 291,631 |
| Loss on disposal of property and equipment | | 56,150 |
| Unrealized gain on investments | | (251,829) |
| Effects of changes in operating assets and liabilities: | | |
| Restricted cash | | (1,644,320) |
| Accounts receivable: | | |
| Program service grants and fees | | (217,709) |
| Pledges receivable | | (371,081) |
| Other | | 11,911 |
| Inter-agency | | (150,980) |
| Prepaid expenses and other current assets | | (5,370) |
| Accounts payable and other accrued expenses | | 591,166 |
| Accrued payroll and related liabilities | | 36,911 |
| Deferred rent liability | | 446,825 |
| Deferred compensation plan liability | | 102,692 |
| Deferred revenue | | (24,843) |
| **Net cash provided by operating activities** | | 1,676,260 |
| | | |
| Cash Flows from Investing Activities | | |
| Additions to property and equipment | | (1,290,889) |
| Purchases of investments | | (1,203,678) |
| Proceeds from sale of investments | | 116,882 |
| Proceeds from notes receivable | | 196,265 |
| **Net cash used in investing activities** | | (2,181,420) |
| | | |
| Cash Flows from Financing Activities | | |
| Repayments of borrowings | | (1,032,000) |
| Proceeds from borrowings | | 966,687 |
| **Net cash used in financing activities** | | (65,313) |
| | | |
| **Decrease in cash** | | (570,473) |
| | | |
| Cash: | | |
| Beginning of year | | 4,232,462 |
| | | |
| End of year | $ | 3,661,989 |

**Heartland Alliance International, LLC**

**Statement of Financial Position**
**June 30, 2014**

| | Heartland Alliance International, LLC | Eliminations | Total * |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 1,996,479 | $ - | $ 1,996,479 |
| Accounts receivable: | | | |
| Program service grants and fees | 881,485 | - | 881,485 |
| Pledges receivable | 374,840 | - | 374,840 |
| Other | 3,627 | | 3,627 |
| Inter-agency | (3,995) | - | (3,995) |
| Prepaid expenses and other current assets | 452,207 | - | 452,207 |
| Property and equipment, net | 460,254 | - | 460,254 |
| **Total assets** | $ 4,164,897 | $ - | $ 4,164,897 |
| **Liabilities and Net Assets** | | | |
| Liabilities | | | |
| Accounts payable and other accrued expenses | $ 110,711 | $ - | $ 110,711 |
| Accrued payroll and related liabilities | 206,069 | - | 206,069 |
| Deferred revenue | 1,092,483 | - | 1,092,483 |
| Debt obligations | 22,098 | (22,098) | - |
| **Total liabilities** | 1,431,361 | (22,098) | 1,409,263 |
| Net Assets | | | |
| Unrestricted: | | | |
| Undesignated and controlling interests | 2,013,316 | 22,098 | 2,035,414 |
| Board designated | 20,000 | - | 20,000 |
| **Total unrestricted net assets** | 2,033,316 | 22,098 | 2,055,414 |
| Temporarily restricted | 700,220 | - | 700,220 |
| **Total net assets** | 2,733,536 | 22,098 | 2,755,634 |
| **Total liabilities and net assets** | $ 4,164,897 | $ - | $ 4,164,897 |

* For purposes of this supplementary information statement, the Organization's management has assigned applicable eliminations from the financial statement consolidation of Heartland Alliance for Human Needs & Human Rights and its affiliated entities to this stand-alone entity. The total after elimination is a memorandum-only total, to demonstrate the effect of eliminations on the entity's reported account balances.

**Heartland Alliance International, LLC**

**Statement of Activities**
**Year Ended June 30, 2014**

| | Program | Administration | Total |
|---|---|---|---|
| Revenue: | | | |
| Contributions | $ 1,216,068 | $ - | $ 1,216,068 |
| Program services: | | | |
| Grants, contracts, reimbursements and client fees | 8,928,088 | - | 8,928,088 |
| Allocation from United Way of Chicago | 83,000 | - | 83,000 |
| Contributed services and non-cash contributions | 537,509 | - | 537,509 |
| Interest and investment income | 317 | - | 317 |
| Other income | 62,470 | - | 62,470 |
| Total revenue | 10,827,452 | - | 10,827,452 |
| Expenses: | | | |
| Salaries and wages | 2,749,333 | 582,296 | 3,331,629 |
| Payroll taxes and fringe benefits | 541,220 | 153,547 | 694,767 |
| Staff expenses | 646,445 | 115,048 | 761,493 |
| Fundraising expenses | 27,449 | 31,595 | 59,044 |
| Professional services | 500,417 | 93,675 | 594,092 |
| Office services | 209,749 | 21,182 | 230,931 |
| Occupancy | 282,142 | 51,576 | 333,718 |
| Equipment | 120,242 | (4,000) | 116,242 |
| Client support and supplies | 455,576 | 11,375 | 466,951 |
| Subrecipients | 2,947,255 | 2,085 | 2,949,340 |
| Contributed services and in-kind expenses | 80 | 537,429 | 537,509 |
| Interest expense | 1,756 | (271) | 1,485 |
| | 8,481,664 | 1,595,537 | 10,077,201 |
| Allocation of shared services costs | - | 641,200 | 641,200 |
| Total expenses | 8,481,664 | 2,236,737 | 10,718,401 |
| **Increase (decrease) in net assets before non-budgetary items** | 2,345,788 | (2,236,737) | 109,051 |
| Non-budgetary items: | | | |
| Depreciation and amortization | | | (37,567) |
| Total non-budgetary expenses | | | (37,567) |
| **Increase in net assets** | | | 71,484 |
| Net assets, beginning of year | | | 2,662,052 |
| Net assets, end of year | | | $ 2,733,536 |

**Heartland Alliance International, LLC**

**Statement of Cash Flows**
**Year Ended June 30, 2014**

| | | |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Increase in net assets | $ | 71,484 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | | 37,567 |
| Effects of changes in operating assets and liabilities: | | |
| Accounts receivable: | | |
| Program service grants and fees | | 374,407 |
| Pledges receivable | | (129,320) |
| Other | | (3,627) |
| Inter-agency | | (40,953) |
| Prepaid expenses and other current assets | | 62,425 |
| Accounts payable and other accrued expenses | | 14,388 |
| Accrued payroll and related liabilities | | (30,909) |
| Deferred revenue | | 890,368 |
| **Net cash provided by operating activities** | | 1,245,830 |
| Cash Flows from Investing Activities | | |
| Additions to property and equipment | | (68,381) |
| **Net cash used in investing activities** | | (68,381) |
| Cash Flows from Financing Activities | | |
| Repayments of borrowings | | (112,217) |
| **Net cash used in financing activities** | | (112,217) |
| **Increase in cash** | | 1,065,232 |
| Cash: | | |
| Beginning of year | | 931,247 |
| End of year | $ | 1,996,479 |

**Heartland Human Care Services, Inc.**

**Consolidating Statement of Financial Position**
**June 30, 2014**

| | Heartland Human Care Services, Inc. | 3500 South Giles, LLC | Eliminations | Total* |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ 3,111,712 | $ 103,567 | $ - | $ 3,215,279 |
| Restricted cash | 505,500 | - | - | 505,500 |
| Investments | 3,590,319 | - | - | 3,590,319 |
| Accounts receivable: | | | | |
| Program service grants and fees | 6,295,897 | - | - | 6,295,897 |
| Pledges receivable | 535,314 | - | - | 535,314 |
| Other | 5,175 | - | - | 5,175 |
| Inter-agency | (444,094) | 14,907 | - | (429,187) |
| Allowance for contractual adjustments, discounts and bad debts | (226,089) | - | - | (226,089) |
| Prepaid expenses and other current assets | 721,068 | (74,307) | - | 646,761 |
| Other investments | 25,000 | - | - | 25,000 |
| Notes receivable | 2,325,861 | - | - | 2,325,861 |
| Property and equipment, net | 3,407,944 | 10,956,493 | - | 14,364,437 |
| Escrow and reserve accounts | - | 556,020 | - | 556,020 |
| **Total assets** | $ 19,853,607 | $ 11,556,680 | $ - | $ 31,410,287 |
| **Liabilities and Net Assets** | | | | |
| Liabilities | | | | |
| Accounts payable and other accrued expenses | $ 4,364,078 | $ 136,207 | $ - | $ 4,500,285 |
| Accrued payroll and related liabilities | 1,537,273 | - | - | 1,537,273 |
| Deferred revenue | 683,214 | - | - | 683,214 |
| Debt obligations | 1,323,472 | 11,383,333 | - | 12,706,805 |
| **Total liabilities** | 7,908,037 | 11,519,540 | - | 19,427,577 |
| Net Assets | | | | |
| Unrestricted: | | | | |
| Undesignated and controlling interests | 10,836,801 | 37,140 | - | 10,873,941 |
| **Total unrestricted net assets** | 10,836,801 | 37,140 | - | 10,873,941 |
| Temporarily restricted | 1,108,769 | - | - | 1,108,769 |
| **Total net assets** | 11,945,570 | 37,140 | - | 11,982,710 |
| **Total liabilities and net assets** | $ 19,853,607 | $ 11,556,680 | $ - | $ 31,410,287 |

* For purposes of this supplementary information statement, the Organization's management has assigned applicable eliminations from the financial statement consolidation of Heartland Alliance for Human Needs & Human Rights and its affiliated entities to this stand-alone entity. The total after elimination is a memorandum-only total, to demonstrate the effect of eliminations on the entity's reported account balances.

**Heartland Human Care Services, Inc.**

**Consolidating Statement of Activities**
**Year Ended June 30, 2014**

| | Heartland Human Care Services, Inc. | 3500 South Giles, LLC | Eliminations | Total |
|---|---|---|---|---|
| Revenue: | | | | |
| Contributions | $ 649,395 | $ - | $ - | $ 649,395 |
| Program services: | | | | |
| Grants, contracts, reimbursements and client fees | 45,995,551 | - | - | 45,995,551 |
| Allocation from United Way of Chicago | 130,000 | - | - | 130,000 |
| Contributed services and non-cash contributions | 1,661,704 | - | - | 1,661,704 |
| Rental income | 250,486 | 828,287 | (828,287) | 250,486 |
| Interest and investment income | 296,219 | - | - | 296,219 |
| Other income | 48,106 | - | - | 48,106 |
| Total revenue | 49,031,461 | 828,287 | (828,287) | 49,031,461 |
| Expenses: | | | | |
| Salaries and wages | 22,195,728 | - | - | 22,195,728 |
| Payroll taxes and fringe benefits | 5,190,502 | - | - | 5,190,502 |
| Staff expenses | 411,882 | - | - | 411,882 |
| Fundraising expenses | 15,799 | - | - | 15,799 |
| Professional services | 1,575,322 | - | - | 1,575,322 |
| Office services | 585,439 | - | - | 585,439 |
| Occupancy | 3,609,943 | - | (828,287) | 2,781,656 |
| Equipment | 661,156 | - | - | 661,156 |
| Client support and medical supplies | 7,326,169 | - | - | 7,326,169 |
| Subrecipients | 920,486 | - | - | 920,486 |
| Contributed services and in-kind expenses | 1,656,000 | - | - | 1,656,000 |
| Real estate development and property management | 4,383 | 57,840 | - | 62,223 |
| Interest expense | 37,167 | 435,090 | - | 472,257 |
| Uncollectible accounts | (139,486) | - | - | (139,486) |
| | 44,050,490 | 492,930 | (828,287) | 43,715,133 |
| Allocation of shared services costs | 4,219,552 | - | - | 4,219,552 |
| Total expenses | 48,270,042 | 492,930 | (828,287) | 47,934,685 |
| **Increase in net assets before non-budgetary items** | 761,419 | 335,357 | - | 1,096,776 |
| Non-budgetary items: | | | | |
| Depreciation and amortization | (544,240) | (298,217) | - | (842,457) |
| Other non-operating expense | (3,147,800) | - | - | (3,147,800) |
| | (3,692,040) | (298,217) | - | (3,990,257) |
| **Increase (decrease) in net assets** | (2,930,621) | 37,140 | - | (2,893,481) |
| Net assets, beginning of year | 14,876,191 | - | - | 14,876,191 |
| Net assets, end of year | $ 11,945,570 | $ 37,140 | $ - | $ 11,982,710 |

**Heartland Human Care Services, Inc.**

**Schedule of Expenses**
**Year Ended June 30, 2014**

| | Program | Administration | Total |
|---|---|---|---|
| Expenses: | | | |
| Salaries and wages | $ 21,637,069 | $ 558,659 | $ 22,195,728 |
| Payroll taxes and fringe benefits | 5,123,541 | 66,961 | 5,190,502 |
| Staff expenses | 376,236 | 35,646 | 411,882 |
| Fundraising expenses | 13,941 | 1,858 | 15,799 |
| Professional services | 1,328,378 | 246,944 | 1,575,322 |
| Office services | 562,929 | 22,510 | 585,439 |
| Occupancy | 2,718,226 | 63,430 | 2,781,656 |
| Equipment | 650,585 | 10,571 | 661,156 |
| Client support and medical supplies | 7,294,046 | 32,123 | 7,326,169 |
| Subrecipients | 920,486 | - | 920,486 |
| Contributed services and in-kind expenses | 1,042,138 | 613,862 | 1,656,000 |
| Real estate development and property management | 62,169 | 54 | 62,223 |
| Interest expense | 472,257 | - | 472,257 |
| Uncollectible accounts | (129,526) | (9,960) | (139,486) |
| Allocation of shared services costs | - | 4,219,552 | 4,219,552 |
| | $ 42,072,475 | $ 5,862,210 | 47,934,685 |
| Depreciation and amortization | | | 842,457 |
| Other non-operating expenses | | | 3,147,800 |
| Total expenses | | | $ 51,924,942 |

**Heartland Human Care Services, Inc.**

**Statement of Cash Flows**
**Year Ended June 30, 2014**

| | |
|---|---|
| Cash Flows from Operating Activities | |
| Decrease in net assets | $ (2,893,481) |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 842,457 |
| Provision (recovery) of bad debts | 107,432 |
| Unrealized gain on investments | (269,519) |
| Effects of changes in operating assets and liabilities: | |
| Restricted cash | (357,103) |
| Accounts receivable: | |
| Program service grants and fees | (746,814) |
| Pledges receivable | 558,271 |
| Other | 4,038 |
| Inter-agency | 151,465 |
| Prepaid expenses and other current assets | 142,383 |
| Accounts payable and other accrued expenses | 3,718,603 |
| Accrued payroll and related liabilities | 311,512 |
| Deferred revenue | 318,921 |
| **Net cash provided by operating activities** | 1,888,165 |
| | |
| Cash Flows from Investing Activities | |
| Additions to property and equipment | (11,873,834) |
| Purchases of investments | (228,000) |
| Proceeds from sale of investments | 116,882 |
| Deposits to escrow accounts | (556,020) |
| **Net cash used in investing activities** | (12,540,972) |
| | |
| Cash Flows from Financing Activities | |
| Capital distributions in limited partnerships and other entities | (10,000) |
| Repayments of borrowings | (378,749) |
| Proceeds from borrowings | 11,552,300 |
| **Net cash provided by financing activities** | 11,163,551 |
| | |
| **Increase in cash** | 510,744 |
| | |
| Cash: | |
| Beginning of year | 2,704,535 |
| | |
| End of year | $ 3,215,279 |