HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC. D/B/A IMPACT BEHAVIORAL HEALTH PARTNERS AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2019 AND 2018

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC. D/B/A IMPACT BEHAVIORAL HEALTH PARTNERS AND SUBSIDIARY

YEARS ENDED JUNE 30, 2019 AND 2018

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Independent Auditors' Report

Board of Directors
Housing Options for the Mentally-Ill in Evanston, Inc.
d/b/a Impact Behavioral Health Partners and Subsidiary

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Housing Options for the Mentally-Ill in Evanston, Inc. d/b/a Impact Behavioral Health Partners (a nonprofit organization) and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 Consolidated 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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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 Housing Options for the Mentally-Ill in Evanston, Inc. d/b/a Impact Behavioral Health Partners and Subsidiary as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidated Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated supplementary information on page 27 is presented for purposes of additional analysis 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Ostrow Reisin Berk & Abrams, Ltd.

December 10, 2019

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC. D/B/A IMPACT BEHAVIORAL HEALTH PARTNERS AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,	**2019**	2018
ASSETS		
Cash	**$ 459,186**	$ 178,018
Investments	**166,600**	160,143
Receivables	**177,138**	125,746
Notes payable reserves	**125,189**	48,819
Prepaid expenses	**23,842**	14,151
Property and equipment, net	**3,438,835**	3,418,387
Deposits	**18,978**	2,389
Total assets	**$ 4,409,768**	$ 3,947,653

See notes to consolidated financial statements.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC. D/B/A IMPACT BEHAVIORAL HEALTH PARTNERS AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

June 30,		**2019**		2018
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	**$**	**34,429**	$	66,148
Notes payable, net of unamortized loan fees and unamortized discount		**888,412**		1,399,113
Total liabilities		**922,841**		1,465,261
Net assets:				
Without donor restrictions:				
Undesignated		**1,142,983**		913,342
Board-designated		**50,000**		50,000
Total net assets without donor restrictions		**1,192,983**		963,342
With donor restrictions:				
Purpose and time restricted		**2,291,869**		1,516,978
Permanently restricted		**2,075**		2,072
Total net assets with donor restrictions		**2,293,944**		1,519,050
Total net assets		**3,486,927**		2,482,392
Total liabilities and net assets	**$**	**4,409,768**	$	3,947,653

See notes to consolidated financial statements.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.
D/B/A IMPACT BEHAVIORAL HEALTH PARTNERS
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended June 30,	2019			2018		
	Without donor restrictions	**With donor restrictons**	**Total**	Without donor restrictions	With donor restrictons	Total
Revenue, support and gains:						
Government grants and contracts:						
Illinois Department of Human Services	**$ 739,462**		**$ 739,462**	$ 634,530		$ 634,530
U.S. Department of Housing and Urban Development	**461,031**		**461,031**	374,758		374,758
Managed care organizations	**334,650**		**334,650**	247,585		247,585
Grants and contributions	**544,392**	**$ 15,000**	**559,392**	432,983		432,983
Loan discount		**1,471,109**	**1,471,109**			
Participation fees	**188,482**		**188,482**	174,211		174,211
Special event, net of direct benefit to donors of $23,000 $32,200 for the years ended June 30, 2019 and 2018, respectively	**123,310**		**123,310**	128,850		128,850
Net investment income	**6,552**		**6,552**	15,103		15,103
Other income	**23,525**	**3**	**23,528**	13,219	$ 3	13,222
Net assets released from restrictions	**711,218**	**(711,218)**		83,786	(83,786)	
Total revenue, support and gains	**3,132,622**	**774,894**	**3,907,516**	2,105,025	(83,783)	2,021,242
Expenses:						
Program services	**2,390,280**		**2,390,280**	1,505,674		1,505,674
Management and general	**392,406**		**392,406**	556,238		556,238
Fundraising	**120,295**		**120,295**	157,417		157,417
Total expenses	**2,902,981**		**2,902,981**	2,219,329		2,219,329
Change in net assets	**229,641**	**774,894**	**1,004,535**	(114,304)	(83,783)	(198,087)
Net assets:						
Beginning of year	**963,342**	**1,519,050**	**2,482,392**	1,077,646	1,602,833	2,680,479
End of year	**$ 1,192,983**	**$ 2,293,944**	**$ 3,486,927**	$ 963,342	$ 1,519,050	$ 2,482,392

See notes to consolidated financial statements.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC. D/B/A IMPACT BEHAVIORAL HEALTH PARTNERS AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year ended June 30, 2019	Program Services			Supporting Services			
	Support services	Building management	Total	Management and general	Fundraising	Direct benefit to donors	Total
Building occupancy		$ 372,632	$ 372,632	$ 1,091			$ 373,723
Contracted services	$ 41,400		41,400	22,749			64,149
Depreciation and amortization	37	137,111	137,148	2,342			139,490
Insurance		2,096	2,096	22,015			24,111
Interest	191	706,688	706,879	11,940			718,819
Office and administrative	39,940	5,714	45,654	57,535	$ 12,438		115,627
Participant support	19,924		19,924				19,924
Payroll and benefits	877,950	146,377	1,024,327	272,332	89,860		1,386,519
Special event and fundraising					17,508	$ 23,000	40,508
Staff development and training	12,517	1,318	13,835	1,660	486		15,981
Travel and meetings	24,661	1,724	26,385	742	3		27,130
Total expenses	1,016,620	1,373,660	2,390,280	392,406	120,295	23,000	2,925,981
Less expenses included with revenue, support and gains on the consolidated statements of activities						(23,000)	(23,000)
Total expenses included in the expenses section on the consolidated statements of activities	$ 1,016,620	$ 1,373,660	$ 2,390,280	$ 392,406	$ 120,295	$ -	$ 2,902,981

See notes to consolidated financial statements.

HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.
D/B/A IMPACT BEHAVIORAL HEALTH PARTNERS
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

Year ended June 30, 2018	Program Services			Supporting Services			
	Support services	Building management	Total	Management and general	Fundraising	Direct benefit to donors	Total
Building occupancy	$ 53	$ 305,057	$ 305,110	$ 697			$ 305,807
Contracted services	47,339	200	47,539	83,126	$ 1,209		131,874
Depreciation and amortization	171	126,297	126,468	12,839			139,307
Insurance		9,889	9,889	25,501			35,390
Interest		59,969	59,969	27,049			87,018
Office and administrative	35,470	20,657	56,127	55,018	10,099		121,244
Participant support	15,974	32	16,006	75	100		16,181
Payroll and benefits	724,750	131,482	856,232	348,317	129,579		1,334,128
Special event and fundraising					16,131	$ 32,200	48,331
Staff development and training	5,257	562	5,819	2,012	193		8,024
Travel and meetings	22,036	479	22,515	1,604	106		24,225
Total expenses	851,050	654,624	1,505,674	556,238	157,417	32,200	2,251,529
Less expenses included with revenue, support and gains on the consolidated statements of activities						(32,200)	(32,200)
Total expenses included in the expenses section on the consolidated statements of activities	$ 851,050	$ 654,624	$ 1,505,674	$ 556,238	$ 157,417	$ -	$ 2,219,329

See notes to consolidated financial statements.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC. D/B/A IMPACT BEHAVIORAL HEALTH PARTNERS AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,	**2019**	2018
Cash flows from operating activities:		
Change in net assets	**$ 1,004,535**	$ (198,087)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loan discount	**(1,471,109)**	
Depreciation and amortization	**139,490**	139,307
Amortization of loan discount	**711,218**	78,855
Net realized and unrealized gains	**(3,366)**	(13,020)
Donated stock	**(6,221)**	(8,845)
(Increase) decrease in operating assets:		
Receivables	**(51,392)**	(3,212)
Prepaid expenses	**(9,691)**	19,803
Deposits	**(16,589)**	
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	**(31,719)**	28,976
Net cash provided by operating activities	**265,156**	43,777
Cash flows from investing activities:		
Purchase of investments	**(44,194)**	(2,084)
Purchase of property and equipment	**(1,631)**	(46,975)
Proceeds from sale of investments	**47,324**	
Net cash provided by (used in) investing activities	**1,499**	(49,059)

See notes to consolidated financial statements.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC. D/B/A IMPACT BEHAVIORAL HEALTH PARTNERS AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended June 30,		2019		2018
Cash flows from financing activities:				
Restriction of cash for notes payable reserves	$	(8,732)	$	(11,306)
Proceeds from note payable		36,272		
Repayments of notes payable		(13,027)		(22,816)
Net cash provided by (used in) financing activities		14,513		(34,122)
Net increase (decrease) in cash		281,168		(39,404)
Cash, beginning of year		178,018		217,422
Cash, end of year	$	459,186	$	178,018
Supplemental disclosure of cash flow information:				
Interest paid during the year	$	7,601	$	8,163
Supplemental disclosure of non-cash investing and financing activities:				
Proceeds from notes payable used for:				
Repayments of notes payable	$	1,820,637		
Purchase of property and equipment		158,307		
Loan fees		52,500		
Notes payable reserves		67,638		
Total	$	2,099,082		

See notes to consolidated financial statements.

1. Organization and purpose

Housing Options for the Mentally-Ill in Evanston, Inc. d/b/a Impact Behavioral Health Partners (Housing Options) is a nonprofit organization whose mission is to develop housing opportunities for adults recovering from chronic mental illnesses, provide a network of support services so that each person can live as independently as possible, and advance understanding of mental illnesses and the need for supportive housing.

Housing Options' wholly-owned subsidiary, Impact Apartments LLC, was formed during the year ended June 30, 2019 as required by the Illinois Housing Development Authority for Housing Options' building rehabilitation project (Notes 8 and 14).

2. Summary of significant accounting policies

The significant accounting policies of the Organization are summarized below:

Basis of accounting:

The Organization's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation:

The consolidated financial statements include the accounts of Housing Options for the Mentally-Ill in Evanston, Inc. d/b/a Impact Behavioral Health Partners and Impact Apartments LLC. All material inter-organizational transactions and balances have been eliminated. Together both entities are referred to as the Organization.

Adoption of new accounting standard:

Effective July 1, 2018, the Organization adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. This guidance provides for additional disclosure requirements and modifies net asset reporting. The standard requires the Organization to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions. It also adds information about liquidity and availability of resources and requires the reporting of expense by nature and function. The Organization has included the changes within the consolidated financial statements and related disclosures and was applied retrospectively to all periods presented.

2. Summary of significant accounting policies (continued)

Basis of presentation:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> **Net assets without donor restrictions** - Net assets available for use in general operations and not subject to donor restrictions. Voluntary resolutions by the Board of Directors to designate a portion of the Organization's net assets without donor restrictions for specified purposes do not result in restricted funds. Since designations are voluntary and may be reversed by the Board of Directors at any time, designated net assets are included under the caption "net assets without donor restrictions". Board-designated net assets include assets over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes.
>
> **Net assets with donor restrictions** - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Receivables:

Receivables are stated at unpaid balances, less an allowance for doubtful accounts, if necessary. The Organization provides for losses using the allowance method. The allowance is based on experience, third-party contracts, and knowledge of circumstances that may affect the ability of clients to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Management has determined that receivables are fully collectible; therefore, no allowance for uncollectible accounts was considered necessary at June 30, 2019 and 2018.

Conditional promises to give:

Conditional promises to give are not included as support until the conditions are substantially met. Funds received in advance of the conditions being met are recorded as refundable advances; and will subsequently be recorded as revenue when donor conditions are met.

2. Summary of significant accounting policies (continued)

Investments:

Investments are carried at fair value. Realized and unrealized gains and losses and other investment income less direct internal and external investment expenses are reflected in the consolidated statements of activities as net investment income or net investment loss.

Property and equipment and related depreciation and amortization:

All acquisitions of property and equipment in excess of $1,000 and all expenditures for renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Property and equipment donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Depreciation and amortization are computed on a straight-line basis as follows:

Buildings	40 years
Building improvements	15 years
Leasehold improvments	Shorter of life of lease or 15 years
Furniture, equipment and vehicles	5-10 years

Notes payable:

Notes payable with below-market interest rates are discounted to present value. The discount is recognized as restricted contribution revenue in the year the note is issued. The discount is amortized to expense over the term of the loan using the effective interest method. Costs incurred to obtain notes payable are capitalized and amortized over the life of the notes payable. Unamortized costs are reported in the consolidated statements of financial position as a direct deduction from the face amount of the notes payable. Amortization of costs is reported as interest expense.

2. Summary of significant accounting policies (continued)

Revenue and support:

Contributions received are recorded with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions.

Support with donor restrictions is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. The Organization reports contributions with donor restrictions for which restrictions are met in the same reporting period as contributions without donor restrictions.

Government grants and contracts, managed care organizations, and participation fees revenue is recognized when earned, which is generally when qualifying expenses have been incurred, contract services have been provided and other requirements have been met.

Donated goods and services:

The Organization records the fair value of contributed goods and services provided that the contributed services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation. During the years ended June 30, 2019 and 2018, the Organization was the recipient of the following contributed goods and services:

Year ended June 30, 2019	Program services	Management and general	Fundraising	Total
Building occupancy	$ 3,305			$ 3,305
Contracted services	28,980			28,980
Total	$ 32,285			$ 32,285

2. Summary of significant accounting policies (continued)

Donated goods and services: (continued)

Year ended June 30, 2018	Program services	Management and general	Fundraising	Total
Building occupancy	$ 6,028			$ 6,028
Contracted services	30,787			30,787
Total	$ 36,815			$ 36,815

Functional expenses:

The costs of providing program activities and related supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses directly identifiable with a functional area are charged to that area.

Expenses that affect more than one area are allocated by the following methods:

- Building occupancy: based on square footage utilized by staff working in each program area,
- Office and administrative: based on the number of full time employees employed by each program, and
- Payroll and benefits: based on time and effort incurred by personnel from each program.

Tax status:

The Organization is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. In addition, the Internal Revenue Service has determined that the Organization is not a private foundation within the meaning of Section 509(a) of the Code.

Management has determined that the Organization was not required to record a liability related to uncertain tax positions as of June 30, 2019 and 2018.

2. Summary of significant accounting policies (continued)

Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the consolidated financial statements. Accordingly, actual results could differ from those estimates.

Reclassifications:

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year.

Subsequent events:

Management has evaluated subsequent events through December 10, 2019, the date the consolidated financial statements were available to be issued. In October 2019, the Organization obtained a line of credit (see Note 8).

3. Liquidity and availability

The following represents the Organization's financial assets available to meet general expenditures within one year:

June 30, 2019	
Financial assets at year-end:	
Cash	$ 459,186
Receivables	177,138
Investments	166,600
Total financial assets	802,924
Less amounts not available to be used within one year:	
Board-designated cash	(50,000)
Time and purpose restricted cash	(10,000)
Endowment fund cash	(2,075)
Total amounts not available to be used within one year	(62,075)
Financial assets available to meet general expenditures within one year	$ 740,849

The sources of the Organization's liquidity consist of cash, receivables and investments. The Organization's $50,000 of Board-designated net assets held in cash can be used within one year with approval by the Board of Directors.

3. Liquidity and availability (continued)

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operate within a prudent range of financial soundness and stability,
- Maintain adequate liquid assets, and
- Maintain sufficient reserves to provide reasonable assurance that long-term obligations will continue to be met, ensuring the sustainability of the Organization.

The Organization's Finance and Audit committee meets at least quarterly to review cash management and liquidity to ensure that the guiding principles are monitored.

4. Cash

The Organization maintains its cash in bank accounts which, at times, may exceed federally-insured limits. Cash in excess of federally-insured limits totaled approximately $223,500 and $-0- as of June 30, 2019 and 2018, respectively. Management believes that the Organization is not exposed to any significant credit risk on cash.

5. Receivables

Receivables are as follows:

June 30,	**2019**	2018
Government grants and contracts	**$ 40,851**	$ 42,736
Managed care organizations	**76,317**	51,588
Grants and contributions	**19,900**	22,993
Participation fees	**19,099**	8,429
Other	**20,971**	
Total	**$ 177,138**	$ 125,746

6. Investments

The Organization reports its investments in accordance with the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Investments carried at fair value are classified in one of the following three categories based upon the inputs to the valuation technique:

- Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the investment occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

- Level 3: Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the investment.

The Organization's investments are stated at fair value based on quoted prices in active markets (all Level 1 measurements under the fair value hierarchy).

The following is a summary of investments at fair value:

June 30,	**2019**	2018
	Level 1	
Common stock		$ 37,556
Money market funds	**$ 102,471**	59,346
Equity funds	**64,129**	63,241
Total	**$ 166,600**	$ 160,143

7. Property and equipment

The following is a summary of property and equipment:

June 30,	2019	2018
Land	**$ 496,684**	$ 496,684
Buildings and building improvements	**4,305,952**	4,305,952
Leasehold improvements	**34,097**	34,097
Furniture, equipment and vehicles	**113,433**	111,802
	4,950,166	4,948,535
Less accumulated depreciation and amortization	**1,711,065**	1,571,575
	3,239,101	3,376,960
Construction in process	**199,734**	41,427
Property and equipment, net	**$ 3,438,835**	$ 3,418,387

Depreciation and amortization expense was $139,490 and $139,307 for the years ended June 30, 2019 and 2018, respectively.

8. Notes payable

The Organization’s obligations under notes payable consist of the following:

June 30,				2019			2018	
	Rate	Due	**Principal balance**	**Unamortized discount and loan fees**	**Principal balance less unamortized discount and loan fees**	Principal balance	Unamortized discount and loan fees	Principal balance less unamortized discount and loan fees
BANK:								
1304 Kirk Street (Gavin House): First mortgage note, collateralized by underlying property and assignment of rents. Balloon principal payment of $108,905 on due date. Penalties for prepayment ranging from 1.00% to 3.00% are assessed based on the length of time the loan is outstanding.	5.00%	July 2023 **				$ 145,476	N/A	$ 145,476
Term loan - Office leaseholds/furniture and equipment: Note, collateralized by mortgage and assignment of rents. Required monthly payment of $830.	4.00%	November 2020 **				6,588	N/A	6,588
ILLINOIS HOUSING DEVELOPMENT AUTHORITY:								
Building loan (all buildings): Mortgage note collateralized by all Organization properties and assignment of rents and leases. Monthly principal payments of $2,083 starting August 1, 2020, with balloon principal payment at maturity. The note cannot be repaid before maturity without written consent of the payee. Default interest at 5% and principal may be payable due to non-compliance with provisions of the agreements with the Illinois Housing Development Authority. Discount is based on imputed interest rate of 5.00%.	0.00%	August 1, 2050	**$ 2,135,354**	**$ 1,523,609**	**$ 611,745**			
328 Custer Ave. (Bell House): Mortgage note, due in one payment. Contains certain restrictions on the Organization as to the use of the property as well as various other requirements and may not be repaid prior to maturity without written consent of the Illinois Housing Development Authority. Discount is based on imputed interest rate of 7.47%.	0.00%	April 2023 **				234,000	$ 70,732	163,268
2120 Jackson Ave. (HomeFirst): Mortgage note, due in one payment. Contains certain restrictions on the Organization as to the use of the property as well as various other requirements and may not be repaid prior to maturity without written consent of the Illinois Housing Development Authority. Discount is based on imputed interest rate of 8.85%.	0.00%	April 2022 **				175,000	50,192	124,808

8. Notes payable (continued)

June 30,	Rate	Due		2019 Principal balance	2019 Unamortized discount and loan fees	2019 Principal balance less unamortized discount and loan fees	2018 Principal balance	2018 Unamortized discount and loan fees	2018 Principal balance less unamortized discount and loan fees
ILLINOIS HOUSING DEVELOPMENT AUTHORITY: (CONTINUED)									
419 Keeney (Claire) and 1009 Florence (Ganey):									
Note payable collateralized by a mortgage on the properties. The note cannot be repaid before maturity without written consent of the payee. Default interest at 5.00% and principal may be payable due to non-compliance with provisions of the agreements with the Illinois Housing Development Authority. Discount is based on imputed interest rate of 8.00%.	0.00%	August 2026	**				$ 210,000	$ 100,498	$ 109,502
818 Crain (Rose House):									
Note payable collateralized by a first mortgage on the property. Monthly principal payments of $100 with balloon principal payment at maturity. The note cannot be repaid before maturity without written consent of the payee. Default interest at 5.00% and principal may be payable due to non-compliance with provisions of the agreements with the Illinois Housing Development Authority. Discount is based on imputed interest rate of 6.24%.	0.00%	February 2028	**				887,600	398,933	488,667
Note payable collateralized by second mortgage on the property. The note cannot be repaid before maturity without written consent of the payee. Default interest at 5.00% and principal may be payable due to non-compliance with provisions of the agreements with the Illinois Housing Development Authority. Discount is based on imputed interest rate of 6.24%.	0.00%	February 2028	**				175,000	79,190	95,810
CITY OF EVANSTON:									
HOME Program (419 Keeney (Claire)/1009 Florence (Ganey) and 2120 Jackson Ave. (HomeFirst))									
Note payable collateralized by a junior mortgage and assignment of rents on the properties. No principal payments are due during the 15-year term. Once the note term is completed and there is no uncured default, the note will be forgiven in its entirety. Default interest at the Federal Discount Rate and principal may be payable due to non-compliance with provisions of the agreement with the City of Evanston. Discount is based on imputed interest rate of 5.00%.	0.00%	June 2029		**$ 458,777**	**$ 182,110**	**$ 276,667**	458,777	193,783	264,994
				$ 2,594,131	**$ 1,705,719**	**$ 888,412**	$ 2,292,441	$ 893,328	$ 1,399,113

**Paid off in June 2019 with Illinois Housing Development Authority building loan.

8. Notes payable (continued)

During the year ended June 30, 2019, the Organization obtained a loan from the Illinois Housing Development Authority (IHDA) as part of a building rehabilitation project. Loan proceeds were used for principal payments on existing notes payable, construction costs, loan fees, and loan reserves. At June 30, 2019, the Organization has drawn down $2,135,354 of $4,224,799 available under the loan. The Organization will draw down the remaining funds during the year ending June 30, 2020 for construction costs.

Loan reserves:

The IHDA building loan obtained in the year ended June 30, 2019 requires the Organization to fund the following reserve accounts: replacement reserve account, tax and insurance reserve account, and initial operating reserve account. Loan reserves are held by the IHDA and may be used by the Organization at the discretion of the IHDA for repairs, real estate taxes and insurance, and operating deficits. Initial funding of the loan reserves was made at loan closing. At the discretion of the IHDA, the Organization may be required to fund the replacement reserve account with monthly payments of $900. The tax and insurance reserve account is funded so that funds equal to one-half of 105% of the property's real estate tax bill for the prior calendar year plus funds equal to 105% of the property's insurance bill for the prior calendar year (or such other amounts as the IHDA shall determine in its reasonable discretion) are maintained in the account on the first day of the month before each insurance bill and installment of real estate taxes are due. The initial operating reserve account requires no additional payments subsequent to initial funding.

The IHDA 818 Crain (Rose House) loans required the Organization to fund the following reserve accounts: replacement reserve account, tax and insurance reserve account, initial operating reserve account and operating deficit reserve account. At the discretion of the IHDA, the Organization may be required to fund the replacement reserve account with monthly payments of $225. The tax and insurance reserve account is funded so that funds equal to one-half of 105% of the property's real estate tax bill for the prior calendar year plus funds equal to 105% of the property's insurance bill for the prior calendar year (or such other amounts as the IHDA shall determine in its reasonable discretion) are maintained in the account on the first day of the month before each insurance bill and installment of real estate taxes are due. The initial operating reserve account and the operating deficit reserve account require no additional payments subsequent to initial funding.

8. Notes payable (continued)

Future principal payments on all outstanding loan obligations is as follows:

Year ending June 30:	Principal
2020	$ -
2021	22,913
2022	24,996
2023	24,996
2024	24,996
Thereafter	2,496,230
Total	$ 2,594,131

At June 30, 2018, the Organization had a $100,000 line of credit that expired in January 2019. There were no outstanding borrowings on the line of credit at June 30, 2018. Interest charged on advances on the line of credit were at the prime rate of interest (5.00% at June 30, 2018). The line of credit was collateralized by substantially all business assets.

In October 2019, the Organization obtained a $100,000 line of credit expiring in October 2020. Interest charged on advances on the line of credit are at the prime rate of interest (5.50% at June 30, 2019). The line of credit is collateralized by substantially all business assets.

Total interest expense, including amortization of loan fees and loan discount classified as interest is as follows:

Years ended June 30,	**2019**	2018
Interest expense	**$ 7,601**	$ 8,163
Amortization of loan discount	**711,218**	78,855
Total	**$ 718,819**	$ 87,018

9. Designation of net assets without donor restrictions

It is the policy of the Board of Directors of the Organization to review its plans for future property improvements and to designate appropriate sums of net assets without donor restrictions to ensure adequate financing of such improvements. As of June 30, 2019 and 2018, the Board has designated $50,000 of net assets without donor restrictions for future property improvements.

10. Net assets with donor restrictions

Net assets with donor restrictions are as follows:

June 30,	**2019**	2018
Purpose and time restricted:		
Client assistance	**$ 15,000**	
Acquisition of property and equipment:		
Recapture agreements	**623,650**	$ 623,650
Unamortized loan discount	**1,653,219**	893,328
Permanently restricted:		
Endowment fund	**2,075**	2,072
Total net assets with donor restrictions	**$ 2,293,944**	$ 1,519,050

Net assets with donor restrictions were released from donor restrictions as follows:

Years ended June 30,	**2019**	2018
Purpose and time restricted:		
Contributions receivable		$ 4,931
Amortization of loan discount	**$ 711,218**	78,855
Total net assets released from restrictions	**$ 711,218**	$ 83,786

11. Retirement plan

The Organization sponsors a tax-deferred annuity plan qualified under Section 403(b) of the Code for eligible employees. All employees are eligible upon hiring and are fully vested immediately. The plan provides for discretionary contributions. During the years ended June 30, 2019 and 2018, the Organization made discretionary contributions equal to 1.5% of compensation for qualified employees. Employees may make contributions to the plan up to the maximum amount allowed by the Code. Contributions to the plan totaled $16,901 and $16,804 for the years ended June 30, 2019 and 2018, respectively.

12. Leases

The Organization leases office space under a lease agreement expiring on September 30, 2020. The lease calls for monthly payments of base rent only.

In furtherance of its mission, the Organization occupies various scattered site apartment rentals under short-term leases.

Future minimum rental payments are as follows:

Year ending June 30:	Office	Scattered site apartment rentals	Amount
2020	$ 40,344	$ 216,000	$ 256,344
2021	10,086		10,086
Total	$ 50,430	$ 216,000	$ 266,430

Total rent expense was $252,455 and $196,333 for the years ended June 30, 2019 and 2018, respectively.

13. Concentration of revenue

Approximately 31% and 50% of the Organization's total revenue for the years ended June 30, 2019 and 2018, respectively, is provided from grants from the U.S. Department of Housing and Urban Development and the Illinois Department of Human Services. Additionally, approximately 23% and 34% of the Organization's receivables at June 30, 2019 and 2018, respectively, are from the U.S. Department of Housing and Urban Development and the Illinois Department of Human Services.

14. Commitment

The Organization has entered into construction contracts for rehabilitation of their buildings. During the year ending June 30, 2020, the Organization expects to incur costs of approximately $2,089,000 for construction costs. All costs will be funded from the Organization's Illinois Housing Development Authority loan (see Note 8).

15. Conditional grant

During the year ended June 30, 2019, the Organization received a conditional grant of $1,456,175 to provide rental assistance subsidies for eligible units in the Organization's buildings. No grant funds were received during the year ended June 30, 2019. The Organization did not meet grant conditions to provide rental assistance subsidies and did not recognize grant revenue during the year ended June 30, 2019.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC. D/B/A IMPACT BEHAVIORAL HEALTH PARTNERS AND SUBSIDIARY

CONSOLIDATED SCHEDULES OF CHANGE IN NET ASSETS BEFORE AND AFTER DEPRECIATION AND AMORTIZATION AND INTEREST EXPENSE (AMORTIZATION OF LOAN DISCOUNT)

Years ended June 30,	**2019**	2018
Total revenue, support and gains	**$ 3,907,516**	$ 2,021,242
Total expenses before depreciation and amortization and interest expense (amortization of loan discount)	**2,052,273**	2,001,167
Change in net assets before depreciation and amortization and interest expense (amortization of loan discount)	**1,855,243**	20,075
Depreciation and amortization expense	**139,490**	139,307
Interest expense (amortization of loan discount)	**711,218**	78,855
Change in net assets	**$ 1,004,535**	$ (198,087)

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Housing Options for the Mentally-Ill in Evanston, Inc.
d/b/a Impact Behavioral Health Partners and Subsidiary

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Housing Options for the Mentally-Ill in Evanston, Inc. d/b/a Impact Behavioral Health Partners and Subsidiary (the Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ostrow Reisin Berk & Abrams, Ltd.

December 10, 2019