

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

YEAR ENDED JUNE 30, 2016

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

YEAR ENDED JUNE 30, 2016

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Independent Auditor's Report

Board of Directors
Housing Options for the Mentally-Ill in Evanston, Inc.
Evanston, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Housing Options for the Mentally-Ill in Evanston, Inc. (a nonprofit organization) (the Organization), which comprise the statement of financial position as of June 30, 2016 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Housing Options for the Mentally-Ill in Evanston, Inc. as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2017, 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 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.

Report on Summarized Comparative Information

We have previously audited the Organization's financial statements as of and for the year ended June 30, 2015 and our report dated December 7, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.



January 23, 2017
Chicago, Illinois

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF FINANCIAL POSITION
WITH SUMMARIZED FINANCIAL INFORMATION FOR JUNE 30, 2015

June 30,	2016					2015	
	Unrestricted			Temporarily restricted	Permanently restricted	Total	Total
	Operating	Board- designated	Total				
ASSETS							
Cash	\$ 84,047	\$ 50,000	\$ 134,047		\$ 2,067	\$ 136,114	\$ 166,767
Receivables:							
Illinois Department of Human Services, less allowance for doubtful accounts of \$3,431 in 2015	137,535		137,535			137,535	35,279
Managed Care Organizations	25,600		25,600			25,600	22,536
Grants/contributions	32,225		32,225	\$ 44,715		76,940	347,591
Participation fees and self-pay	8,087		8,087			8,087	4,840
Total receivables	203,447		203,447	44,715		248,162	410,246
Notes payable reserve	80,908		80,908			80,908	50,454
Prepaid expenses	10,958		10,958			10,958	13,561
Investments	43,138		43,138			43,138	127,424
Property and equipment, net	1,979,752		1,979,752	1,669,626		3,649,378	3,743,887
Security deposits	2,389		2,389			2,389	5,319
Total assets	\$ 2,404,639	\$ 50,000	\$ 2,454,639	\$ 1,714,341	\$ 2,067	\$ 4,171,047	\$ 4,517,658

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF FINANCIAL POSITION (CONTINUED)
WITH SUMMARIZED FINANCIAL INFORMATION FOR JUNE 30, 2015

June 30,	2016					2015	
	Unrestricted			Temporarily restricted	Permanently restricted	Total	Total
	Operating	Board- designated	Total				
LIABILITIES AND NET ASSETS							
Liabilities:							
Accounts payable and accrued expenses	\$ 40,391		\$ 40,391			\$ 40,391	\$ 54,597
Notes payable, less unamortized discount	1,291,185		1,291,185			1,291,185	1,509,148
Total liabilities	1,331,576		1,331,576			1,331,576	1,563,745
Net assets	1,073,063	\$ 50,000	1,123,063	\$ 1,714,341	\$ 2,067	2,839,471	2,953,913
Total liabilities and net assets	\$ 2,404,639	\$ 50,000	\$ 2,454,639	\$ 1,714,341	\$ 2,067	\$ 4,171,047	\$ 4,517,658

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015

Years ended June 30,	2016					2015	
	Unrestricted		Total	Temporarily restricted	Permanently restricted	Total	Total
Operating	Board- designated						
Revenues and other support:							
Public support:							
Government grants:							
Illinois Department of Human Services:							
Supported housing and case management	\$ 462,270		\$ 462,270		\$ 462,270		\$ 411,021
Managed Care Organizations	91,637		91,637		91,637		88,223
U.S. Department of Housing and Urban Development	339,464		339,464		339,464		326,705
Other	58,900		58,900		58,900		58,868
Total government grants	952,271		952,271		952,271		884,817
Contributions:							
Federal Home Loan Bank of Chicago							316,866
Individual	243,694		243,694	\$ 44,715	288,409		87,153
Private foundation/corporate	105,000		105,000		105,000		89,500
United Way allocations	50,000		50,000		50,000		50,000
In-kind	71,260		71,260		71,260		55,329
Total contributions	469,954		469,954	44,715	514,669		598,848
Total public support	1,422,225		1,422,225	44,715	1,466,940		1,483,665

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015

Years ended June 30,	2016					2015	
	Unrestricted			Temporarily restricted	Permanently restricted	Total	Total
Operating	Board- designated	Total					
Revenues and other support: (continued)							
Other revenues:							
Participation fees	\$ 203,460		\$ 203,460			\$ 203,460	\$ 254,291
Investment income and other interest	553		553		\$ 2	555	9,108
Net assets released from restrictions	70,077		70,077	\$ (70,077)			
Total other revenues	274,090		274,090	(70,077)	2	204,015	263,399
Total revenues and other support	1,696,315		1,696,315	(25,362)	2	1,670,955	1,747,064
Expenses and other costs:							
Program services:							
Support services	1,064,418		1,064,418			1,064,418	1,029,094
Building management	351,603		351,603			351,603	340,256
Supporting services:							
Management and general	240,760		240,760			240,760	199,053
Fundraising	128,616		128,616			128,616	136,908
Total expenses	1,785,397		1,785,397			1,785,397	1,705,311
Change in net assets	(89,082)		(89,082)	(25,362)	2	(114,442)	41,753
Net assets, beginning of year	1,162,145	\$ 50,000	1,212,145	1,739,703	2,065	2,953,913	2,912,160
Net assets, end of year	\$ 1,073,063	\$ 50,000	\$ 1,123,063	\$ 1,714,341	\$ 2,067	\$ 2,839,471	\$ 2,953,913

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF FUNCTIONAL EXPENSES
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015

Years ended June 30,	2016						2015	
	Program Services			Supporting Services			Total expenses	Total expenses
	Support services	Building management	Total	Management and general	Fundraising	Total		
Salaries and related expenses:								
Salaries	\$ 542,956		\$ 542,956	\$ 176,898	\$ 74,007	\$ 250,905	\$ 793,861	\$ 733,258
Employee benefits	51,984		51,984	16,937	7,086	24,023	76,007	77,215
Payroll taxes	49,382		49,382	16,089	6,731	22,820	72,202	71,635
Total salaries and related expenses	644,322		644,322	209,924	87,824	297,748	942,070	882,108
Other expenses:								
Bad debts	584		584				584	65,913
Bank fees	270		270	12	18	30	300	238
Building repairs and maintenance	4,151	\$ 59,166	63,317	172	258	430	63,747	65,585
Building utilities	7,237	42,254	49,491				49,491	51,171
Community education and development					12,767	12,767	12,767	10,988
Conferences and meetings	2,534		2,534	112	169	281	2,815	1,948
Consulting	3,290		3,290	146	220	366	3,656	3,240
Dues and subscriptions	924		924	41	62	103	1,027	1,338
Furnishings	476	4,297	4,773				4,773	19,447
Insurance	12,280	19,100	31,380	460	689	1,149	32,529	31,710
Interest	883	11,769	12,652	39	59	98	12,750	14,606
Local transportation	13,456		13,456	592	887	1,479	14,935	12,483
Miscellaneous	486		486	23	32	55	541	322
Occupancy	36,687		36,687	1,604	2,407	4,011	40,698	51,441
Office supplies	10,565		10,565	470	704	1,174	11,739	4,856
Postage and shipping	1,245		1,245	55	83	138	1,383	1,472
Printing and publications	2,712		2,712	121	180	301	3,013	447
Professional fees	29,727		29,727	25,025	18,133	43,158	72,885	28,561
Psychiatrist	59,853		59,853				59,853	44,725
Resident support	16,188		16,188				16,188	23,010

See notes to financial statements.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015

Years ended June 30,	2016						2015	
	Program Services			Supporting Services			Total expenses	Total expenses
	Support services	Building management	Total	Management and general	Fundraising	Total		
Other expenses: (continued)								
Scattered site apartment rentals	\$ 172,344		\$ 172,344				\$ 172,344	\$ 157,462
Software licenses and fees	16,438		16,438	\$ 730	\$ 1,096	\$ 1,826	18,264	22,834
Staff training	7,189		7,189	320	479	799	7,988	4,371
Telephone	13,889		13,889	617	926	1,543	15,432	12,339
Total other expenses	413,408	\$ 136,586	549,994	30,539	39,169	69,708	619,702	630,507
Total expenses before depreciation and amortization	1,057,730	136,586	1,194,316	240,463	126,993	367,456	1,561,772	1,512,615
Amortization of loan discount		69,077	69,077				69,077	64,673
Depreciation and amortization	6,688	145,940	152,628	297	1,623	1,920	154,548	128,023
Total expenses	\$ 1,064,418	\$ 351,603	\$ 1,416,021	\$ 240,760	\$ 128,616	\$ 369,376	\$ 1,785,397	\$ 1,705,311

See notes to financial statements.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

STATEMENT OF CASH FLOWS

Years ended June 30,	2016	2015
Operating activities:		
Change in net assets	\$ (114,442)	\$ 41,753
Adjustments to reconcile above to cash provided by (used in) operating activities:		
Depreciation and amortization	154,548	128,023
Amortization of loan discount	69,077	64,673
Realized and unrealized (gains) losses	2,187	(6,349)
Provision for bad debts	584	65,913
(Increase) decrease in operating assets:		
Receivables	161,500	(288,592)
Notes payable reserve	(30,454)	(20,908)
Prepaid expenses	2,603	808
Security deposits	2,930	1,518
Decrease in operating liabilities:		
Accounts payable and accrued expenses	(14,206)	(1,242)
Cash provided by (used in) operating activities	234,327	(14,403)
Investing activities:		
Purchase of investments	(3,901)	(4,379)
Proceeds from sale of investments	86,000	
Purchase of property and equipment	(15,039)	(16,999)
Cash provided by (used in) investing activities	67,060	(21,378)

See notes to financial statements.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

STATEMENT OF CASH FLOWS (CONTINUED)

Years ended June 30,	2016	2015
Cash provided by (used in) investing activities	67,060	(21,378)
Financing activity:		
Repayments of notes payable	\$ (332,040)	\$ (6,592)
Cash used in financing activity	(332,040)	(6,592)
Decrease in cash	(30,653)	(42,373)
Cash, beginning of year	166,767	209,140
Cash, end of year	\$ 136,114	\$ 166,767
Supplemental disclosure of cash flow information:		
Interest paid	\$ 12,750	\$ 14,606
Supplemental disclosure of non-cash investing and financing activity:		
Property and equipment financed with note payable	\$ 45,000	\$ 316,866

See notes to financial statements.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization and purpose

Housing Options for the Mentally-Ill in Evanston, Inc. (the Organization) is a nonprofit organization founded in 1988 by a group of Evanston citizens concerned about the lack of affordable alternatives to homelessness and unnecessary institutionalization for adults recovering from chronic mental illnesses in Evanston.

The Organization's 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.
- Advance understanding of mental illnesses and the need for supportive housing.

In fulfilling that mission, the Organization's work is based on the following strong set of core beliefs:

- The Organization believes that individuals can recover from mental illness and homelessness and live to their full individual potential.
- The Organization believes that every individual has the right to safe and secure housing.
- The Organization believes that every individual should have the opportunity to enjoy and participate fully in their community.
- The Organization believes that every individual has the right and responsibility to make their own life choices.

The Organization serves adults, over the age of 18, who have chronic and serious mental illness. The Organization utilizes a permanent supportive housing model and a recovery framework that includes community care, supportive housing and supportive employment services. During the year ended June 30, 2016, the Organization served approximately 170 individuals, providing 68 individuals with approximately 24,000 days/nights of supportive housing in the community, with a 98% occupancy rate. During the year ended June 30, 2015, the Organization served approximately 160 individuals, providing 66 individuals with approximately 23,000 days/nights of supportive housing in the community, with a 98% occupancy rate. Each person the Organization works with received approximately 12 hours of direct support services per month. Annually, the Organization provides approximately 144 hours of direct support services to each individual.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies

The significant accounting policies of the Organization are summarized below.

Basis of accounting:

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation:

Financial statement presentation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification) for *Financial Statements of Not-for-Profit Organizations*. Under the Codification, the Organization is required to report information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted - Unrestricted net assets are available to finance the general operations of the Organization. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates and the purposes specified in its articles of incorporation. Voluntary resolutions by the Board of Directors to designate a portion of the Organization's unrestricted net assets 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 "unrestricted net assets". Board-designated net assets include assets over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Board-designated net assets represent assets to fund future property improvements.

Temporarily restricted - Temporarily restricted net assets result (a) from contributions and other inflows of assets, the use of which by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by action of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Basis of presentation: (continued)

Permanently restricted - Permanently restricted net assets (generally referred to as endowment funds) are assets that have donor-imposed restrictions that stipulate that the contributed resources be maintained permanently, but permit the Organization to utilize or expend part or all of the income or other economic benefits derived from the donated assets.

Unrestricted and restricted revenue and support - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. The Organization reports donor-restricted contributions and donor-restricted investment gains and income for which restrictions are met in the same reporting period as unrestricted support.

Comparative financial information:

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Property and equipment and related depreciation and amortization:

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, 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. Depreciation and amortization is computed on a straight-line basis over the useful lives of the assets generally as follows:

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

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.

The Organization has adopted the requirement for accounting for uncertain tax positions and management has determined that the Organization was not required to record a liability related to uncertain tax positions as of June 30, 2016 and 2015.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments:

Investments are stated at fair value. Realized and unrealized investment gains and losses and other investment income are reflected in the statement of activities and changes in net assets as changes in unrestricted net assets.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Receivables:

Receivables are stated at unpaid balances, net of an allowance of doubtful accounts. It is the Organization's policy to write-off uncollectible receivables when management determines that the receivable will not be collected.

Unconditional promises to give at June 30, 2016 and 2015 are receivable in less than one year.

Donated goods and services:

Donated goods and services are recognized in accordance with the Codification for *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals possessing those skills and would otherwise be purchased by the Organization. Many individuals volunteer their time and perform tasks that assist the Organization. No amounts have been reflected in the financial statements for those donated services because the criteria for recognition under the Codification was not met.

The following donated goods and services are included as in-kind contribution revenue in the statement of activities and changes in net assets:

Years ended June 30,	2016	2015
Specialized program services	\$ 45,840	\$ 33,720
Occupancy	6,280	
Furnishings and equipment	6,617	14,976
Legal, professional and other services	12,523	6,633
Total	\$ 71,260	\$ 55,329

Functional allocation of expenses:

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Reclassifications:

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

3. Cash

The Organization maintains its cash in bank accounts which, at times, may exceed federally-insured limits. At June 30, 2016 and 2015, the Organization did not have any uninsured cash balances. The Organization has not experienced any losses in such accounts. Management believes that the Organization is not subject to any significant credit risk on cash.

4. Concentration of revenue

Approximately 48% and 42% of the Organization's total revenue for the years ended June 30, 2016 and 2015, respectively, is provided from grants from the U.S. Department of Housing and Urban Development and the Illinois Department of Human Services. Additionally, approximately 55% of the Organization's receivables at June 30, 2016 are from the Illinois Department of Human Services.

5. Investments

The Organization's investments are stated at fair value based on quoted prices in active markets (all Level 1 measurements) and consist of the following:

<u>June 30,</u>	<u>2016</u>	<u>2015</u>
Mutual funds - Total Stock Market Index Fund	\$ 43,138	\$ 127,424

Dividend income of \$1,901 and \$2,381 and realized and unrealized gain (loss) of (\$2,187) and \$6,349 are recognized as investment income in the statement of activities and changes in net assets for the years ended June 30, 2016 and 2015, respectively.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Property and equipment

The following is a summary of property and equipment:

<u>June 30,</u>	<u>2016</u>	<u>2015</u>
Land	\$ 496,684	\$ 496,684
Buildings and building improvements	4,300,404	4,297,074
Leasehold improvements	34,097	
Furniture, equipment and vehicles	111,337	201,379
	<u>4,942,522</u>	<u>4,995,137</u>
Less accumulated depreciation and amortization	1,293,144	1,251,250
Property and equipment, net	<u>\$ 3,649,378</u>	<u>\$ 3,743,887</u>

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Notes payable

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

June 30,			2016			2015				
	Rate	Due	Principal balance	Unamortized discount	Principal balance less unamortized discount	Principal balance	Unamortized discount	Principal balance less unamortized discount		
BANK:										
<u>1304 Kirk Street (Gavin House):</u>										
First mortgage note, secured by underlying property and assignment of rents. Balloon principal payment of \$146,083 on due date. Penalties for prepayment ranging from 1.00% to 3.00% are assessed based on length of time the loan is outstanding.			5.00%	July 2018	\$ 157,711	N/A	\$ 157,711	\$ 163,358	N/A	\$ 163,358
<u>Bridge loan - Federal Home Loan Bank of Chicago project</u>										
Mortgage note, secured by property and assignment of rents. Required payments of interest only through maturity date. May be prepaid without penalty.			4.50%	December 2015			316,866	**		316,866
<u>Term loan - Office leaseholds/furniture and equipment</u>										
Note, secured by mortgage and assignment of rents. Required monthly payment of \$830.			4.00%	November 2020	36,673		36,673			
ILLINOIS HOUSING DEVELOPMENT AUTHORITY:										
<u>328 Custer Ave. (Bell House):</u>										
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	\$ 93,324	140,676	234,000	\$ 103,420	130,580
<u>2120 Jackson Ave. (HomeFirst):</u>										
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	70,370	104,630	175,000	79,201	95,799

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Notes payable (continued)

June 30,			2016			2015		
	Rate	Due	Principal balance	Unamortized discount	Principal balance less unamortized discount	Principal balance	Unamortized discount	Principal balance less unamortized discount
ILLINOIS HOUSING DEVELOPMENT AUTHORITY: (CONTINUED)								
<u>419 Keeney (Claire) and 1009 Florence (Ganey):</u>								
Note payable secured 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	\$ 116,639	\$ 93,361	\$ 210,000	\$ 123,794	\$ 86,206
<u>818 Crain (Rose House):</u>								
Note payable secured 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	890,000	456,275	433,725	891,200	482,488	408,712
Note payable secured 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	90,417	84,583	175,000	95,527	79,473
CITY OF EVANSTON								
<u>HOME Program (419 Keeney (Claire)/1009 Florence (Ganey) and 2120 Jackson Ave. (HomeFirst))</u>								
Note payable secured 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	218,951	239,826	458,777	230,623	228,154
			\$ 2,337,161	\$ 1,045,976	\$ 1,291,185	\$ 2,624,201	\$ 1,115,053	\$ 1,509,148

**Paid off in October 2015

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Notes payable (continued)

Reserve accounts:

The 818 Crain (Rose House) loans require 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. The reserve accounts totaled \$80,908 and \$50,454 as of June 30, 2016 and 2015, respectively. At the discretion of the Illinois Housing Development Authority, 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 Illinois Housing Development Authority 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.

Debt service to maturity on all outstanding loan obligations is as follows:

<u>Year ending June 30:</u>	<u>Principal</u>
2017	\$ 21,932
2018	22,833
2019	153,220
2020	1,200
2021	1,200
Thereafter (2022 through 2028)	2,136,776
<u>Total</u>	<u>\$ 2,337,161</u>

The Organization is in compliance with all covenants of the above loans.

The Organization has a \$100,000 line of credit as of June 30, 2016 and 2015 of which \$-0- had been borrowed as of June 30, 2016 and 2015. The line of credit expired in January 2016 and was renewed through January 2017. Advances on the line of credit are at the higher of 1% plus the prime rate (3.5% and 3.25% at June 30, 2016 and 2015, respectively) or 5% and are collateralized by all business assets, a mortgage and assignment of rents.

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Designation of unrestricted net assets

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 unrestricted net assets to ensure adequate financing of such improvements. As of June 30, 2016 and 2015, the Board has designated \$50,000 of unrestricted net assets for future property improvements.

9. Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes or periods:

June 30,	2016	2015
Time-restricted funds:		
U.S. Department of Housing and Urban Development - recapture agreements	\$ 306,784	\$ 306,784
Federal Home Loan Bank of Chicago - recapture agreement	316,866	316,866
Illinois Housing Development Authority loans - unamortized loan discount	1,045,976	1,115,053
Contributions receivable	44,715	1,000
Total temporarily restricted net assets	\$ 1,714,341	\$ 1,739,703

Net assets were released from donor restrictions by incurring expenses satisfying the following restrictions specified by donors:

Years ended June 30,	2016	2015
Time-restricted funds:		
Contributions receivable	\$ 1,000	\$ 10,000
Illinois Housing Development Authority loans - amortization of loan discount	69,077	64,673
Total net assets released from restrictions	\$ 70,077	\$ 74,673

HOUSING OPTIONS FOR THE MENTALLY-ILL IN EVANSTON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Permanently restricted net assets

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Organization's general activities.

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, 2016 and 2015, 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 \$13,379 and \$12,159 for the years ended June 30, 2016 and 2015, respectively.

12. Leases

Office:

The Organization leased office space under an agreement that expired on October 31, 2015. The lease called for monthly payments of base rent only.

In September 2015, the Organization leased office space at a different location under a lease agreement scheduled to expire on September 30, 2016. In September 2016, the lease was extended for one year to September 30, 2017. An additional one year extension to September 30, 2018 is available but has not been exercised. The lease calls for monthly payments of base rent only. Future minimum payments are \$35,280 and \$8,820 for the years ending June 30, 2017 and 2018, respectively.

Base rent expense was \$34,691 and \$38,913 for the years ended June 30, 2016 and 2015, respectively.

Scattered site apartment rentals:

In furtherance of its mission, the Organization occupies various residential rental properties under short-term leases, which expire at various times during the year ending June 30, 2017 and year ended June 30, 2016. Depending on the Organization's needs, some of the leases may not be renewed upon expiration. The Organization's lease obligation for the year ending June 30, 2017 under these lease obligations is approximately \$173,000.

**HOUSING OPTIONS FOR THE
MENTALLY-ILL IN EVANSTON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Subsequent events

Management of the Organization has reviewed and evaluated subsequent events from June 30, 2016, the financial statement date, through January 23, 2017, the date the financial statements were available to be issued. Other than the event disclosed in Note 12, no events have occurred in this period that would be required to be recognized and/or disclosed in these financial statements as required by generally accepted accounting principles.

**Independent Auditor’s 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.
Evanston, Illinois

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 financial statements of Housing Options for the Mentally-Ill in Evanston, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2016 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements and have issued our report thereon dated January 23, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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.

January 23, 2017