

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

FINANCIAL STATEMENTS
June 30, 2019 and 2018

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

FINANCIAL STATEMENTS
June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

The image shows a handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and somewhat stylized.

Crowe LLP

Chicago, Illinois
December 3, 2019

HOWARD BROWN HEALTH CENTER
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 44,174,275	\$ 27,667,202
Accounts receivable, net of allowance for doubtful accounts of \$1,250,927 in 2019 and \$1,030,169 in 2018	12,997,454	15,795,250
Pledges receivable, net of allowance for doubtful accounts of \$72,596 in 2019 and \$58,107 in 2018	1,222,644	717,732
Prepaid expenses and other	<u>1,134,331</u>	<u>806,134</u>
Total current assets	59,528,704	44,986,318
Property and equipment, net	11,242,632	14,072,902
Investment in Alliance and others	1,384,942	1,148,138
Other assets, primarily works of art	<u>519,615</u>	<u>509,776</u>
Total assets	<u>\$ 72,675,893</u>	<u>\$ 60,717,134</u>
LIABILITIES		
Current maturities of long-term debt	\$ 479,920	\$ 395,437
Accounts payable	3,151,041	4,044,244
Accrued expenses	3,396,879	2,730,629
Deferred revenue	<u>37,228</u>	<u>54,369</u>
Total current liabilities	7,065,068	7,224,679
Long-term debt, less current maturities	<u>5,802,682</u>	<u>6,476,750</u>
Total liabilities	<u>12,867,750</u>	<u>13,701,429</u>
NET ASSETS		
Without donor restrictions	57,794,729	45,282,954
With donor restrlctions	<u>2,013,414</u>	<u>1,732,751</u>
Total net assets	<u>59,808,143</u>	<u>47,015,705</u>
Total liabilities and net assets	<u>\$ 72,675,893</u>	<u>\$ 60,717,134</u>

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF ACTIVITIES
Year ended June 30, 2019

	Without Donor <u>Retrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Revenue and support			
Net patient service revenue	\$ 121,219,493	\$ -	\$ 121,219,493
Government contracts	7,042,540	-	7,042,540
Direct Support	5,314,709	2,313,903	7,628,612
Donated Services	359,958	-	359,958
Net assets released from restrictions	2,033,240	(2,033,240)	-
Other, including Alliance income	<u>1,293,969</u>	<u>-</u>	<u>1,293,969</u>
Total operating revenue and support	<u>137,263,909</u>	<u>280,663</u>	<u>137,544,572</u>
Expenses			
Medical	96,016,225	-	96,016,225
Youth services	3,266,500	-	3,266,500
Behavioral health	3,995,879	-	3,995,879
Research	1,030,710	-	1,030,710
Prevention	<u>2,372,991</u>	<u>-</u>	<u>2,372,991</u>
Total program expenses	106,682,305	-	106,682,305
Development	670,149	-	670,149
Public relations	819,384	-	819,384
Brown elephant	2,954,342	-	2,954,342
General and administrative	<u>11,098,710</u>	<u>-</u>	<u>11,098,710</u>
Total supporting expenses	<u>15,542,585</u>	<u>-</u>	<u>15,542,585</u>
Total expenses	<u>122,224,890</u>	<u>-</u>	<u>122,224,890</u>
Changes in net assets before loss on impairment	15,039,019	280,663	15,319,682
Loss on impairment	<u>(2,527,244)</u>	<u>-</u>	<u>(2,527,244)</u>
Change in net assets	12,511,775	280,663	12,792,438
Net assets at beginning of year	<u>45,282,954</u>	<u>1,732,751</u>	<u>47,015,705</u>
Net assets at end of year	<u>\$ 57,794,729</u>	<u>\$ 2,013,414</u>	<u>\$ 59,808,143</u>

(Continued)

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

	Without Donor <u>Retrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Revenue and support			
Net patient service revenue	\$ 96,061,454	\$ -	\$ 96,061,454
Government contracts	7,485,502	-	7,485,502
Direct Support	5,119,869	1,879,300	6,999,169
Donated Services	991,984	-	991,984
Net assets released from restrictions	2,015,022	(2,015,022)	-
Other, including Alliance income	539,850	-	539,850
Total operating revenue and support	<u>112,213,681</u>	<u>(135,722)</u>	<u>112,077,959</u>
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	<u>83,761,038</u>	-	<u>83,761,038</u>
Development	597,552	-	597,552
Public relations	485,055	-	485,055
Brown elephant	2,803,588	-	2,803,588
General and Administrative	8,438,262	-	8,438,262
Total supporting expenses	<u>12,324,457</u>	-	<u>12,324,457</u>
Total expenses	<u>96,085,495</u>	-	<u>96,085,495</u>
Changes in net assets	16,128,186	(135,722)	15,992,464
Net assets at beginning of year	<u>29,154,768</u>	<u>1,868,473</u>	<u>31,023,241</u>
Net assets at end of year	<u>\$ 45,282,954</u>	<u>\$ 1,732,751</u>	<u>\$ 47,015,705</u>

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2019

	Program Services							Public Relations	Brown Elephant	General and Administrative	Total
	Medical	Youth Services	Behavioral Health	Research	Prevention	Total Program Services	Development				
Salaries	\$ 13,833,141	\$ 1,672,218	\$ 2,637,995	\$ 680,015	\$ 1,366,649	\$ 20,190,018	\$ 402,239	\$ 301,511	\$ 1,349,363	\$ 5,155,831	\$ 27,398,962
Fringe benefits	1,963,444	303,600	277,688	105,068	219,465	2,869,265	36,836	44,601	227,378	1,624,591	4,802,671
Payroll taxes	968,775	120,008	183,200	49,008	98,312	1,419,303	28,899	21,870	101,408	358,439	1,929,919
Bad debt	1,315,732	-	190,895	-	-	1,506,627	14,489	-	-	-	1,521,116
Accounting and legal fees	-	-	-	-	-	-	-	-	-	374,532	374,532
Supplies	272,312	69,350	31,340	1,972	31,255	406,229	529	773	22,923	61,304	491,758
Telephone	265,941	31,538	30,443	3,465	838	332,225	-	1,730	83,575	68,087	485,617
Postage and shipping	27,745	68	349	94	362	28,618	2,333	-	23,922	1,991	56,864
Occupancy and utilities	694,133	109,156	137,936	-	-	941,225	-	-	873,932	540,198	2,355,355
Repairs and maintenance	840,391	67,546	36,212	-	-	944,149	-	-	98,775	46,263	1,089,187
Printing	141,528	10,110	2,651	369	24,293	178,951	18,064	71,422	4,480	54,749	327,666
Travel	124,329	26,350	10,981	19,788	25,508	206,956	4,259	3,874	-	95,062	310,151
Seminars and meetings	127,611	25,042	23,854	4,877	7,768	189,152	1,645	4,338	-	56,772	251,907
Depreciation and amortization	352,442	43,098	115,026	-	-	510,566	-	-	35,560	120,558	666,684
Outside services	12,689,940	127,621	82,387	63,663	171,304	13,134,915	7,675	65,847	10,256	585,363	13,804,056
Staff services	42,292	2,140	1,160	1,930	2,456	49,978	2,036	1,423	-	27,477	80,914
Pharmaceuticals, outside labs and medical supplies	60,912,566	177,780	82,256	-	29,676	61,202,278	-	-	-	-	61,202,278
Client assistance	364,071	245,624	17,147	2,236	3,057	632,135	-	-	-	-	632,135
Dues and subscriptions	44,568	1,193	8,652	360	85	54,858	1,862	4,703	490	144,721	206,634
Advertising	9,467	200	-	-	10,902	20,569	849	76,165	5,714	21,107	124,404
Client development	36,345	103,438	5,828	47,740	31,073	224,424	-	-	-	875	225,299
Public relations	-	-	-	-	250	250	-	47,718	-	-	47,968
Other	80,786	700	220	-	523	82,229	12,755	40,482	32,940	45,893	214,299
Benefit expense	-	-	-	-	1,900	1,900	100,824	-	-	-	102,724
Donated services	-	-	-	-	-	-	12,059	132,757	-	215,143	359,959
Bank fees	59,402	-	1,787	-	-	61,189	9,062	-	66,804	7,281	144,336
Interest expense	-	-	-	-	-	-	-	-	-	324,488	324,488
Insurance expense	146,668	3,090	12,976	-	-	162,734	-	-	-	70,903	233,637
Subcontractor expense	-	103,381	-	48,000	337,156	488,537	-	-	12,093	-	500,630
Computer and software expense	702,596	23,249	104,896	2,125	10,159	843,025	13,734	170	4,729	1,097,082	1,958,740
Total expense	\$ 96,016,225	\$ 3,266,500	\$ 3,995,879	\$ 1,030,710	\$ 2,372,991	\$ 106,682,305	\$ 670,149	\$ 819,384	\$ 2,954,342	\$ 11,098,710	\$ 122,224,890

See accompanying notes to financial statements

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

	Program Services						Public Relations	Brow n Elephant	General and Administrative	Total	
	Medical	Youth Services	Behavioral Health	Research	Prevention	Total Program Services					Development
Salaries	\$ 11,667,524	\$ 1,358,708	\$ 1,558,865	\$ 672,920	\$ 1,191,473	\$ 16,449,490	\$ 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	2,162,284	29,247	25,704	231,954	980,266	3,429,455
Payroll taxes	790,661	93,094	109,731	47,034	91,454	1,131,974	23,604	10,476	96,856	267,786	1,530,696
Bad debt	725,718	-	-	-	-	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	309,412	685	1,281	19,712	100,594	431,684
Telephone	265,163	40,087	42,410	4,428	-	352,088	-	931	99,747	76,639	529,405
Postage and shipping	15,566	980	19	2,611	-	19,176	2,556	-	27,211	4,109	53,052
Occupancy and utilities	532,364	222,670	36,962	-	-	791,996	-	-	790,477	89,513	1,671,986
Repairs and maintenance	505,002	34,566	24,452	150	-	564,170	-	-	83,733	2,345	650,248
Printing	49,034	15,996	1,208	599	8,606	75,443	15,349	24,327	1,282	97,056	213,457
Travel	112,792	36,043	16,035	5,485	30,353	200,708	832	1,082	125	65,661	268,408
Seminars and meetings	75,522	7,359	17,985	1,368	15,129	117,363	2,713	3,482	-	53,107	176,665
Depreciation and amortization	64,982	7,068	2,824	-	-	74,874	-	-	5,653	392,698	473,225
Outside services	10,286,547	71,924	99,681	33,521	127,260	10,618,933	11,308	84,604	14,440	852,951	11,582,236
Staff services	69,995	3,084	2,445	665	5,209	81,398	8,293	458	101	14,691	104,941
Pharmaceuticals, outside labs and medical supplies	47,585,472	120,596	104	9,613	41,540	47,757,325	-	390	-	515	47,758,230
Client assistance	165,002	147,494	-	379	3,368	316,243	-	-	-	419	316,662
Dues and subscriptions	44,446	430	9,817	641	120	55,454	2,869	2,621	4,332	114,580	179,856
Advertising	34,042	163	-	-	3,651	37,856	6,992	51,640	7,073	20,770	124,331
Client development	11,595	23,751	1,227	45,715	13,446	95,734	-	500	-	150	96,384
Public relations	1,542	-	-	-	2,018	3,560	700	3,517	-	1,569	9,346
Other	52,740	1,000	-	-	-	53,740	2,112	9,240	24,645	58,991	148,728
Benefit expense	116	-	-	-	25,872	25,988	127,236	740	-	55,040	209,004
Donated services	630,000	-	-	-	-	630,000	17,516	124,773	-	219,695	991,984
Bank fees	40,465	-	-	-	-	40,465	4,602	-	65,811	28,416	139,294
Interest expense	-	-	-	-	-	-	-	-	-	345,486	345,486
Insurance expense	85,759	-	-	-	-	85,759	-	-	9,568	126,347	221,674
Subcontractor expense	-	35,576	-	-	498,601	534,177	-	-	-	-	534,177
Computer and software expense	290,250	1,467	103,806	7,219	46,968	449,710	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	\$ 83,761,038	\$ 597,552	\$ 485,055	\$ 2,803,588	\$ 8,438,262	\$ 96,085,495

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating activities		
Change in net assets	\$ 12,792,438	\$ 15,992,464
Adjustments to reconcile changes in net assets to net cash from operating activities		
Bad debt expense	1,521,116	733,314
Depreciation and amortization	666,684	473,225
Loss (gain) on disposal of equipment	2,527,244	(1,257)
Equity share of Alliance income	(236,805)	(133,758)
Changes in assets and liabilities		
Accounts receivable	1,276,681	(8,529,089)
Pledges receivable	(504,912)	687,876
Prepaid expenses and other current assets	(328,197)	(109,481)
Accounts payable	(893,203)	2,881,147
Accrued expenses	666,250	806,446
Other assets	(9,839)	(15,414)
Deferred revenue	<u>(17,141)</u>	<u>33,395</u>
Net cash from operating activities	17,460,316	12,818,868
Investing activities		
Purchase of property and equipment	(363,658)	(1,366,069)
Cash received on sale of asset	<u>-</u>	<u>1,000</u>
Net cash from investing activities	(363,658)	(1,365,069)
Financing activities		
Principal payments on notes payable	<u>(589,585)</u>	<u>(568,682)</u>
Net cash from financing activities	<u>(589,585)</u>	<u>(568,682)</u>
Increase in cash and cash equivalents	16,507,073	10,885,117
Cash and cash equivalents at beginning of year	<u>27,667,202</u>	<u>16,782,085</u>
Cash and cash equivalents at end of year	<u>\$ 44,174,275</u>	<u>\$ 27,667,202</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 324,488	\$ 345,486
Donated services	\$ 359,959	\$ 991,984

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2019 and 2018

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 two classes of net assets: with donor restrictions and without donor restrictions.

Without Donor Restrictions – Net assets include resources which are not subject to donor-imposed restrictions plus those resources for which donor-imposed restrictions have been satisfied. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. Also included are net assets subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be retained permanently. There were no net assets with donor restrictions in perpetuity at June 30, 2019 and 2018. At June 30, 2019 and 2018 net assets with donor restrictions consisted of the following:

	<u>2019</u>	<u>2018</u>
Board designated endowment	\$ -	\$ 136,796
Time	567,615	330,305
Specific programming	<u>1,445,799</u>	<u>1,265,650</u>
Total net assets with donor restrictions	<u>\$ 2,013,414</u>	<u>\$ 1,732,751</u>

Satisfaction of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as a reclassification of net assets with donor restrictions to net assets without donor restrictions. Where the stipulation of the net assets with donor restrictions is fulfilled in the same year as the original contribution, the contribution is recorded as revenue without donor restrictions. Restrictions released during the periods ended June 30 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Time	\$ 505,679	\$ 296,964
Specific programming	<u>1,527,561</u>	<u>1,718,058</u>
Total releases from restriction	<u>\$ 2,033,240</u>	<u>\$ 2,015,022</u>

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)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2019 and 2018

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 statements of financial position. Gross patient accounts receivable greater than 90 days outstanding at June 30, 2019 and 2018 were approximately \$527,000 and \$584,000.

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, 2019 or 2018. 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. During evaluation in fiscal year 2019, of a building acquired during fiscal year 2017, the organization recognized an impairment of the asset which was accounted for during fiscal year 2019. As of June 30, 2019 and 2018, management believes that no additional impairments exist.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Alliance: Investment in Alliance consists of an investment in one organization for the years ended June 30, 2019 and 2018, on the equity method 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 Alliance also receives grants from government and private foundations. The Organization's share of equity gain in the Alliance (unconsolidated affiliate) was \$236,805 and \$133,758 for 2019 and 2018, and is included in the statements of activities in other revenues.

Summarized audited financial information for the Alliance at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Assets	\$ 7,705,085	\$ 7,141,722
Liabilities	1,979,581	2,363,431
Equity	5,725,504	4,778,291

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. In fiscal year 2019, the Board of Directors released the endowment designation. There were no endowment funds with donor restrictions at June 30, 2019.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in endowment net assets for years ended June 30, 2019 and 2018, are as follows:

	Board Designated <u>Endowment</u>
Endowment net assets, June 30, 2017	\$ 136,702
Interest income	<u>94</u>
Endowment net assets, June 30, 2018	136,796
Interest income	<u>289</u>
Release from restriction	(137,085)
Endowment net assets, June 30, 2019	<u>\$ -</u>

Revenue Recognition: Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

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.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019					
	<u>Medicare</u>	<u>Medicaid</u>	<u>Grant or Trial Sponsored</u>	<u>Commercial Payers</u>	<u>Self Pay</u>	<u>Total</u>
Gross patient charges	\$ 1,406,034	\$ 4,056,664	\$ 31,383	\$ 6,134,689	\$ 3,207,660	\$ 14,836,430
Less:						
Contractual allowances and discounts	764,242	1,298,026	28,872	1,813,249	-	3,904,389
Charity care	-	-	-	-	1,930,245	1,930,245
Net patient service revenue, excluding 340B pharmacy	<u>\$ 641,792</u>	<u>\$ 2,758,638</u>	<u>\$ 2,511</u>	<u>\$ 4,321,440</u>	<u>\$ 1,277,415</u>	<u>\$ 9,001,796</u>
	June 30, 2018					
	<u>Medicare</u>	<u>Medicaid</u>	<u>Grant or Trial Sponsored</u>	<u>Commercial Payers</u>	<u>Self Pay</u>	<u>Total</u>
Gross patient charges	\$ 1,085,261	\$ 2,803,102	\$ 32,418	\$ 4,717,023	\$ 2,657,978	\$ 11,295,782
Less:						
Contractual allowances and discounts	606,367	699,474	29,581	1,433,384	-	2,768,806
Charity care	-	-	-	-	1,596,569	1,596,569
Net patient service revenue, excluding 340B pharmacy	<u>\$ 478,894</u>	<u>\$ 2,103,628</u>	<u>\$ 2,837</u>	<u>\$ 3,283,639</u>	<u>\$ 1,061,409</u>	<u>\$ 6,930,407</u>

The amounts above do not include the 340B pharmacy revenue of approximately \$112,200,000 and \$89,100,000 for the year ended June 30, 2019 and 2018, 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The estimated costs incurred by the Organization to provide these services to patients who are unable to pay was approximately \$9,644,000 and \$5,135,000 for 2019 and 2018, 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 2019 and 2018, the Organization received grant revenue of approximately \$3,195,000 and \$3,385,000 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 approximately \$3,338,000 and \$3,409,000 for 2019 and 2018, 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 \$360,000 and \$992,000 for 2019 and 2018.

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 2019 was \$92,190. There was no incentive program revenue recorded in 2018. 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 statements 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. The allocations of supporting activities to the functional expenses are done in a manner that represents an approximation of the benefits accruing to that function. Such allocations are done either on full time equivalents of personnel or square footage of space.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2019 and 2018.

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, 2019 or 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, 2019 or 2018.

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, 2019 and 2018, 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Guidance: In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) (ASU 2016-14)*. ASU 2016-14 makes several improvements to current reporting requirements that address the complexities related to not-for-profit reporting. The guidance requires the Organization to provide qualitative and quantitative information that communicates how the Organization manages liquid resources available to meet cash needs within one year of the statement of financial position date. It also requires the Organization to disclose expenses by both natural and functional classification as well as methods used to allocate between program and support functions. ASU 2016-14 requires the Organization to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization implemented this guidance for the year ended June 30, 2019, and the new disclosures are located in the statements of financial position, statements of activities, and Note 10.

Upcoming Accounting Guidance: In May 2014, the FASB issued (ASU) 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively in the fiscal year ending June 30, 2020. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the Organization's financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update provides not-for-profit organizations with new guidance on characterizing grants and similar contracts as either reciprocal or nonreciprocal transactions, and it provides a framework for distinguishing between conditional and unconditional contributions. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the Organization's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The new standard is effective for the Organization in the fiscal year ending June 30, 2021. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the Organization's financial statements.

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.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2019 and 2018

NOTE 2 - CONTRACTUAL AGREEMENTS (Continued)

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 the Federal Tort Claims Act. 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.

As described above, the Organization receives a significant amount of its funding from federal government agencies, through 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:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,583,140	\$ 1,583,140
Buildings and improvements	8,769,350	11,498,089
Leasehold improvements	3,410,125	2,881,446
Furniture and fixtures	23,843	23,843
Office equipment	249,797	264,471
Software	234,625	192,076
Medical equipment	167,691	158,853
Vehicles	<u>143,213</u>	<u>143,213</u>
	14,581,784	16,745,370
Less accumulated depreciation and amortization	<u>3,339,152</u>	<u>2,672,468</u>
	<u>\$ 11,242,632</u>	<u>\$ 14,072,902</u>

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2019 and 2018

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, 2018 eligible employees who contribute up to 5% of their salary to a 401(k) will receive a match. The Organization made contributions to the Plan of \$867,020 and \$572,606 in 2019 and 2018, respectively.

NOTE 5 - LEASES

At June 30, 2019 and 2018, 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:

2020	\$ 1,551,156
2021	1,519,324
2022	1,264,780
2023	1,258,244
2024	1,124,452
Thereafter	<u>4,249,814</u>
Total	<u>\$ 10,967,770</u>

Rent expense for 2019 and 2018 was approximately \$1,669,000 and \$1,269,000, which is included in occupancy and utilities expense in the statements of functional expenses.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2019 and 2018

NOTE 6 - NOTES PAYABLE AND LETTER OF CREDIT

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

	<u>2019</u>	<u>2018</u>
Bank mortgage note (IFF) secured by real estate at 4025 N. Sheridan with monthly payments of \$18,561, including interest at 5.00%.	\$ 1,055,006	\$ 1,220,477
Bank mortgage note (IFF) secured by real estate at 6500 N. Clark with monthly payments of \$25,372 including interest at 6.035%	2,726,743	2,862,186
Additional bank mortgage note (IFF) secured by real estate at 6500 N. Clark with monthly payments of \$16,209, including interest at 5.375%	1,808,639	1,903,162
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.	<u>692,214</u>	<u>886,362</u>
Total notes payable	6,282,602	6,872,187
Less current maturities	<u>479,920</u>	<u>395,437</u>
Total long-term notes payable	<u>\$ 5,802,682</u>	<u>\$ 6,476,750</u>

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.

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:

2020	\$ 479,920
2021	634,981
2022	659,612
2023	685,628
2024	566,296
Thereafter	<u>3,256,165</u>
	<u>\$ 6,282,602</u>

(Continued)

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

Interest expense was \$324,488 and \$345,486 for the years ended June 30, 2019 and 2018, 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 expired 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, 2019 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 expired 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 \$549,893 and \$440,688 were incurred during 2019 and 2018. At June 30, 2019 and 2018, the Organization had accounts payable due to the Alliance of \$1,000 and \$55,214, respectively.

NOTE 8 - 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.

The Organization maintains its medical malpractice coverage under the Federal Tort Claims Act (FTCA). FTCA provides malpractice coverage to eligible public health service-supported programs and applies to the Organization and its employees while providing services within the scope of employment included under grant-related activities. The attorney general, through the United States Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

The Organization has contracted with the county, city, and other agencies to perform certain healthcare services and receives Medicaid and Medicare revenue from the State of Illinois and the federal government. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by federal and other governments and agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding amounts in question. As of the report date, there are no pending or scheduled audits related to Medicaid and Medicare reimbursements.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2019 and 2018

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

Medicaid and Medicare revenue is reimbursed to the Organization at the net reimbursement rates as determined by the program's cost report. Reimbursement rates are subject to revisions under the provisions of cost reimbursement regulations. Adjustments for such revisions are recognized as of June 30, 2019 and 2018.

NOTE 9 - SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2019 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2019. Management has performed their analysis through December 3, 2019, the date the financial statements were available to be issued.

NOTE 10 - LIQUIDITY AND AVAILABILITY

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 44,174,275	\$ 27,667,202
Accounts Receivable	12,997,454	15,795,250
Pledges Receivable	<u>1,222,644</u>	<u>717,732</u>
	<u>\$ 58,394,373</u>	<u>\$ 44,180,184</u>

As part of the Organization's liquidity management, the Organization invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.