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

FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

The 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, 2018 and 2017, 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, 2018 and 2017, 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 LLP

Crowe LLP

Chicago, Illinois
November 29, 2018

HOWARD BROWN HEALTH CENTER
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 27,667,202	$ 16,782,085
Accounts receivable, net of allowance for doubtful accounts of $1,030,169 and $841,637	15,795,250	7,999,475
Pledges receivable, net of allowance for doubtful accounts of $58,107 and $50,511	717,732	1,405,608
Prepaid expenses and other current assets	806,134	696,653
Total current assets	44,986,318	26,883,821
Property and equipment, net	14,072,902	13,179,800
Investment in Alliance and others	1,148,138	1,014,381
Other assets, primarily works of art	509,776	494,362
	$ 60,717,134	$ 41,572,364
LIABILITIES AND NET ASSETS		
Current liabilities		
Current maturities of long-term debt	$ 395,437	$ 374,534
Accounts payable	4,044,244	1,163,097
Accrued expenses	2,730,629	1,924,183
Deferred revenue	54,369	20,974
Total current liabilities	7,224,679	3,482,788
Long-term debt, less current maturities	6,476,750	7,066,335
Total liabilities	13,701,429	10,549,123
Net assets		
Unrestricted	45,282,954	29,154,768
Temporarily restricted	1,732,751	1,868,473
Total net assets	47,015,705	31,023,241
	$ 60,717,134	$ 41,572,364

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF ACTIVITIES
Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Net patient service revenue, net of contractual allowances, discounts, and charitable care	$ 96,061,454	$ -	$ 96,061,454
Government contracts	7,485,502	-	7,485,502
Direct public support	5,119,869	1,879,300	6,999,169
Donated services	991,984	-	991,984
Net assets released from restriction	2,015,022	(2,015,022)	-
Other, including Alliance income	539,850	-	539,850
Total revenues, gains and other support	112,213,681	(135,722)	112,077,959
Expenses			
Medical	75,813,300	-	75,813,300
Youth services	2,476,534	-	2,476,534
Behavioral health	2,224,832	-	2,224,832
Research	924,537	-	924,537
Prevention	2,321,835	-	2,321,835
Total program expenses	83,761,038	-	83,761,038
Development	597,552	-	597,552
Public relations	485,055	-	485,055
Brown elephant	2,803,588	-	2,803,588
Total expenses by function	87,647,233	-	87,647,233
General and administrative	8,438,262	-	8,438,262
Total expenses	96,085,495	-	96,085,495
Change in net assets	16,128,186	(135,722)	15,992,464
Net assets at beginning of year	29,154,768	1,868,473	31,023,241
Net assets at end of year	$ 45,282,954	$ 1,732,751	$ 47,015,705

(Continued)

HOWARD BROWN HEALTH CENTER
STATEMENT OF ACTIVITIES
Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Net patient service revenue, net of contractual allowances, discounts, and charitable care	$ 67,123,736	$ -	$ 67,123,736
Government contracts	6,627,171	-	6,627,171
Direct public support	4,722,858	1,909,827	6,632,685
Donated services	617,133	-	617,133
Net assets released from restriction	603,814	(603,814)	-
Other, including Alliance income	447,862	-	447,862
Total revenues, gains and other support	80,142,574	1,306,013	81,448,587
Expenses			
Medical	52,829,307	-	52,829,307
Youth services	1,576,533	-	1,576,533
Behavioral health	1,466,559	-	1,466,559
Research	813,640	-	813,640
Prevention	2,952,377	-	2,952,377
Total program expenses	59,638,416		59,638,416
Development	649,814	-	649,814
Public relations	226,832	-	226,832
Brown elephant	3,192,143	-	3,192,143
Total expenses by function	63,707,205		63,707,205
General and administrative	5,256,960	-	5,256,960
Total expenses	68,964,165	-	68,964,165
Change in net assets	11,178,409	1,306,013	12,484,422
Net assets at beginning of year	17,976,359	562,460	18,538,819
Net assets at end of year	$ 29,154,768	$ 1,868,473	$ 31,023,241

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2018

	Program Services									
	Medical	Youth Services	Behavioral Health	Research	Prevention	Development	Public Relations	Brown Elephant	General and Administrative	Total
Salaries	$ 11,667,524	$ 1,358,708	$ 1,558,865	$ 672,920	$ 1,191,473	$ 318,201	$ 139,289	$ 1,312,242	$ 3,335,406	$ 21,554,628
Fringe benefits	1,502,852	207,854	154,343	89,508	207,727	29,247	25,704	231,954	980,266	3,429,455
Payroll taxes	790,661	93,094	109,731	47,034	91,454	23,604	10,476	96,856	267,786	1,530,696
Bad debt	725,718	-	-	-	-	7,596	-	-	-	733,314
Accounting and legal fees	-	-	-	-	-	-	-	-	155,853	155,853
Supplies	208,149	46,624	42,918	2,681	9,040	685	1,281	19,712	100,594	431,684
Telephone	265,163	40,087	42,410	4,428	-	-	931	99,747	76,639	529,405
Postage and shipping	15,566	980	19	2,611	-	2,556	-	27,211	4,109	53,052
Occupancy and utilities	532,364	222,670	36,962	-	-	-	-	790,477	89,513	1,671,986
Repairs and maintenance	505,002	34,566	24,452	150	-	-	-	83,733	2,345	650,248
Printing	49,034	15,996	1,208	599	8,606	15,349	24,327	1,282	97,056	213,457
Travel	112,792	36,043	16,035	5,485	30,353	832	1,082	125	65,661	268,408
Seminars and meetings	75,522	7,359	17,985	1,368	15,129	2,713	3,482	-	53,107	176,665
Depreciation and amortization	64,982	7,068	2,824	-	-	-	-	5,653	392,698	473,225
Outside services	10,286,547	71,924	99,681	33,521	127,260	11,308	84,604	14,440	852,951	11,582,236
Staff services	69,995	3,084	2,445	665	5,209	8,293	458	101	14,691	104,941
Pharmaceuticals, outside labs and medical supplies	47,585,472	120,596	104	9,613	41,540	-	390	-	515	47,758,230
Client assistance	165,002	147,494	-	379	3,368	-	-	-	419	316,662
Dues and subscriptions	44,446	430	9,817	641	120	2,869	2,621	4,332	114,580	179,856
Advertising	34,042	163	-	-	3,651	6,992	51,640	7,073	20,770	124,331
Client development	11,595	23,751	1,227	45,715	13,446	-	500	-	150	96,384
Public relations	1,542	-	-	-	2,018	700	3,517	-	1,569	9,346
Other	52,740	1,000	-	-	-	2,112	9,240	24,645	58,991	148,728
Benefit expense	116	-	-	-	25,872	127,236	740	-	55,040	209,004
Donated services	630,000	-	-	-	-	17,516	124,773	-	219,695	991,984
Bank fees	40,465	-	-	-	-	4,602	-	65,811	28,416	139,294
Interest expense	-	-	-	-	-	-	-	-	345,486	345,486
Insurance expense	85,759	-	-	-	-	-	-	9,568	126,347	221,674
Subcontractor expense	-	35,576	-	-	498,601	-	-	-	-	534,177
Computer and software expense	290,250	1,467	103,806	7,219	46,968	15,141	-	8,626	977,609	1,451,086
Total expense	$ 75,813,300	$2,476,534	$ 2,224,832	$ 924,537	$2,321,835	$ 597,552	$ 485,055	$2,803,588	$ 8,438,262	$ 96,085,495

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2017

	Program Services									
	Medical	Youth Services	Behavioral Health	Research	Prevention	Development	Public Relations	Brown Elephant	General and Administrative	Total
Salaries	$ 7,461,047	$ 870,725	$ 1,117,160	$ 593,702	$ 1,776,386	$ 362,896	$ 111,098	$ 1,347,490	$ 2,624,669	$ 16,265,173
Fringe benefits	937,983	131,362	117,939	62,591	264,741	54,406	14,674	233,248	600,530	2,417,474
Payroll taxes	521,572	64,551	79,607	42,958	129,446	26,919	7,927	102,737	223,930	1,199,647
Bad debt	818,154	-	-	-	-	-	-	-	-	818,154
Accounting and legal fees	-	-	-	-	-	-	-	-	119,584	119,584
Supplies	267,974	62,700	2,729	5,979	11,688	2,343	-	15,178	136,714	505,305
Telephone	221,650	35,478	-	3,380	-	-	665	82,688	97,333	441,194
Postage and shipping	15,986	396	-	2,882	163	2,043	79	21,594	2,329	45,472
Occupancy and utilities	449,766	122,098	68,349	-	900	-	-	815,393	88,273	1,544,779
Repairs and maintenance	378,873	23,200	-	454	-	-	-	100,853	31,391	534,771
Printing	33,953	5,267	721	77	8,983	10,342	3,022	500	2,423	65,288
Travel	68,112	5,229	5,449	2,664	53,425	1,005	328	45	60,859	197,116
Seminars and meetings	19,572	6,543	13,343	2,613	3,908	1,675	-	-	24,483	72,137
Depreciation and amortization	320,516	8,569	-	-	-	-	-	28,705	37,861	395,651
Outside services	7,221,402	32,556	13,207	44,612	93,563	34,948	40,280	14,320	424,649	7,919,537
Staff services	107,179	1,593	10,997	1,214	12,780	4,295	332	773	33,780	172,943
Pharmaceuticals, outside labs and medical supplies	32,738,283	97,335	-	6,537	109,271	-	-	-	-	32,951,426
Client assistance	104,155	90,322	1,273	532	35,157	-	-	-	-	231,439
Dues and subscriptions	23,610	-	1,070	-	46	2,345	750	5,580	37,488	70,889
Advertising	3,599	6,840	-	800	81	167	19,565	4,595	6,605	42,252
Client development	9,367	9,499	-	35,913	1,139	-	-	-	--	55,918
Public relations	-	-	-	-	4,707	750	12,075	-	-	17,532
Other	38,797	-	48	-	64	120	-	338,513	2,777	380,319
Benefit expense	-	-	-	-	19,015	107,985	-	-	-	127,000
Donated services	475,668	-	-	-	-	29,905	15,200	-	96,360	617,133
Bank fees	20,528	55	-	-	-	1,398	-	65,137	58,631	145,749
Interest expense	129,389	-	-	-	-	-	-	3	119,086	248,478
Insurance expense	73,713	-	-	-	-	-	-	14,791	97,366	185,870
Subcontractor expense	7,386	-	-	-	405,205	-	-	-	-	412,591
Computer and software expense	361,073	2,215	34,667	6,732	21,709	6,272	837	-	329,839	763,344
Total expense	$ 52,829,307	$ 1,576,533	$ 1,466,559	$ 813,640	$ 2,952,377	$ 649,814	$ 226,832	$ 3,192,143	$ 5,256,960	$ 68,964,165

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENTS OF CASH FLOWS
Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Increase in net assets	$ 15,992,464	$ 12,484,422
Adjustments to reconcile increase in net assets to net cash from operating activities		
Bad debt expense	733,314	818,154
Depreciation and amortization	473,225	395,651
Gain on disposal of equipment	(1,257)	-
Equity share of Alliance income	(133,758)	(172,683)
Changes in assets and liabilities		
Accounts receivable	(8,529,089)	(2,972,655)
Pledges receivable	687,876	(1,032,489)
Prepaid expenses and other current assets	(109,481)	59,435
Accounts payable	2,881,147	(1,447,815)
Accrued expenses	806,446	1,050,073
Other assets	(15,414)	7,311
Deferred revenue	33,395	11,128
Net cash from operating activities	12,818,868	9,200,532
Cash flows from investing activities		
Purchase of property and equipment	(1,366,069)	(6,019,578)
Cash received on sale of asset	1,000	-
Investment in CHC Access Partnership	-	5,000
Net cash from investing activities	(1,365,069)	(6,014,578)
Cash flows from financing activities		
Borrowings from notes payable	-	5,000,000
Principal payments on notes payable	(568,682)	(4,115,508)
Net cash from financing activities	(568,682)	884,492
Net change in cash and cash equivalents	10,885,117	4,070,446
Cash and cash equivalents at beginning of year	16,782,085	12,711,639
Cash and cash equivalents at end of year	$ 27,667,202	$ 16,782,085
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 345,486	$ 212,143
Donated services	991,984	617,133

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, 2018 and 2017 temporarily restricted net assets consisted of the following:

	2018	2017
Board designated endowment	$ 136,796	$ 136,702
Time	330,305	1,016,964
Specific programming	1,265,650	714,807
Total temporarily restricted net assets	$ 1,732,751	$ 1,868,473

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:

	2018	2017
Time	$ 296,964	$ 24,000
Specific programming	1,718,058	579,814
Total releases from restriction	$ 2,015,022	$ 603,814

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, 2018 and 2017.

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, 2018 and 2017 were approximately $584,000 and $456,000.

Pledges Receivable: Pledges receivable that are expected to be collected within one year are recorded at net realizable value. All amounts are expected to be collected within one year so no discount has been applied to this receivable balance. There were no long-term pledge receivables at June 30, 2018 or 2017. Conditional promises to give are not included as support until the conditions are substantially met.

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, 2018 and 2017, 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 one and two organizations for the years ended June 30, 2018 and 2017, 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. During the year ended June 30, 2017, the Organization and the other member agencies were each required to contribute $20,000 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 $133,758 and $172,683 for 2018 and 2017, and is included in the statements of activities in other revenues.

Summarized audited financial information for the Alliance at June 30, 2018 and 2017 is as follows:

	2018	2017
Assets	$ 7,141,722	$ 6,838,480
Liabilities	2,363,431	2,595,222
Equity	4,778,291	4,243,258

Cost Method Investments: No dividends were received during the years ended June 30, 2018 and 2017. 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. CHC Partnership Access ceased operations in 2017.

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 were no permanently restricted endowment funds at June 30, 2018 or 2017.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in endowment net assets for years ended June 30, 2018 and 2017, are as follows:

	Total	Unrestricted	Temporarily Restricted
Endowment net assets, June 30, 2016	$ 136,599	$ -	$ 136,599
Interest income	103	-	103
Endowment net assets, June 30, 2017	136,702	-	136,702
Interest income	94	-	94
Endowment net assets, June 30, 2018	$ 136,796	$ -	$ 136,796

Interpretation of UPMIFA: Effective June 30, 2009 Illinois signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA modernizes the laws governing a not-for-profit organization's investment and management of donor-restricted endowment funds. 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, 2018 or 2017.

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 and contracted pharmacy locations consists of the amount paid by third-party payers and patients. 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 payer sources, is as follows:

	June 30, 2018					
	Medicare	Medicaid	Grant or Trial Sponsored	Commercial Payers	Self Pay	Total
Gross patient charges	$ 1,085,261	$ 2,803,102	$ 1,010,488	$ 4,717,023	$ 2,657,978	$ 12,273,852
Less:						
Contractual allowances and discounts	606,367	699,474	29,575	1,426,762	-	2,762,178
Charity care	-	-	-	-	1,596,569	1,596,569
Net patient service revenue, excluding 340B pharmacy	$ 478,894	$ 2,103,628	$ 980,913	$ 3,290,261	$ 1,061,409	$ 7,915,105

	June 30, 2017					
	Medicare	Medicaid	Grant or Trial Sponsored	Commercial Payers	Self Pay	Total
Gross patient charges	$ 750,520	$ 2,021,797	$ 826,755	$ 3,258,853	$ 2,421,534	$ 9,279,459
Less:						
Contractual allowances and discounts	382,987	509,116	25,787	899,484	-	1,817,374
Charity care	-	-	-	-	1,516,818	1,516,818
Net patient service revenue, excluding 340B pharmacy	$ 367,533	$ 1,512,681	$ 800,968	$ 2,359,369	$ 904,716	$ 5,945,267

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amounts above do not include the 340B pharmacy revenue of approximately $89,100,000 and $61,200,000 for the year ended June 30, 2018 and 2017, respectively.

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 payer 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 payer 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 $5,522,000 and $4,224,000 for 2018 and 2017, 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 2018 and 2017, the Organization received grant revenue of approximately $3,385,000 and $3,072,000 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 are recorded as direct public support in the statement of activities. Donations of second-hand goods were $3,409,000 and $3,435,000 for 2018 and 2017, 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 $992,000 and $617,000 for 2018 and 2017.

(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 2018 and 2017 was $0 and $272,000, respectively. 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 2018 and 2017.

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, 2018. 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 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, 2018.

(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 and incurred but not reported self-funded health insurance liability. Actual results may differ from these estimates.

Concentrations: At June 30, 2018 and 2017, 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 reclassifications have been made to the prior year amounts to conform to the current year presentation. These reclassifications had no effect on excess of revenue over expenses or 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.

(Continued)

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:

	2018	2017
Land	$ 1,583,140	$ 1,583,140
Buildings and improvements	11,498,089	11,498,088
Leasehold improvements	2,881,446	1,466,208
Furniture and fixtures	23,843	96,582
Office equipment	264,471	27,959
Software	192,076	221,216
Medical equipment	158,853	139,471
Construction in progress	-	223,012
Vehicles	143,452	181,181
	16,745,370	15,436,857
Less accumulated depreciation and amortization	2,672,468	2,257,057
	$ 14,072,902	$ 13,179,800

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, 2016 eligible employees who contribute up to 3% of their salary to a 401(k) will receive a match. Effective September 1, 2017 eligible employees who contribute up to 4% of their salary to a 401(k) will receive a match. The Organization made contributions to the Plan of $572,606 and $320,699 in 2018 and 2017, respectively.

(Continued)

NOTE 5 - LEASES

At June 30, 2018 and 2017, the Organization was obligated for future rentals under various non-cancelable operating leases for their operating facilities. Monthly payments range from $1,647 to $30,364 through 2032, and various leases include escalation clauses and renewal options. Future minimum lease payments are as follows:

2019	$ 1,489,635
2020	1,416,049
2021	1,316,006
2022	1,109,706
2023	1,025,876
Thereafter	3,830,242
Total	$ 10,187,514

Rent expense for 2018 and 2017 was approximately $1,269,000 and $1,015,000, 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:

	2018	2017
Bank mortgage note (IFF) secured by real estate at 4025 N. Sheridan with monthly payments of $18,561, including interest at 5.00%.	$ 1,220,477	$ 1,377,895
Bank mortgage note (IFF) secured by real estate at 6500 N. Clark with monthly payments of $25,372 including interest at 6.035%	2,862,186	2,989,715
Additional bank mortgage note (IFF) secured by real estate at 6500 N. Clark with monthly payments of $16,209, including interest at 5.375%	1,903,162	1,992,749
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 2022 with a final payment of $109,772 in 2023.	886,362	1,080,510
Total notes payable	6,872,187	7,440,869
Less current maturities	395,437	374,534
Total long-term notes payable	$ 6,476,750	$ 7,066,335

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 on the property at 4025 N. Sheridan. 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.

(Continued)

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

On November 30, 2016 the Organization obtained financing through the Illinois Facilities Fund (IFF) in the amount of $5,000,000 structured in two separate notes payable. Debt proceeds were used to pay off the bridge loan agreement with MB financial and to pay for the building improvements at 6500 N. Clark. The first mortgage note payable is $3,000,000 and is due and payable in full on May 31, 2032 and has an interest rate of 6.035%. The second mortgage note payable is $2,000,000 and is due in full on May 31, 2032 and has an initial interest rate equal to 5.375% and will be adjusted every five years from the first day of the first full month after the loan.

Future payments on debt are as follows:

2019	$ 395,437
2020	611,662
2021	634,981
2022	659,612
2023	685,629
Thereafter	3,884,866
	$ 6,872,187

Interest expense was $345,486 and $248,478 for the years ended June 30, 2018 and 2017, respectively.

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. The letter of credit is itself collateralized by a $137,500 certificate of deposit held at MB Financial Bank. The letter of credit expires on June 12, 2019.

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, 2018 and expires on July 1, 2019.

The Organization entered into a letter of credit agreement with MB Financial Bank on September 26, 2017 in the amount of $2,984 which serves as collateral for an operating lease. The letter of credit is itself collateralized by a $3,282 certificate of deposit at MB Financial Bank. The letter of credit expires on July 31, 2018.

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 $440,688 and $264,720 were incurred during 2018 and 2017. At June 30, 2018 and 2017, the Organization had accounts payable due to the Alliance of $55,214 and $18,623, respectively.

(Continued)

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

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 9 - SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2018 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2018. Management has performed their analysis through November 29, 2018, the date the financial statements were available to be issued.