Heartland Alliance for Human Needs & Human Rights

Reports required by
Government Auditing Standards and
OMB Circular A-133
June 30, 2014

Contents

Independent Auditor's Report	1 – 2
Financial Statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4 − 5
Consolidated statements of functional expenses	6 – 9
Consolidated statements of cash flows	10 – 11
Notes to consolidated financial statements	12 – 28

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 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 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 consolidated financial position of Heartland Alliance for Human Needs & Human Rights as of June 30, 2014 and 2013, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014 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.

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.

Heartland Alliance for Human Needs & Human Rights

Single Audit Act
Supplementary Financial and Compliance Report
June 30, 2014

Contents

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 Standard*s	1 – 2
Independent Auditor's Report on Compliance For Each Major Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	3 – 4
Schedule of Expenditures of Federal Awards	5 – 15
Notes to Schedule of Expenditures of Federal Awards	16 – 17
Schedule of Findings and Questioned Costs	18 – 19
Summary Schedule of Prior Audit Findings	20

McGladrey

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*

To the Board of Directors
Heartland Alliance for Human Needs & Human Rights
Chicago, 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 consolidated financial statements of Heartland Alliance for Human Needs & Human Rights (the Organization), which comprise the consolidated statement 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, and have issued our report thereon dated November 4, 2014.

Internal Control over Financial Reporting

In planning and performing our audits 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 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 or significant deficiencies. 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 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.

McGladrey LLP

Chicago, Illinois
November 4, 2014

McGladrey

Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited Heartland Alliance for Human Needs & Human Rights' (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2014. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of the Organization as of and for the year ended June 30, 2014, and have issued our report thereon dated November 4, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 audit 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Chicago, Illinois
December 4, 2014

Heartland Alliance for Human Needs & Human Rights

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

		Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Expenditures by Entity: Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
Child Nutrition Cluster									
U.S. Department of Agriculture									
School Breakfast Program									
HHCS	Passed-through Illinois State Board of Education								
	School Breakfast Program	10.553	64-108-8430-51	**$ 368,444**	$ -	$ -	$ 368,444	$ -	$ -
National School Lunch Program									
HHCS	Passed-through Illinois State Board of Education								
	National School Lunch Program	10.555	64-108-8430-51	**468,928**	-	-	468,928	-	-
	Total Child Nutrition Cluster			**837,372**	-	-	837,372	-	-
Health Centers Cluster									
U.S. Department of Health and Human Services									
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)									
HHO	Health Care for the Homeless/McKinney	93.224	H80CS00111	**4,844,864**	-	-	-	4,844,864	-
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Centers Program									
HHO	Health Care for the Homeless - Person Centered Medical Home Development	93.527	H80CS00111	**214,884**	-	-	-	214,884	-
HHO	Health Care for the Homeless - Outreach and Enrollment	93.527	H80CS00111	**73,719**	-	-	-	73,719	
HHO	Health Care for the Homeless/McKinney	93.527	H80CS00111	**7,094**	-	-	-	7,094	-
	Total Health Centers Cluster			**5,140,561**	-	-	-	5,140,561	-
Other Programs									
U.S. Department of Agriculture									
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program									
HHCS	Passed-through Illinois State Board of Education								
	Food Stamp, Employment, and Training	10.561	81XQ943FP1	**50,905**	-	-	50,905	-	-
	Total U.S. Department of Agriculture			**50,905**	-	-	50,905	-	-
U.S. Department of Commerce - National Institute of Standards & Technology									
Broadband Technology Opportunities Program									
HHO	Passed-through National Healthcare for Homeless Council								
	ARRA -Community Health Workers & Health Care for the homeless	11.557	1C1MS330981-01-00	**46,846**	-	-	-	46,846	-
HHO	Passed-through The Alliance of Chicago Community Health Centers								
	ARRA -Smart Health Centers Collaborative Project	11.557	N/A	**23,151**	-	-	-	23,151	-
	Total U.S. Department of Commerce			**69,997**	-	-	-	69,997	-

Heartland Alliance for Human Needs & Human Rights

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title		Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Expenditures by Entity: Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
U.S. Department of Housing and Urban Development									
Community Development Block Grants/Entitlement Grants									
HHCS	Passed-through Chicago Department of Family and Support Services								
	Youth Services Counseling	14.218	23175-3	**$ 42,969**	$ -	$ -	$ 42,969	$ -	$ -
	Psych Youth Services	14.218	23175-2 / 25601-1	**27,753**	-	-	27,753	-	-
	Parent Skills Training	14.218	25340-1 / 23643-1	**31,381**	-	-	31,381	-	-
	Out of School Time - Year Round	14.218	27260-4	**27,586**	-	-	27,586	-	-
	Out of School Time - Year Round	14.218	27260-5	**20,731**	-	-	20,731	-	-
	Mentoring	14.218	27260-6	**21,776**	-	-	21,776	-	-
HHCS	Passed-through City of Chicago Department of Public Health								
	HIV - Aids Housing	14.218	25356	**51,540**	-	-	51,540	-	-
HHO	Passed-through Cook County								
	Food & Nutrition	14.218	11-096/12-094	**17,511**	-	-	-	17,511	-
HHO	Passed-through Village of Oak Park								
	Food Services	14.218	B12-04 / OP 13-03	**6,267**	-	-	-	6,267	-
				247,514	-	-	223,736	23,778	-
Emergency Solutions Grant Program									
HHCS	Passed-through Illinois Department of Health Care Family Services								
	Rapid Housing Grant	14.231	E11-20 / E12-17	**213,725**	-	-	213,725	-	-
HHO	Passed-through Cook County								
	Emergency Shelter Grants Program	14.231	E11-20 / E12-17	**15,208**	-	-	-	15,208	-
				228,933	-	-	213,725	15,208	-
Supportive Housing Program									
HHCS	Supportive Housing Program I	14.235	IL0174B5T101003	**507,439**	-	-	507,439	-	-
HHCS	Supportive Housing Program II	14.235	IL0173B5T101003	**305,724**	-	-	305,724	-	-
HHCS	Transitional Housing II	14.235	IL0209B5T101003	**1,560,006**	-	-	1,560,006	-	-
HHCS	Families Building Community Expansion	14.235	IL0119B5T101003	**1,177,788**	-	-	1,177,788	-	-
HHO	REN - Antonia Safe Haven	14.235	IL0096B5T101003 / IL0096B5T101104	**354,793**	-	-	-	354,793	-
HHO	REN - Pathways Home Outpatient	14.235	IL0178B5T101003 / IL0178B5T101104	**217,083**	-	-	-	217,083	-
HHO	REN - Pathways Home Safe Haven	14.235	IL0180B5T101003 / IL0180B5T101104	**968,289**	-	-	-	968,289	-
HHO	REN - Pathways Home Permanent Housing	14.235	IL0179B5T101003 / IL0179B5T101104	**495,418**	-	-	-	495,418	-
HHCS	Neon Dorms - Supportive Housing	14.235	IL0167B5T101003	**240,233**	-	-	240,233	-	-
HHCS	ISH - Medicaid SHP Project	14.235	N/A	**50,656**	-	-	50,656	-	-
HHO	REN - Supportive Permanent Housing	14.235	IL0216B5T101003 / IL0216B5T101104	**276,510**	-	-	-	276,510	-
HHO	REN - Assisted Permanent Housing	14.235	IL0097B5T101003 / IL0097B5T101104	**128,857**	-	-	-	128,857	-
HHO	REN - Low Income Housing Trust Fund Chronic Homeless Initiative	14.235	IL0393B5T101002 / IL0393B5T101103	**101,025**	-	-	-	101,025	-

Heartland Alliance for Human Needs & Human Rights

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

	Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Expenditures by Entity: Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
HHCS	Passed-through AIDS Foundation- Chicago								
	CHHP Homeless Services	14.235	N/A	**$ 149,897**	$ -	$ -	$ 149,897	$ -	$ -
	Samaritan Bonus Project	14.235	N/A	**129,140**	-	-	129,140	-	-
HHO	Passed-through AIDS Foundation- Chicago								
	Medicaid Supported Housing Pilot	14.235	IL0460B5T101000	**92,169**	-	-	-	92,169	-
HH	Passed-through City of Milwaukee Housing Authority								
	1218 West Highland Ave, LLC - Section 8	14.235	N/A	**48,848**	-	-	-	-	48,848
	1218 West Highland Ave, LLC - Section 8 - Supportive Housing	14.235	N/A	**24,209**	-	-	-	-	24,209
HH	Passed-through Milwaukee County Housing								
	Fond du Lac Apartments, LLC - HACOM - Affordable	14.235	N/A	**3,124**	-	-	-	-	3,124
	Fond du Lac Apartments, LLC - Section 8	14.235	N/A	**64,905**	-	-	-	-	64,905
HH	County of Milwaukee Tenant Voucher - Affordable								
	1218 West Highland Avenue, LLC	14.235	N/A	**7,680**	-	-	-	-	7,680
	Fond du Lac Apartments, LLC	14.235	N/A	**19,722**	-	-	-	-	19,722
HHO	Passed-through Pillars								
	REN - West Cook Housing Initiative	14.235	N/A	**27,947**	-	-	-	27,947	-
	REN - West Cook Housing Action Network Choice Endeavors	14.235	IL0427B5T110900	**21,625**	-	-	-	21,625	-
HH	Passed-through Chicago Housing Authority								
	Argyle Neighborhood Development Corp. - Rental Assistance	14.235	N/A	**202,601**	-	-	-	-	202,601
	Ellis Neighborhood Development Corp - Rental Assistance	14.235	N/A	**319,679**	-	-	-	-	319,679
	Hollywood House - LLP - Rental Assistance	14.235	N/A	**530,415**	-	-	-	-	530,415
	Mayfield LP - Section 8 - Housing Assistance Program	14.235	N/A	**188,069**	-	-	-	-	188,069
	Drexel Jazz LP	14.235	N/A	**9,225**	-	-	-	-	9,225
	North Ave LLP - Rental Assistance	14.235	N/A	**249,859**	-	-	-	-	249,859
	Leland Limited Partnership - Rental Assistance	14.235	N/A	**265,518**	-	-	-	-	265,518
	Viceroy Hotel LP	14.235	N/A	**535,340**	-	-	-	-	535,340
	Center Buffu LLC	14.235	N/A	**79,541**	-	-	-	-	79,541
HH	Passed-through Illinois Housing Development Authority								
	Diversey Neighborhood Corp. - Section 8 Housing	14.235	N/A	**350,778**	-	-	-	-	350,778
				9,704,112	-	-	4,120,883	2,683,716	2,899,513

Heartland Alliance for Human Needs & Human Rights

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title		Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Expenditures by Entity: Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
Shelter Plus Care									
HHCS	Passed-through Chicago Department of Family and Support Services								
	Prevention Information	14.238	18850-5 & 8	**$ 72,152**	$ -	$ -	$ 72,152	$ -	$ -
	Shelter Plus Care III	14.238	24431	**595,150**	-	-	595,150	-	-
	Family Shelter Plus Care	14.238	24430	**166,690**	-	-	166,690	-	-
HHO	Passed-through Chicago Department of Family and Support Services								
	Shelter Plus Care II	14.238	PO 24429-2	**126,856**	-	-	-	126,856	-
	Northside Shelter Plus Care	14.238	PO 24428-2/3	**158,869**	-	-	-	158,869	-
HHO	Passed-through Cook County								
	Shelter Plus Care - Permanent Housing	14.238	IL0269C5T111104	**134,988**	-	-	-	134,988	-
HH	Passed-through Milwaukee County Housing								
	Fond du Lac Apartments, LLC - Shelter Plus Care	14.238	N/A	**59,725**	-	-	-	-	59,725
				1,314,430	-	-	833,992	420,713	59,725
Housing Opportunities for Persons with AIDS									
HHO	REN - Bridges to Home	14.241	IL0099B5T101104	**156,374**	-	-	-	156,374	-
HHCS	Passed-through City of Chicago Department of Public Health								
	TLC - HOPWA	14.241	21227-2 & 3	**410,685**	-	-	410,685	-	-
HHCS	Passed-through AIDS Foundation- Chicago								
	HOPWA Track 1 Housing Assistance	14.241	N/A	**103,086**	-	-	103,086	-	-
	CHHP	14.241	N/A	**40,306**	-	-	40,306	-	-
	HHCS - Domestic Violence Homeless Project	14.241	IL0233B5T101003	**37,044**	-	-	37,044	-	-
HHO	Passed-through City of Chicago Department of Public Health								
	Transitional Housing Opportunities - HOPWA	14.241	PO 21072 - 4 / PO 278886-1	**199,185**	-	-	-	199,185	-
				946,680	-	-	591,121	355,559	-
ARRA - Homelessness Prevention and Rapid Re-Housing Program									
HHO	Passed-through AIDS Foundation of Chicago								
	100K Homes Outreach (03/01/13-12/31/13)	14.257	N/A	**89,283**	-	-	-	89,283	-
				89,283	-	-	-	89,283	-
Public and Indian Housing									
HHCS	Passed-through Chicago Housing Authority								
	Family Works	14.850	9122	**3,115,354**	-	-	3,115,354	-	-
				3,115,354	-	-	3,115,354	-	-
Section 8 Housing Choice Vouchers									
HHCS	Passed-through Chicago Housing Authority								
	ABLA Case Management	14.871	663	**457,361**	-	-	457,361	-	-
				457,361	-	-	457,361	-	-
	Total U.S. Department of Housing and Urban Development			**16,103,667**	-	-	9,556,172	3,588,257	2,959,238

Heartland Alliance for Human Needs & Human Rights

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title		Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Expenditures by Entity: Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
U.S. Department of Justice									
Services to Advocate for and Respond to Youth									
HHCS	VRS Youth Services	16.018	2010-WY-AX-K026	**$ 64,469**	$ -	$ -	$ 64,469	$ -	$ -
				64,469	-	-	64,469	-	-
Violence Against Women Office									
HA	Passed-through Prairie State Legal Services	16.542	N/A	**1,670**	1,670	-	-	-	-
				1,670	1,670	-	-	-	-
Crime Victim Assistance									
HHCS	Illinois Criminal Justice Information Authority	16.575	212092	**41,932**	-	-	41,932	-	-
				41,932	-	-	41,932	-	-
Edward Byrne Memorial Justice Assistance Grant Program									
HA	Passed-through Chicago Housing Authority	16.738	N/A	**11,110**	11,110	-	-	-	-
				11,110	11,110	-	-	-	-
Second Chance Act Prisoner Reentry Initiative									
HHCS	Second Chance Mentoring	16.812	2009-JU-FX-0059	**56,489**	-	-	56,489	-	-
				56,489	-	-	56,489	-	-
John R. Justice Prosecutors and Defenders Incentive Act									
HA	Office of Defender Services	16.812	USCA14C0021	**3,169**	3,169	-	-	-	-
				3,169	3,169	-	-	-	-
	Total U.S. Department of Justice			**178,839**	15,949	-	162,890	-	-
U.S. Department of State									
Iraq Assistance Programs									
HAI	Strengthening the Rule of Law in Iraq: Implementation of the UN Convention Against Torture (CAT) in Iraq	19.016	S-LMAQM-12-GR-1136	**853,546**	-	853,546	-	-	-
HAI	Improving Care and Reducing Stigma for Woman in Iraq who Survive Gender-Based Violation and Self Immolation	19.016	S-NEAIQ-13-CA-1008	**253,760**	-	253,760	-	-	-
				1,107,306	-	1,107,306	-	-	-
International Programs to Combat Human Trafficking									
HAI	Great Lakes Regional Anti-Trafficking Partnership (GRAAP)	19.019	S-SGTIP-09-GR-0115	**394,757**	-	394,757	-	-	-
				394,757	-	394,757	-	-	-

Heartland Alliance for Human Needs & Human Rights

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

		Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Expenditures by Entity: Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
Federal Grantor/Pass-Through Grantor/Program Title									
International Programs to Support Democracy, Human Rights, and Labor									
HAI	RITEWORK	19.345	S-LMAQM-11-GR-1076	**$ 181,485**	$ -	$ 181,485	$ -	$ -	$ -
HA	LGBT Initiative for Paralegal Services	19.345	S-LMAQM-10-GR-1147	**150,381**	150,381	-	-	-	-
HA	Passed-through Freedom House - LGBT Initiative for Paralegal Services	19.345	S-LMAQM-10-GR-1125	**26,662**	26,662	-	-	-	-
				358,528	177,043	181,485	-	-	-
U.S. Refugee Admissions Program									
HHCS	Passed-through United States Committee on Refugees & Immigration Reception and Placement	19.510	N/A	**482,133**	-	-	482,133	-	-
				482,133	-	-	482,133	-	-
International Programs to Support Democracy, Human Rights, and Labor									
HAI	Women's Leadership, Empowerment, and Awareness for Peace	19.700	S-LMAQM-13-GR-1273	**69,130**	-	69,130	-	-	-
				69,130	-	69,130	-	-	-
International Programs to Support Democracy, Human Rights, and Labor									
HAI	We Decide: Women Empowerment in Decision Making Positions To End Discrimination	19.801	S-LMAQM-13-GR-1265	**219,161**	-	219,161	-	-	-
				219,161	-	219,161	-	-	-
	Total U.S. Department of State			**2,631,015**	177,043	1,971,839	482,133	-	-
U.S. Department of Veterans Affairs									
VA Supportive Services for Veteran Families Program									
HHCS	VA Health Administration Center	64.033	12-IL-067	**1,347,103**	-	-	1,347,103	-	-
				1,347,103	-	-	1,347,103	-	-
	Total U.S. Department of Veterans Affairs			**1,347,103**	-	-	1,347,103	-	-
U.S. Department of Education									
Adult Education - Basic Grants to States									
HHCS	Passed-through Illinois Community College Board Adult Education & Family Literacy Basic	84.002	508AS	**409,082**	-	-	409,082	-	-
HHCS	Passed-through Workforce Investment Act	84.002	N/A	**71,536**	-	-	71,536	-	-
				480,618	-	-	480,618	-	-
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)									
HHCS	Passed-through Northeastern Illinois University	84.334	P334A100031	**18,735**	-	-	18,735	-	-
				18,735	-	-	18,735	-	-
	Total U.S. Department of Education			**499,353**	-	-	499,353	-	-

Heartland Alliance for Human Needs & Human Rights

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

		Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Expenditures by Entity: Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
Federal Grantor/Pass-Through Grantor/Program Title									
U.S. Department of Health and Human Services									
Global AIDS									
HAI	Dominican Republic MSM HIV Intervention and Prevention	93.067	1U2GPS003001-01	**$ 423,333**	$ -	$ 423,333	$ -	$ -	$ -
HAI	Impact CI-Improving Prevention and Access to Care Cote d'Ivoire	93.067	1U2GPS002833-01	**2,350,268**	-	2,350,268	-	-	-
				2,773,601	-	2,773,601	-	-	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs									
HHO	Passed-through Chicago Department of Public Health								
	Homeless TB Program	93.116	PO 19946 / PO 27957	**150,265**	-	-	-	150,265	-
				150,265	-	-	-	150,265	-
AIDS Education and Training Centers									
HHO	Passed-through UIC - Board of Trustees								
	Midwest AIDS Training & Education Center - MATEC	93.145	E4530 489364	**22,159**	-	-	-	22,159	-
				22,159	-	-	-	22,159	-
Projects for Assistance in Transition from Homelessness (PATH)									
HHO	Passed-through Illinois Department of Human Services - DMH								
	Southside Linkage Project - PATH	93.150	45CRB00268	**87,123**	-	-	-	87,123	-
				87,123	-	-	-	87,123	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth									
HHO	Passed-through Access Community Health Network								
	Nutritional Assessments	93.153	H12HA23013	**6,205**	-	-	-	6,205	-
				6,205	-	-	-	6,205	-
Research on Healthcare Costs, Quality and Outcomes									
HHO	Passed-through Northwestern University								
	Cardiac Research	93.226	5P01HS021141-02	**29,124**	-	-	-	29,124	-
				29,124	-	-	-	29,124	-
Mental Health Research Grants									
HHO	Passed-through Illinois Institute of Technology								
	Adherence & Empowerment: Service Participation & Meaningful Outcomes	93.242	SA421-0301-6157	**30,841**	-	-	-	30,841	-
				30,841	-	-	-	30,841	-

Federal Grantor/Pass-Through Grantor/Program Title		Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Expenditures by Entity: Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
Substance Abuse and Mental Health Services - Projects of Regional and National Significance									
HHCS	Passed-through AIDS Foundation of Chicago								
	Access to Wellness	93.243	N/A	**$ 85,239**	$ -	$ -	$ 85,239	$ -	$ -
HHO	Passed-through AIDS Foundation- Chicago								
	SAMHSA - CSAT Healthy Connections Contract	93.243	1H79TI021710-02-03	**117,650**	-	-	-	117,650	-
HHO	Passed-through Illinois Department of Human Services								
	SAMHSA - CSAT - Special Project - SATED	93.243	43CRC00339	**44,201**	-	-	-	44,201	-
	SAMHSA - Access to Wellness Program	93.243	1UD1T1023567-01	**14,939**	-	-	-	14,939	-
HHO	SAMHSA - National Child Traumatic Stress Network	93.243	5U79SM059457-02 & 03	**95,142**	-	-	-	95,142	-
HHO	Passed-through Chicago Department of Public Health								
	Minority AIDS Initiative Target Capacity Extension	93.243	PO 26537	**38,160**	-	-	-	38,160	-
				395,331	-	-	85,239	310,092	-
Minority Health and Health Disparities Research									
HHO	Passed-through Illinois Institute of Technology								
	Integrated Health Care for African Americans	93.307	SA497-0130-8380	**15,072**	-	-	-	15,072	-
				15,072	-	-	-	15,072	-
Temporary Assistance for Needy Families									
HA	Passed-through Jewish Federation of Metropolitan Chicago								
	RICI	93.558	N/A	**72,292**	72,292	-	-	-	-
HHCS	Passed-through Illinois Department of Human Services								
	IDHS TANF Job Placement	93.558	81XQ943000	**100,587**	-	-	100,587	-	-
				172,879	72,292	-	100,587	-	-
Refugee and Entrant Assistance - State Administered Programs									
HHCS	Passed-through Jewish Federation of Metropolitan Chicago								
	Medical Case Management	93.566	N/A	**70,956**	-	-	70,956	-	-
	RSS Cultural Adjustment	93.566	N/A	**71,764**	-	-	71,764	-	-
HHCS	Passed-through Illinois Department of Human Services								
	Vocational English Hospitality Training	93.566	N/A	**57,068**	-	-	57,068	-	-
HHO	Passed-through Jewish Federation of Metropolitan Chicago								
	Refugee Mental Health Services	93.566	N/A	**179,635**	-	-	-	179,635	-
HHO	Passed-through Illinois Department of Public Health								
	Refugee Health Program	93.566	30180023A	**200,469**	-	-	-	200,469	-
				579,892	-	-	199,788	380,104	-

Heartland Alliance for Human Needs & Human Rights

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title		Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Expenditures by Entity: Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
Refugee and Entrant Assistance - Voluntary Agency Programs									
HHCS	Passed-through United States Committee on Refugee and Immigration Reception & Placement Matching Grant	93.567	90RV005901	**$ 206,166**	$ -	$ -	$ 206,166	$ -	$ -
				206,166	-	-	206,166	-	-
Community Services Block Grant									
HHCS	Passed-through Chicago Department of Family and Support Services Family Violence Prevention Initiative	93.569	N/A	**24,878**	-	-	24,878	-	-
				24,878	-	-	24,878	-	-
Refugee and Entrant Assistance - Discretionary Grants									
HHCS	Passed-through Jewish Federation of Metropolitan Chicago RSS K-12 Services	93.576	N/A	**63,726**	-	-	63,726	-	-
HHCS	Passed-through Illinois Department of Human Services Vocational English Hospitality Training	93.576	81XQ364000	**19,031**	-	-	19,031	-	-
HHO	Passed-through Illinois Department of Public Health Refugee Nutrition	93.576	30180023A	**42,547**	-	-	-	42,547	-
HAI	Passed-through Coalition of Limited English Speaking Elderly HA -LGBT Refugees and Asylees	93.576	90XR0017/01	**62,500**	-	62,500	-	-	-
				187,804	-	62,500	82,757	42,547	-
Refugee and Entrant Assistance - Targeted Assistance Grants									
HHCS	Passed-through Jewish Federation of Metropolitan Chicago TAG Mandatory	93.584	N/A	**189,996**	-	-	189,996	-	-
				189,996	-	-	189,996	-	-
Services to Victims of a Severe Form of Trafficking									
HHCS	ORR - Northern Tier Anti-Trafficking Consortium	93.598	N/A	**315,338**	-	-	315,338	-	-
HHCS	ORR - Northern Tier Anti-Trafficking Consortium (Client Support)	93.598	N/A	**430,678**	-	-	430,678	-	-
				746,016	-	-	746,016	-	-
Assistance for Torture Victims									
HAI	Expanding and Strengthening Services to Survivors of Torture	93.604	PL 105-320	**371,489**	-	371,489	-	-	-
				371,489	-	371,489	-	-	-
Social Services Block Grant									
HHCS	Passed-through Illinois Department of Human Services Employment Based English Program	93.667	81XQ085000	**58,753**	-	-	58,753	-	-
				58,753	-	-	58,753	-	-

Heartland Alliance for Human Needs & Human Rights

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title		Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Expenditures by Entity: Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
Unaccompanied Alien Children Program									
HHCS	ORR - Unaccompanied Alien Children / Tender Age	93.676	90ZU0047	**$ 24,790,446**	$ -	$ -	$ 24,790,446	$ -	$ -
HHCS	ORR - Post Release and Home Study Services for Unaccompanied Alien Children	93.676	90ZU0083	**216,817**	-	-	216,817	-	-
HA	Passed-through The VERA Institute of Justice VERA	93.676	N/A	**728,119**	728,119	-	-	-	-
				25,735,382	728,119	-	25,007,263	-	-
National Coordinator for Health Information Technology									
HA	Passed-through Jewish Federation of Metropolitan Chicago Illinois Health Information Exchange	93.719	HHSN276201100005C	**495,120**	-	-	-	495,120	-
				495,120	-	-	-	495,120	-
Medical Library Assistance									
HHO	Passed-through UIC - National Library of Medicine Medical Library Assistance	93.879	HHSN276201100005C	**7,096**	-	-	-	7,096	-
				7,096	-	-	-	7,096	-
HIV Emergency Relief Project Grants									
HHCS	Passed-through AIDS Foundation of Chicago ORS Case Management	93.914	N/A	**9,635**	-	-	9,635	-	-
HHO	Passed-through Chicago Department of Public Health								
	HIV/Aids Ryan White - Part A - Case Management	93.914	PO 23776	**60,494**	-	-	-	60,494	-
	HIV/Aids Ryan White - Part A - Food	93.914	PO 23762-1/2	**623,708**	-	-	-	623,708	-
	HIV/Aids Ryan White - Part A - Ambulatory	93.914	PO 23792-1/2	**103,108**	-	-	-	103,108	-
	HIV/Aids Ryan White - Part A - Oral	93.914	PO 23792-1/2	**276,789**	-	-	-	276,789	-
	HIV/Aids Ryan White - Part A - Admin	93.914	PO 23792-1/2	**37,304**	-	-	-	37,304	-
				1,111,038	-	-	9,635	1,101,403	-
HIV Care Formula Grants									
HHCS	Passed-through AIDS Foundation of Chicago Title II Ryan White Case Management	93.917	N/A	**59,631**	-	-	59,631	-	-
HHO	Passed-through AIDS Foundation- Chicago Ryan White - Part B	93.917	25780055	**169,967**	-	-	-	169,967	-
				229,598	-	-	59,631	169,967	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease									
HHO	Passed-through Access Community Health Network Ryan White Part C EIS	93.918	H12HA23013	**6,900**	-	-	-	6,900	-
HHO	Passed-through Erie Family Health Centers HIV Early Intervention with Respect to HIV Disease	93.918	N/A	**9,200**	-	-	-	- 9,200	-
HHO	Ryan White Part C Outpatient EIS Program	93.918	H76HA00113	**859,216**	-	-	-	859,216	-
				875,316	-	-	-	875,316	-
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants									
HHO	Passed-through UIC - Board of Trustees Chicago AIDS Network for Dental Outreach- CANDO	93.924	H65HA00016-11-00	**120,568**	-	-	-	120,568	-
				120,568	-	-	-	120,568	-

Heartland Alliance for Human Needs & Human Rights

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014

				Expenditures by Entity				
Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Expenditures	Heartland Alliance	Heartland Alliance International	Heartland Human Care Services	Heartland Health Outreach	Heartland Housing
HIV Prevention Activities - Non-Governmental Organization Based								
HHCS Passed-through Center for Disease Control and Prevention								
HIV Prevention	93.939	N/A	**$ 242,457**	$ -	$ -	$ 242,457	$ -	$ -
			242,457	-	-	242,457	-	-
Block Grants for Prevention and Treatment of Substance Abuse								
HHCS Passed-through Illinois Department of Human Services								
ATOD Innovative Prevention Program	93.959	11GQ02052	**135,445**	-	-	135,445	-	-
HHO Passed-through Illinois Department of Human Services - DASA								
Substance Abuse Prevention & Treatment Block Grant Fund - Global	93.959	43CRC00291	**32,304**	-	-	-	32,304	-
Substance Abuse Prevention & Treatment Block Grant Fund - ARCH	93.959	43CRC00116	**36,850**	-	-	-	36,850	-
Substance Abuse Prevention & Treatment Block Grant Fund - ICOCE	93.959	43CRC00114	**126,149**	-	-	-	126,149	-
			330,748	-	-	135,445	195,303	-
Total U.S. Department of Health and Human Services			**35,194,917**	800,411	3,207,590	27,148,611	4,038,305	-
U.S. Department of Homeland Security								
Emergency Food and Shelter National Board Program								
HHCS Passed-through United Way of America								
Emergency Food and Shelter	97.024	N/A	**15,985**	-	-	15,985	-	-
FEMA	97.024	N/A	**20,880**	-	-	20,880	-	-
			36,865	-	-	36,865	-	-
Total U.S. Department of Homeland Security			**36,865**	-	-	36,865	-	-
Agency for International Development								
USAID Foreign Assistance for Programs Overseas								
HAI - Integrated MSM HIV/AIDS Prevention Program (Nigeria)	98.001	620-A-00-09-0015-00	**1,297,590**	-	1,297,590	-	-	-
HAI - HIV/AIDS Prevention Activities in Ghana	98.001	641-G-00-10-00069-00	**52,414**	-	52,414	-	-	-
HAI - Colombia Victims of Torture Treatment Program	98.001	AID-OAA-A-10-00046	**497,002**	-	497,002	-	-	-
HAI - Haiti WE-LEAD Gender Advocacy Program	98.001	AID-OAA-A-10-00049	**77,775**	-	77,775	-	-	-
HAI - Ejemplar Mexico	98.001	N/A	**541,024**	-	541,024	-	-	-
			2,465,805	-	2,465,805	-	-	-
Total Agency for International Development			**2,465,805**	-	2,465,805	-	-	-
Total Expenditures of Federal Awards			**$ 64,556,399**	$ 993,403	$ 7,645,234	$ 40,121,404	$ 12,837,120	$ 2,959,238

Note 1. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Note 2. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Heartland Alliance for Human Needs & Human Rights (the Organization) and its consolidated affiliates, which expended federal awards during the year ended June 30, 2014, including Heartland Alliance International (HAI), Heartland Human Care Services, Inc. (HHCS), Heartland Health Outreach, Inc. (HHO), and Heartland Housing, Inc. (HH) and certain of its consolidated affiliates, Diversey Neighborhood Development Corporation, Ellis Neighborhood Development Corporation, Argyle Neighborhood Development Corporation, Mayfield Limited Partnership, and Hollywood House Limited Partnership.

The Schedule of Expenditures of Federal Awards for the Organization and its consolidated entities includes multiple columns for the purposes of presenting the amount of expenditures by entity.

Note 3. Summary of Subrecipient Payments

The Organization provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount
U.S. Department of Housing and Urban Development		
Shelter Plus Care	14.238	$ 98,463
Family Works	14.850	86,514
U.S. Department of Justice		
Services to Advocate for and Respond to Youth	16.018	10,382
U.S. Department of State		
Iraq Assistance Programs	19.016	250,583
International Programs to Combat Human Trafficking	19.019	66,336
International Programs to Support Democracy, Human Rights, and Labor	19.345	85,650
We Decide: Women Empowered in Decision - Making Positions to End Discrimination	19.801	33,011
U.S. Department of Health and Human Services		
Global AIDS	93.067	1,304,375
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care)	93.224	48,306
Services to Victims of a Severe Form of Trafficking	93.598	544,832
ORR - Unaccompanied Alien Children / Tender Age	93.676	58,900
U.S. Agency for International Development		
USAID Foreign Assistance for Programs Overseas	98.001	620,927
Total Awards to Subrecipients		**$ 3,208,279**

Note 4. Non-Cash Assistance, Insurance, Loans, and Loan Guarantees Outstanding

The Organization did not receive any non-cash assistance during the year ended June 30, 2014. The Organization did not have any federal insurance in effect during the year ended June 30, 2014, nor were there any loans or loan guarantees outstanding at year end.

Heartland Alliance for Human Needs & Human Rights

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I − Summary of Auditor's Results

Financial Statements:
Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	___	Yes	X	No
Significant deficiency(ies) identified?	___	Yes	X	None Reported
Noncompliance material to financial statements noted?	___	Yes	X	No

Federal Awards:
Internal control over major programs:

Material weakness(es) identified?	___	Yes	X	No
Significant deficiency(ies) identified	___	Yes	X	None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___	Yes	X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.224 / 527	Consolidated Health Centers Cluster
93.676	Unaccompanied Alien Children Program
98.001	USAID Foreign Assistance for Programs Overseas

Dollar threshold used to distinguish between type A and type B programs: $1,936,692

Auditee qualified as low-risk auditee?	___	Yes	X	No

Section II – Financial Statement Findings

There were no financial statement findings required to be reported in accordance with generally accepted government auditing standards.

Section III – Findings and Questioned Costs for Federal Awards

There were no findings or questioned costs for federal awards.

Heartland Alliance for Human Needs & Human Rights

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

FS 12-03: Other Matter

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). Heartland Human Care Services, Inc. (HHCS) successfully employed approximately 27,000 workers during the contract period. The contract stipulated a fee-for-service arrangement and was billed by HHCS and paid by IDHS accordingly. Subsequently, IDHS asserted that, pursuant to the terms of an underlying federal grant, all fees paid by IDHS to HHCS under this contract were required to be matched to actual costs, the fee-for-service terms notwithstanding. The Organization cooperated with IDHS in this regard. Net revenues earned as a result of the fee-for-service contract were approximately $10,800,000 and were available for tail costs and other administrative and related program costs.

This program was completed in fiscal year 2011.

In March 2014, IDHS performed an audit of the program and determined in their view that there was $3,147,800 in extrapolated questioned costs. HHCS 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 and disclosing the full amount of the extrapolated questioned costs as of and for the year ended June 30, 2014.