HOWARD BROWN HEALTH CENTER
(A NOT-FOR-PROFIT CORPORATION)

FINANCIAL STATEMENTS
June 30, 2016 and 2015

HOWARD BROWN HEALTH CENTER
(A NOT-FOR-PROFIT CORPORATION)
Chicago, Illinois

FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Howard Brown Health Center
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Howard Brown Health Center (the "Organization"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Howard Brown Health Center as of June 30, 2016 and 2015, 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.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
November 9, 2016

HOWARD BROWN HEALTH CENTER
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 12,711,639	$ 6,489,139
Accounts receivable, net of allowance for doubtful accounts of $830,026 and $546,119	5,845,673	3,070,825
Pledges receivable, net of allowance for doubtful accounts of $24,653 and $175,075	373,119	205,284
Inventories	315,111	413,351
Prepaid expenses and other receivables	440,977	22,695
Total current assets	19,686,519	10,201,294
Property and equipment, net	7,300,563	2,880,163
Construction in progress	255,309	-
Investment in Alliance and others	846,000	761,870
Other assets, primarily works of art	501,673	426,016
	$ 28,590,064	$ 14,269,343
LIABILITIES AND NET ASSETS		
Current liabilities		
Current maturities of long-term debt	$ 3,900,815	$ 168,561
Accounts payable	2,610,912	1,363,763
Accrued expenses	874,110	700,875
Deferred Revenue	9,846	34,316
Total current liabilities	7,395,683	2,267,515
Long-term debt, less current maturities	2,655,562	3,094,220
Total liabilities	10,051,245	5,361,735
Net assets		
Unrestricted	17,976,359	8,478,053
Temporarily restricted	562,460	429,555
Total net assets	18,538,819	8,907,608
	$ 28,590,064	$ 14,269,343

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF ACTIVITIES
Year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Net patient service revenue (net of contractual allowances, discounts, and charitable care)	$ 4,738,985	$ -	$ 4,738,985
Government contracts	5,031,979	-	5,031,979
Direct public support	5,415,976	529,826	5,945,802
Donated services	689,933	-	689,933
Net assets released from restriction	396,921	(396,921)	-
340B pharmacy revenue	36,832,810	-	36,832,810
Other, including Alliance income	377,909	-	377,909
Total revenues, gains and other support	53,484,513	132,905	53,617,418
Expenses			
Medical	31,914,515	-	31,914,515
Youth services	888,819	-	888,819
Behavioral health	1,083,977	-	1,083,977
Research	509,713	-	509,713
Prevention	1,739,617	-	1,739,617
Total program expenses	36,136,641	-	36,136,641
Development	801,959	-	801,959
Public relations	322,860	-	322,860
Brown elephant	2,680,345	-	2,680,345
Total expenses by function	39,941,805	-	39,941,805
General and administrative	4,044,402	-	4,044,402
Total expenses	43,986,207	-	43,986,207
Change in net assets	9,498,306	132,905	9,631,211
Net assets at beginning of year	8,478,053	429,555	8,907,608
Net assets at end of year	$ 17,976,359	$ 562,460	$ 18,538,819

(Continued)

HOWARD BROWN HEALTH CENTER
STATEMENT OF ACTIVITIES
Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Net patient service revenue (net of contractual allowances, discounts, and charitable care)	$ 3,345,084	$ -	$ 3,345,084
Government contracts	4,388,928	-	4,388,928
Direct public support	4,477,111	332,105	4,809,216
Donated services	56,863	-	56,863
Net assets released from restriction	477,736	(477,736)	-
340B pharmacy revenue	26,150,917	-	26,150,917
Other, including Alliance income	764,080	-	764,080
Total revenues, gains and other support	39,660,719	(145,631)	39,515,088
Expenses			
Medical	24,412,157	-	24,412,157
Youth services	923,067	-	923,067
Behavioral health	942,248	-	942,248
Research	501,688	-	501,688
Prevention	1,315,100	-	1,315,100
Total program expenses	28,094,260	-	28,094,260
Development	424,375	-	424,375
Public relations	216,833	-	216,833
Brown elephant	2,644,802	-	2,644,802
Total expenses by function	31,380,270	-	31,380,270
General and administrative	3,318,469	-	3,318,469
Total expenses	34,698,739	-	34,698,739
Change in net assets	4,961,980	(145,631)	4,816,349
Net assets at beginning of year	3,516,073	575,186	4,091,259
Net assets at end of year	$ 8,478,053	$ 429,555	$ 8,907,608

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2016

	Program Services									
	Medical	Youth Services	Behavioral Health	Research	Prevention	Development	Public Relations	Brown Elephant	General and Administrative	Total
Salaries	$ 5,314,925	$ 578,815	$ 857,602	$ 391,825	$ 1,034,216	$ 330,036	$ 85,052	$ 1,285,046	$ 2,279,260	$ 12,156,777
Fringe benefits	705,596	75,407	97,996	39,282	145,750	41,914	9,277	193,319	364,722	1,673,263
Payroll taxes	347,835	42,390	62,498	28,337	75,018	24,227	6,580	95,522	201,210	883,617
Bad debt	522,479	-	-	-	-	-	-	-	-	522,479
Accounting and legal fees	-	-	-	-	51,915	-	-	-	131,442	183,357
Supplies	273,437	7,652	38,251	11,900	35,245	5,956	1,351	40,260	181,448	595,500
Telephone	122,537	24,360	-	3,115	-	-	614	62,404	51,935	264,965
Postage and shipping	21,004	149	(132)	1,504	232	1,048	-	24,734	(1,016)	47,523
Occupancy and utilities	497,165	59,241	-	528	3,450	528	-	743,537	86,512	1,390,961
Repairs and maintenance	150,078	3,571	-	940	40	-	-	96,688	21,479	272,796
Printing	40,487	3,640	1,194	658	4,742	13,776	4,287	945	9,997	79,726
Travel	22,787	4,921	7,420	870	42,427	2,171	1,174	-	34,297	116,067
Seminars and meetings	4,029	-	3,238	96	2,334	527	-	490	14,226	24,940
Depreciation and amortization	158,020	2,161	-	-	-	-	-	28,341	26,637	215,159
Outside services	4,262,276	16,015	1,840	12,780	86,332	18,799	22,469	4,388	146,763	4,571,662
Staff services	102,580	8,013	12,971	1,023	9,941	6,929	1,003	1,145	36,749	180,354
Pharmaceuticals, outside labs and medical supplies	19,046,226	34,084	200	552	25,811	-	-	-	-	19,106,873
Client assistance	33,539	13,299	(338)	403	29,879	-	-	-	-	76,782
Licenses and fees	6,598	-	(100)	-	-		700	740	11,960	19,898
Dues and subscriptions	6,316	583	1,282	-	(100)	94	34	3,424	31,665	43,298
Advertising	-	-	-	-	1,911	5,372	2,694	2,052	890	12,919
Client development	3,766	5,202	-	15,700	(400)	-	-	-	-	24,268
Public relations	-	-	-	200	-	-	30,317	-	40	30,557
Leases and equipment	4,201	-	-	-	-	-	-	-	50	4,251
Other	23,909	7,882	-	-	4,853	70	-	20,408	(10,782)	46,340
Donated services	144,185	-	-	-	-	165,400	157,308	-	223,040	689,933
Event expense	-	-	-	-	16,348	182,003	-	-	200	198,551
Bank fees	17,915	1,434	55	-	-	3,109	-	63,684	23,579	109,776
Interest expense	6,390	-	-	-	-	-	-	85	79,677	86,152
Insurance expense	76,235	-	-	-	-	-	-	13,133	98,422	187,790
Subcontractor expense	-	-	-	-	169,673	-	-	-	-	169,673
Total expense	$ 31,914,515	$ 888,819	$ 1,083,977	$ 509,713	$ 1,739,617	$ 801,959	$ 322,860	$ 2,680,345	$ 4,044,402	$ 43,986,207

(Continued)

HOWARD BROWN HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2015

	Program Services									
	Medical	Youth Services	Behavioral Health	Research	Prevention	Development	Public Relations	Brown Elephant	General and Administrative	Total
Salaries	$ 4,451,647	$ 605,160	$ 735,560	$ 354,950	$ 916,032	$ 258,355	$ 92,507	$ 1,230,842	$ 1,912,799	$ 10,557,852
Fringe benefits	665,477	95,716	117,527	36,201	154,461	39,125	22,909	189,448	188,330	1,509,194
Payroll taxes	307,199	44,219	51,995	26,313	65,356	18,475	6,407	89,728	162,760	772,452
Bad debt	545,598	-	-	-	-	-	-	-	-	545,598
Accounting and legal fees	-	-	-	-	-	-	-	2,778	177,339	180,117
Supplies	302,292	14,820	16,517	5,502	27,034	8,329	1,548	23,949	148,349	548,340
Telephone	97,871	16,335	-	2,689	-	-	-	20,894	39,525	177,314
Postage and shipping	22,708	161	26	911	86	2,682	486	16,104	(1,084)	42,080
Occupancy and utilities	276,832	54,367	-	7,357	3,175	7,357	-	831,281	92,441	1,272,810
Repairs and maintenance	171,867	13,612	-	337	-	-	-	69,266	33,999	289,081
Printing	19,118	4,095	1,839	3,636	4,162	20,947	2,001	8,409	8,693	72,900
Travel	12,809	881	3,005	180	35,568	747	-	113	12,751	66,054
Seminars and meetings	1,563	-	2,085	-	3,735	181	-	-	4,148	11,712
Depreciation and amortization	147,293	2,332	-	-	-	-	-	28,224	23,179	201,028
Outside services	2,765,420	12,602	-	22,740	51,895	11,040	89,000	777	228,333	3,181,807
Staff services	68,446	4,694	11,120	843	10,129	858	485	122	52,921	149,618
Pharmaceuticals, outside labs and medical supplies	14,399,500	16,462	-	15,725	8,991	-	-	-	-	14,440,678
Client assistance	38,946	25,511	1,023	2,412	20,849	-	-	-	-	88,741
Licenses and fees	6,047	60	-	-	-	125	-	-	1,604	7,836
Dues and subscriptions	4,390	-	671	2,555	-	1,885	2,987	3,198	48,237	63,923
Advertising	-	1,929	880	250	-	625	1,593	786	1,583	7,646
Client development	2,137	2,147	-	19,087	-	-	-	-	-	23,371
Public relations	-	-	-	-	-	51	(4,425)	-	-	(4,374)
Leases and equipment	1,219	-	-	-	-	-	-	-	216	1,435
Other	24,565	7,063	-	-	12,403	833	-	25,934	(4,351)	66,447
Event expense	-	-	-	-	1,224	49,834	1,335	-	-	52,393
Bank fees	14,629	901	-	-	-	2,926	-	68,173	28,335	114,964
Interest expense	-	-	-	-	-	-	-	379	96,631	97,010
Insurance expense	64,584	-	-	-	-	-	-	34,397	61,731	160,712
Total expense	$ 24,412,157	$ 923,067	$ 942,248	$ 501,688	$ 1,315,100	$ 424,375	$ 216,833	$ 2,644,802	$ 3,318,469	$ 34,698,739

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENTS OF CASH FLOW
Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Increase in net assets	$ 9,631,211	$ 4,816,349
Adjustments to reconcile increase in net assets to net cash from operating activities		
Bad debt expense	522,479	545,598
Depreciation and amortization	215,159	201,028
Loss on disposal of equipment	9,223	-
Equity share of Alliance income	(89,130)	(75,244)
Changes in assets and liabilities		
Accounts receivable	(3,297,327)	(3,902)
Pledges receivable	(167,835)	149,821
Inventories	98,240	101,462
Prepaid expenses and other receivables	(418,282)	(5,711)
Restricted cash	-	125,000
Accounts payable	1,247,149	(443,850)
Accrued expenses	173,235	138,339
Other assets	(75,657)	(41,497)
Deferred revenue	(24,470)	34,316
Net cash from operating activities	7,823,995	5,541,709
Cash flows from investing activities		
Purchase of property and equipment	(4,900,091)	(131,749)
Investment proceeds from Together4Health	25,000	-
Investment in CHC Access Partnership	-	(5,000)
Investment in Alliance	(20,000)	(20,000)
Net cash from investing activities	(4,895,091)	(156,749)
Cash flows from financing activities		
Borrowings from notes payable	3,740,670	1,750,000
Principal payments on notes payable	(447,074)	(2,039,285)
Net cash from financing activities	3,293,596	(289,285)
Net change in cash and cash equivalents	6,222,500	5,095,675
Cash and cash equivalents at beginning of year	6,489,139	1,393,464
Cash and cash equivalents at end of year	$ 12,711,639	$ 6,489,139
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 86,759	$ 103,982

See accompanying notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization, Nature of Business: Howard Brown Health Center (the "Organization") provides a comprehensive array of healthcare and social services to a broad community with a focus on lesbian, gay, bi-sexual and transgender ("LGBT") communities. In addition to healthcare services, the Organization also conducts behavioral and clinical research in a variety of areas that impact wellness in the LGBT community.

Basis of Presentation: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted – Net assets include resources which are not subject to donor-imposed restrictions plus those resources for which donor-imposed restrictions have been satisfied. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. At June 30, 2016 and 2015 temporarily restricted net assets consisted of the following:

	2016	2015
Board designated endowment	$ 136,507	$ 136,507
Time	55,363	56,549
Specific programming	370,590	236,499
Total temporarily restricted net assets	$ 562,460	$ 429,555

Satisfaction of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as a reclassification from temporarily restricted net assets to unrestricted net assets. Where the stipulation of the temporarily restricted net assets is fulfilled in the same year as the original contribution, the contribution is recorded as unrestricted revenue. Restrictions released during the periods ended June 30 are summarized as follows:

	2016	2015
Time	$ 36,018	$ 140,546
Specific programming	360,903	337,190
Total releases from restriction	$ 396,921	$ 477,736

Permanently restricted – Net assets are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be retained permanently. There were no permanently restricted net assets at June 30, 2016 and 2015.

Cash and Cash Equivalents: Cash and cash equivalents consist of demand deposits in accounts insured up to $250,000 per financial institution. The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Financial instruments that potentially subject the Organization to concentrations of credit risk include the Organization's cash and cash equivalents. At certain times cash and cash equivalents may be in excess of federal insurance limits.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient Accounts Receivable and Allowances: Accounts receivable represents charges to patients, primarily on open account. Past due receivables are determined based on contractual terms. The Organization does not accrue interest on any of its accounts receivable. Adjustments to patient accounts are made in amounts estimated to maintain allowances to cover estimated contractual allowances and anticipated losses from patients, third-party payers and others. The allowance is determined by management based on the Organization's historical net collection percentages, specific patient circumstances, and general economic conditions. As payments are received, specific contractual adjustments detailed in the explanation of benefits are charged against the patient's account and the allowance. After all reasonable collection efforts have been exhausted patient accounts are charged against the allowance for doubtful accounts. Accounts receivable is shown net of allowances on the statement of financial position. Gross patient accounts receivable greater than 90 days outstanding at June 30, 2016 and 2015 were approximately $278,000 and $293,000.

Pledges Receivable: Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the pledges are received. Amortization of the discounts is included in direct public support. There were no long-term pledge receivables at June 30, 2016, and 2015, respectively. Conditional promises to give are not included as support until the conditions are substantially met.

Inventories: Inventories consist of items donated to the resale shop which are valued at estimated fair value, and pharmaceutical drug supplies which are valued at the lower of cost or market.

Property and Equipment and Related Depreciation: Property and equipment are stated at cost or, if donated, at estimated fair value upon donation, and are depreciated using the straight-line method over the assets' estimated useful lives ranging from 3 to 25 years. All productive assets with a cost when purchased, or fair value when donated, of over $5,000 are capitalized, with the exception of computer hardware and software which is capitalized when purchase costs exceed $1,000. When assets are sold or otherwise disposed of, the assets and related accumulated depreciation are removed from the accounts, and the remaining gain or loss is included in operations. Repairs and maintenance costs are charged to expense as incurred. Capitalized works of art are not depreciated since they are expected to maintain their value.

Impairment of Long-Lived Assets: On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2016 and 2015, management believes that no impairment existed.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Alliance and Others: Investment in Alliance and others consists of investments in two and three organizations for the year ended June 30, 2016 and 2015, respectively, on the equity and cost methods of accounting.

Equity Method Investment: The Organization accounts for its 25% investment in the Alliance of Chicago Community Health Services, LLC ("the Alliance") under the equity method of accounting. The Alliance was created to coordinate the sharing of resources and the development and integration of IT systems between and among its members. The Organization and the other member agencies are each required to contribute $20,000 annually to the Alliance. The Alliance also receives grants from government and private foundations. The Organization’s share of equity gain in the Alliance (unconsolidated affiliate) was $64,130 and $75,244 for 2016 and 2015, and is included in the statements of activities in other revenues.

Summarized unaudited financial information for the Alliance at June 30, 2016 and 2015 is as follows:

	2016	2015
Assets	$ 6,889,742	$ 5,583,822
Liabilities	3,340,009	1,457,528
Equity	3,549,733	3,156,713

Cost Method Investments: During 2013 the Organization acquired a 2.5% ownership interest in Together4Health, LLC (“Together4Health”). The Organization does not have significant influence over the management or operations of Together4Health. On October 31, 2015 Together4Health ceased operations and liquidated. The investment in Together4Health was $25,000 at June 30, 2015. No dividends were received during the years ended June 30, 2016 and 2015. During 2015 the Organization invested $5,000 in CHC Partnership Access. The Organization does not have significant influence over the management or operations of CHC Partnership Access.

Deferred Rent: The Organization has various facility leases that provide for escalating rent payments over the life of the lease. Accounting principles generally accepted in the United States of America require that rent expense be recognized on a straight-line basis over the life of the lease. This accounting results in a non-interest-bearing liability (deferred rent) that increases during the early portion of the lease term, as the cash paid is less than the expense recognized, and reverses by the end of the lease term. These are recorded as accrued expenses.

Endowment: The Organization’s endowment funds include funds designated by the Board of Directors to function as an endowment. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There are no permanently restricted endowment funds at June 30, 2016.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in endowment net assets for years ended June 30, 2016 and 2015, are as follows:

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, June 30, 2014	$ 136,410	$ -	$ 136,410	$ -
Interest income	97	-	97	-
Endowment net assets, June 30, 2015	136,507	-	136,507	-
Interest income	92	92	-	-
Endowment net assets, June 30, 2016	$ 136,599	$ 92	$ 136,507	$ -

Interpretation of UPMIFA: The Organization's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the Endowment funds absent explicit donor stipulations to the contrary.

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as prescribed by the Board, the endowment assets are to be invested in a prudent manner where the primary objective is the preservation of principal in an attempt to provide a predictable stream of funding to programs supported by the endowment.

Strategies Employed for Achieving Objectives: The purpose of the endowment fund is to provide funds for professional development for gay and lesbian providers and fellowships for medical staff. To satisfy its objectives, the Organization has elected to invest in a money market bank account to preserve principle and provide interest income to provide professional development and fellowships for medical staff.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Board of Directors of the Organization has established an endowment fund spending policy, which utilizes the interest income to provide funds for professional development and fellowships for medical staff. The amount of the funding is determined by the Board of Directors and upon specific events, may exceed interest income. It is expected that only the interest income of the endowment will be utilized in support of the Organization's activities, but in the event that the Organization's Board of Directors determines that there is a critical need in providing medical services which could not otherwise be met through funds available to the Organization, the Board can utilize endowment principal for such purposes upon approval by a two-thirds vote of the Board of Directors.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition: Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

The Organization reports gifts of property and equipment and works of art as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support, and released from restriction as depreciated. There were no donor restricted long-lived assets at June 30, 2016 or 2015.

Patient revenue is recognized as revenue when the services are performed and is reported at the estimated net realizable amounts from patients, third-party payers and others. Provisions for estimated third-party payer settlements and adjustments are made in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenue related to the sale of prescription drugs in the Organization's health centers consists of the amount paid by third-party payers and patients, net of the amount the Organization has contracted to pay the pharmacy for the dispensing of such drugs together with any associated administrative fees. Revenue is recognized when prescription drugs are dispensed.

Net Patient Revenue: Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), by major payor sources, is a follows:

	June 30, 2016					
	Medicare	Medicaid	Grant or Trial Sponsored	Commercial Payers	Self Pay	Total
Gross patient charges	$ 604,121	$ 1,779,359	$ 335,815	$ 2,765,264	$ 1,888,485	$ 7,373,044
Less:						
Contractual allowances and discounts	182,614	532,240	26,312	702,161	316,372	1,759,699
Charity care	-	-	-	-	874,360	874,360
Net patient service revenue	$ 421,507	$ 1,247,119	$ 309,503	$ 2,063,103	$ 697,753	$ 4,738,985

	June 30, 2015					
	Medicare	Medicaid	Grant or Trial Sponsored	Commercial Payers	Self Pay	Total
Gross patient charges	$ 360,634	$ 1,776,015	$ 79,617	$ 2,154,542	$ 1,173,002	$ 5,543,810
Less:						
Contractual allowances and discounts	91,824	639,414	52,361	672,242	91,336	1,547,177
Charity care		-	-	-	651,549	651,549
Net patient service revenue	$ 268,810	$ 1,136,601	$ 27,256	$ 1,482,300	$ 430,117	$ 3,345,084

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient service revenue is reduced by the provision for bad debts and accounts receivable are reduced by an allowance for uncollectible accounts. These amounts are based on management's assessment of historical and expected net collections for each major payor source, considering business and economic conditions, trends in healthcare coverage, historical write-off and collection experience using hindsight or look-back approach, cash collections as a percentage of net patient service revenue and other collection indicators. Management periodically reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. The Organization performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for doubtful accounts. Accounts receivable are written off after collection efforts have been followed in accordance with the Organization's policies.

Charity Care: The Organization provides charity care (care for which the Organization receives no payment, revenue or grant reimbursement) to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue. Records are maintained to identify and monitor the level of charity care provided including the amount of charges foregone for services and supplies furnished.

The estimated costs incurred by the Organization to provide these services to patients who are unable to pay was approximately $3,627,000 and $4,354,000 for 2016 and 2015, respectively. The estimated costs of these charity care services was determined using a ratio of certain costs to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the period. Gross charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and qualify under the Organization's charity care policy and that do not otherwise qualify for reimbursement from a government program. During 2016 and 2015, the Organization received grant revenue of approximately $2,705,000 and $2,247,000 to help defray the costs of indigent care.

Government Grants and Contracts: Government grants and contracts are recognized as income in the period in which services are provided. Subcontractor expense results from certain contracts passed through to sub-recipients.

Resale Shop: The Organization operates three resale shops supported solely by donations of second-hand goods. Revenue from sales of donated goods at the date of sale, as well as net increases or decreases of inventory, are recorded as direct public support in the statement of activities. Donations of second-hand goods were $3,540,000 and $3,250,000 for 2016 and 2015, respectively.

Donated Services: Various services and support (primarily professional fees) for the Organization's operations and staff members have been provided by volunteers with specialized skills. The Organization recognizes the estimated fair value of the donated services as a contribution when such services are rendered. Included in the financial statements are contributions from such donated services and the corresponding expenses of approximately $690,000 and $57,000 for 2016 and 2015.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Incentive Program Revenue: The Patient Protection and Affordable Care Act of 2010 (PPACA), the American Recovery and Reinvestment Act of 2009 (ARRA) and the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) all include provisions for incentive revenue to be provided to physicians who participate in providing data on quality measures or utilize electronic prescription, or demonstrate meaningful use of certified electronic health records technology, within their practice of medicine. The Organization follows the gain contingency method of revenue recognition with regard to these types of incentive programs, whereby revenue is recognized under notification from governmental authorities that incentive program revenue has been earned and/or actual payment has been received. Total incentive program revenue recognized in 2016 is $95,000. There was no incentive program revenue in 2015. Such incentive revenue is included in other revenues in the statements of activities.

Functional Allocation of Expenses: The costs of providing various programs and supporting activities are presented on the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The Organization's activities are reported in the following nine functional expense categories: medical, youth services, behavioral health, research, and prevention, all of which are program services; development, which includes general fundraising/benefits and grant writings; public relations, which includes marketing; Brown Elephant, which are the resale shop operations; and general and administrative, which includes all other types of expenses. Expenses that are common to program services, development and general and administrative expenses are allocated based on estimates of management.

Income Tax Status: The Organization is incorporated under the laws of the State of Illinois as a not-for-profit organization. The Organization has received a determination letter from the Internal Revenue Service indicating that it is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements as the Organization had no material unrelated business income in fiscal years 2016 and 2015.

The Organization follows guidance issued by the FASB with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Organization recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Organization has no amounts accrued for interest or penalties as of June 30, 2016. The Organization does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Organization has applied this criterion to all tax positions for which the statute of limitations remains open. The tax years open to examination by tax authorities under the statute of limitations include fiscal 2013 through 2015. The Organization has determined that its tax provisions satisfy the more likely than not criterion and that no provision for income taxes is required at June 30, 2016.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenue and expense during the reporting period. Areas where significant estimates that are sensitive to change in the near term are used in the accompanying financial statements include allowances for contractual adjustments and doubtful accounts, incurred but not reported self-funded health insurance liability, and fair value of inventory. Actual results may differ from these estimates.

Concentrations: At June 30, 2016 and 2015, substantially all of the Organization's cash and cash equivalents were with two financial institutions. At times amounts on deposit may exceed federally insured limits which represents a concentration of credit risk; however, management monitors this risk and believes the likelihood of loss to be remote.

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on net assets or the change in net assets.

NOTE 2 - CONTRACTUAL AGREEMENTS

The Organization's principal contractual agreements are as follows:

Health Resources and Services Administration (Ryan White Part A): Funded by HRSA HIV/AIDS Bureau, the Organization sub-contracted with CDPH to provide Ambulatory Outpatient Medical Care, Behavioral Health Services, Substance Abuse Treatment, Early Intervention Services, and Psychosocial Support Services to individuals living with HIV.

Health Resources and Services Administration (Ryan White Part C): The Organization contracted with HRSA's HIV/AIDS Bureau to conduct Outpatient Early Intervention and Primary Care Services to HIV-infected individuals.

Health Resources and Services Administration (Ryan White Part D): The Organization contracted with HRSA's HIV/AIDS Bureau to provide Medical Services, Mental Health Services, and Case Management to HIV-positive women, infants, children and youth.

Health Resources and Services Administration (Bureau of Primary Health Care): The Organization was awarded Community Health Center funding, which provides Federally Qualified Health Center (FQHC) status and eligibility for medical malpractice insurance through Federal Tort Claims Act deeming. FQHC status also provides eligibility for participation in the 340b pharmaceutical program.

Centers for Disease Control: The Organization was awarded multi-year funding to provide outreach and HIV testing services and linkage to care services; University of Chicago Medical Center and Project Vida are subrecipients for this award, expanding the reach of testing services throughout the City.

The Organization also has numerous federal, state and local grants for the purpose of providing medical services, research, case management services, as well as prevention and education programs, to the gay, lesbian, bisexual and transgender community.

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NOTE 2 - CONTRACTUAL AGREEMENTS (Continued)

As described above, the Organization receives a significant amount of its funding from federal government agencies, though grants. Accordingly, the Organization's management is responsible for administering and managing these funds in accordance with the specific terms and provisions of the underlying grants or contracts as well as the general compliance and administrative rules to which any recipient of federal funds must adhere.

NOTE 3 - PROPERTY AND EQUIPMENT

At June 30, property and equipment consist of:

	2016	2015
Land	$ 983,141	$ 343,421
Buildings	6,936,349	3,248,878
Leasehold improvements	754,870	632,125
Furniture and fixtures	131,827	131,827
Office equipment	240,510	243,092
Software	235,367	109,778
Medical equipment	47,122	47,122
Vehicles	139,800	117,876
	9,468,986	4,874,119
Less accumulated depreciation and amortization	2,168,423	1,993,956
	$ 7,300,563	$ 2,880,163

NOTE 4 - PRETAX SAVINGS PLAN

The Organization maintains a 401(k) savings plan covering substantially all employees with three months of service. Employees can contribute up to 90% of their compensation, subject to Internal Revenue Code limits. Effective September 1, 2015 eligible employees who contribute up to 2% of their salary to a 401(k) will receive a match. The Organization made contributions to the Plan of $158,755 and $31,342 in 2016 and 2015, respectively.

NOTE 5 - LEASES

At June 30, 2016 and 2015, the Organization was obligated for future rentals under various non-cancelable operating leases for their operating facilities. Monthly payments range from $5,653 to $34,700 through 2032, and various leases include escalation clauses and renewal options. Future minimum lease payments are as follows:

2017	$ 844,849
2018	1,121,818
2019	1,236,435
2020	1,227,544
2021	1,175,219
Thereafter	5,914,132
Total	$ 11,519,997

(Continued)

NOTE 5 - LEASES (Continued)

Rent expense for 2016 and 2015 was approximately $1,074,000 and $940,000, which is included in occupancy and utilities expense in the statement of functional expenses.

NOTE 6 - NOTES PAYABLE AND LETTER OF CREDIT

A summary of notes payable at June 30 is as follows:

	2016	2015
Six month bridge loan from MB Financial Bank for Clark building purchase.	$ 3,740,670	$ -
Bank mortgage note (IFF) secured by real estate with monthly payments of $18,561, including interest at 5.00%.	1,527,651	1,670,118
Note payable of $41,803 collateralized by a truck, with monthly payments of $1,179, including interest at 1.50%, though August 20, 2016.	1,191	15,238
Note payable of $36,104 collateralized by a truck, with monthly payments of $1,003, non-interest bearing through May 22, 2017.	12,207	24,243
Ten year non-interest bearing note payable of $1,728,182 with Northwestern University per the agreement reached on June 27, 2014. Payments of $194,148 annually beginning July 2016 through 2023.	1,274,658	1,553,182
Total notes payable	6,556,377	3,262,781
Less current maturities	3,900,815	168,561
Total long-term notes payable	$ 2,655,562	$ 3,094,220

On October 29, 2014 the Organization obtained financing through the Illinois Facilities Fund (IFF) in the amount of $1,750,000. Debt proceeds were used to pay off the bank mortgage note and release the Organization from forbearance. The loan is due and payable in full on October 31, 2024 and has an initial interest rate equal to 5.0% and will be adjusted every five years from the first day of the first full month after the loan.

On May 23, 2016, the Organization entered into a $3,740,670 bridge loan agreement with MB Financial Bank. Interest is paid monthly at a fixed rate of 2.05% on the outstanding principal balance. The loan is due and payable in full on November 15, 2016. The loan is collateralized by a $3,740,670 certificate of deposit held at MB Financial Bank.

(Continued)

NOTE 6 - NOTES PAYABLE AND LETTER OF CREDIT (Continued)

Future payments on debt are as follows:

2017	$ 3,900,815
2018	354,575
2019	359,620
2020	368,086
2021	376,984
Thereafter	1,196,297

Interest expense was $86,152 and $97,010 for the years ended December 31, 2016 and 2015, respectively.

The Organization entered into a letter of credit agreement with Northern Trust Company on June 13, 2012, in the amount of $125,000 which serves as collateral for an operating lease. The letter of credit remained unused and expired on June 16, 2015.

The Organization entered into a letter of credit agreement with MB Financial Bank on June 4, 2015 in the amount of $125,000 which serves as collateral for an operating lease, to replace the Northern Trust Company letter of credit. The letter of credit is itself collateralized by a $137,500 certificate of deposit held at MB Financial Bank. The letter of credit remained unused at June 30, 2016 and expires on June 12, 2017.

On May 23, 2016, the Organization entered into a letter of credit agreement with MB Financial Bank in the amount of $20,978 which serves as collateral for an operating lease. The letter of credit is itself collateralized by a $23,075 certificate of deposit at MB Financial Bank. The letter of credit remained unused at June 30, 2016 and expires on July 1, 2017.

NOTE 7 - RELATED PARTY TRANSACTIONS

The Organization purchases ongoing information technology services from the Alliance, a related party through equity ownership. The services include discounted licensing and maintenance fees for the Centricity electronic health records system (which includes a patient accounts receivable system), hosting and technical support. Annual fees of $288,604 and $253,439 were incurred during 2016 and 2015. At June 30, 2016, the Organization had accounts payable due to the Alliance of $9,450.

NOTE 8 - EMPLOYEE HEALTH BENEFIT PLAN

Through December 31, 2014, the Organization participated in a self-funded health insurance plan covering substantially all employees. Upon termination of the plan all eligible employees who elected health coverage became covered under a traditional plan through Blue Cross Blue Shield. Covered services include medical benefits and prescription drugs. The prior plan had annual reinsurance coverage for a maximum eligible claim expense per covered person in excess of $50,000, and an unlimited maximum aggregate per covered person.

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NOTE 8 - EMPLOYEE HEALTH BENEFIT PLAN (Continued)

Expenses of the self-funded health insurance plan for 2016 and 2015 were approximately $9,000 and $678,000, respectively, and are recorded net of stop-loss coverage reimbursements in the accompanying statements of activities.

NOTE 9 - CONSTRUCTION IN PROGRESS

Construction in progress as of June 30, 2016 primarily consists of funds expended for leasehold and building improvements related to interior renovations to the health centers. The remaining costs to complete these projects are approximately $2,993,000 and are expected to be completed in 2017.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, various legal actions and claims are pending or may be instituted or asserted in the future against the Organization. Management believes the Organization does not have any significant claims or other litigation which the ultimate resolution would have a material financial impact.

NOTE 11 - SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2016 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2016. Management has performed their analysis through November 9, 2016, the date the financial statements were available to be issued.