

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

FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

FINANCIAL STATEMENTS
June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.


Crowe LLP

Chicago, Illinois
November 15, 2021

HOWARD BROWN HEALTH CENTER
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 44,081,747	\$ 61,715,390
Investments	49,872,103	8,841,106
Accounts receivable	17,942,642	16,424,794
Pledges receivable, net of allowance for doubtful accounts of \$94,789 in 2021 and \$65,000 in 2020	1,769,695	891,751
Prepaid expenses and other	<u>817,788</u>	<u>996,620</u>
Total current assets	114,483,975	88,869,661
Property and equipment, net	37,322,790	20,361,063
Investment in Alliance	1,884,213	1,687,198
Deposits and other assets	<u>587,870</u>	<u>760,838</u>
Total assets	<u>\$ 154,278,848</u>	<u>\$ 111,678,760</u>
 LIABILITIES		
Current maturities of long-term debt	\$ 6,265,412	\$ 503,240
Accounts payable	10,003,061	4,482,376
Accrued expenses	5,234,204	3,970,723
Deferred revenue	<u>1,922,391</u>	<u>178,988</u>
Total current liabilities	23,425,068	9,135,327
Long-term debt, less current maturities	<u>4,326,347</u>	<u>10,773,500</u>
Total liabilities	<u>27,751,415</u>	<u>19,908,827</u>
 NET ASSETS		
Without donor restrictions	\$ 122,243,929	\$ 88,923,254
With donor restrictions	<u>4,283,504</u>	<u>2,846,679</u>
Total net assets	<u>126,527,433</u>	<u>91,769,933</u>
Total liabilities and net assets	<u>\$ 154,278,848</u>	<u>\$ 111,678,760</u>

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF ACTIVITIES
Year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Net patient service revenue	\$ 180,681,491	\$ -	\$ 180,681,491
Government contracts	23,498,349	-	23,498,349
Direct support	4,532,578	2,933,457	7,466,035
Donated services	144,015	-	144,015
Net assets released from restrictions	1,663,772	(1,663,772)	-
Other, including Alliance income	903,515	-	903,515
Total operating revenue and support	<u>211,423,720</u>	<u>1,269,685</u>	<u>212,693,405</u>
Expenses			
Medical	147,020,982	-	147,020,982
Youth services	5,169,875	-	5,169,875
Behavioral health	7,213,109	-	7,213,109
Research	1,780,171	-	1,780,171
Prevention	5,868,366	-	5,868,366
Total program expenses	<u>167,052,503</u>	-	<u>167,052,503</u>
Development	763,619	-	763,619
Public relations	634,038	-	634,038
Brown elephant	2,785,320	-	2,785,320
General and administrative	13,190,112	-	13,190,112
Total supporting expenses	<u>17,373,089</u>	-	<u>17,373,089</u>
Total expenses	<u>184,425,592</u>	-	<u>184,425,592</u>
Operating income	26,998,128	1,269,685	28,267,813
Net investment return	<u>6,322,547</u>	<u>167,140</u>	<u>6,489,687</u>
Change in net assets	33,320,675	1,436,825	34,757,500
Net assets at beginning of year	<u>88,923,254</u>	<u>2,846,679</u>	<u>91,769,933</u>
Net assets at end of year	<u>\$ 122,243,929</u>	<u>\$ 4,283,504</u>	<u>\$ 126,527,433</u>

(Continued)

HOWARD BROWN HEALTH CENTER
STATEMENT OF ACTIVITIES
Year ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Net patient service revenue	\$ 168,998,386	\$ -	\$ 168,998,386
Government contracts	8,895,210	-	8,895,210
Direct support	4,780,977	2,468,416	7,249,393
Donated services	393,646	-	393,646
Net assets released from restrictions	1,635,151	(1,635,151)	-
Other, including Alliance income	1,415,564	-	1,415,564
Total operating revenue and support	<u>186,118,934</u>	<u>833,265</u>	<u>186,952,199</u>
Expenses			
Medical	125,150,745	-	125,150,745
Youth services	3,235,548	-	3,235,548
Behavioral health	5,535,128	-	5,535,128
Research	1,379,139	-	1,379,139
Prevention	3,783,097	-	3,783,097
Total program expenses	<u>139,083,657</u>	<u>-</u>	<u>139,083,657</u>
Development	643,496	-	643,496
Public relations	692,010	-	692,010
Brown elephant	2,731,695	-	2,731,695
General and administrative	12,318,174	-	12,318,174
Total supporting expenses	<u>16,385,375</u>	<u>-</u>	<u>16,385,375</u>
Total expenses	<u>155,469,032</u>	<u>-</u>	<u>155,469,032</u>
Operating income	30,649,902	833,265	31,483,167
Net investment return	<u>478,623</u>	<u>-</u>	<u>478,623</u>
Change in net assets	31,128,525	833,265	31,961,790
Net assets at beginning of year	<u>57,794,729</u>	<u>2,013,414</u>	<u>59,808,143</u>
Net assets at end of year	<u>\$ 88,923,254</u>	<u>\$ 2,846,679</u>	<u>\$ 91,769,933</u>

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2021

	Program Services						Public Relations	Brown Elephant	General and Administrative	Total	
	Medical	Youth Services	Behavioral Health	Research	Prevention	Total Program Services					
Salaries	\$ 21,844,106	\$ 1,657,571	\$ 4,025,050	\$ 1,033,010	\$ 2,795,824	\$ 31,355,561	\$ 489,409	\$ 376,374	\$ 1,030,366	\$ 7,139,376	\$ 40,391,086
Fringe benefits	4,162,234	419,359	553,251	176,186	667,258	5,978,288	85,299	77,867	192,965	1,041,708	7,376,127
Payroll taxes	1,532,240	119,672	282,992	74,652	201,239	2,210,795	34,759	26,767	79,533	515,528	2,867,382
Accounting and legal fees	-	-	-	-	-	-	-	-	-	291,875	291,875
Supplies	334,729	93,549	7,382	7,545	27,508	470,713	563	1,921	10,352	75,913	559,462
Telephone	736,869	71,119	8,133	2,034	11,482	829,637	520	979	138,271	228,013	1,197,420
Postage and shipping	44,500	95	23	28	-	44,646	1,645	-	21,853	1,435	69,579
Occupancy and utilities	1,258,782	36,000	-	-	-	1,294,782	-	-	936,131	124,420	2,355,333
Repairs and maintenance	1,711,517	-	-	794	-	1,712,311	-	-	200,613	256,137	2,169,061
Printing	235,808	21,364	77	2,254	6,503	266,006	17,926	21,180	308	30,695	336,115
Travel	24,516	6,563	346	991	6,106	38,522	14	-	106	167,846	206,488
Seminars and meetings	84,345	5,191	38,736	3,873	-	132,145	3,595	1,071	-	81,562	218,373
Depreciation and amortization	692,790	-	-	-	-	692,790	-	-	20,654	227,694	941,138
Outside services	25,251,682	74,498	653,299	128,344	977,922	27,085,745	19,081	38,633	23,077	1,176,534	28,343,070
Staff services	562,265	13,992	1,025	95	1,258	578,635	447	150	243	40,791	620,266
Pharmaceuticals, outside labs and medical supplies	83,441,763	18,243	890,863	541	87,524	84,438,934	-	-	-	22,492	84,461,426
Client assistance	2,627,984	2,360,531	3,043	1,939	10,409	5,003,906	-	-	-	3,642	5,007,548
Dues and subscriptions	121,018	952	9,287	4,570	20	135,847	11,558	9,950	750	132,089	290,194
Advertising	1,483	-	365	-	9,615	11,463	2,450	367	-	57,570	71,850
Client development	5,234	97,362	-	46,006	5,420	154,022	-	-	-	-	154,022
Public relations	-	-	-	-	-	-	-	43,980	-	-	43,980
Other	4,917	117	-	70	1,442	6,546	2,675	1,021	29,518	144,243	184,003
Benefit expense	-	-	-	-	-	-	29,305	-	-	-	29,305
Donated services	20,843	-	-	-	-	20,843	400	-	-	122,772	144,015
Bank fees	32,479	-	1,361	-	-	33,840	13,116	-	39,378	25,942	112,276
Interest expense	-	-	-	-	-	-	-	-	-	335,458	335,458
Insurance expense	189,711	-	76,761	-	-	266,472	-	-	5,372	227,076	498,920
Subcontractor expense	-	87,456	306,078	229,128	908,935	1,531,597	-	-	-	352,385	1,883,982
Computer and software expense	2,099,167	86,241	355,037	68,111	149,901	2,758,457	50,857	33,778	55,830	366,916	3,265,838
Total expense	\$ 147,020,982	\$ 5,169,875	\$ 7,213,109	\$ 1,780,171	\$ 5,868,366	\$ 167,052,503	\$ 763,619	\$ 634,038	\$ 2,785,320	\$ 13,190,112	\$ 184,425,592

(Continued)

HOWARD BROWN HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2020

	Program Services							Public Relations	Brown Elephant	General and Administrative	Total
	Medical	Youth Services	Behavioral Health	Research	Prevention	Total Program Services	Development				
Salaries	\$ 16,967,007	\$ 1,306,574	\$ 3,114,840	\$ 866,771	\$ 2,021,152	\$ 24,276,344	\$ 380,925	\$ 328,305	\$ 1,183,902	\$ 6,113,155	\$ 32,282,631
Fringe benefits	2,581,222	256,647	338,026	123,864	347,725	3,647,484	42,838	49,727	176,688	1,889,630	5,806,367
Payroll taxes	1,163,731	94,853	216,930	61,261	144,614	1,681,389	27,987	23,945	89,922	411,883	2,235,126
Accounting and legal fees	-	-	-	-	-	-	-	-	-	252,567	252,567
Supplies	373,043	66,738	8,699	6,112	31,614	486,206	202	1,697	24,734	66,533	579,372
Telephone	340,172	40,396	36,155	2,590	5,839	425,152	80	1,630	79,919	92,991	599,772
Postage and shipping	24,965	65	-	383	160	25,573	1,785	-	3,819	4,446	35,623
Occupancy and utilities	781,725	180,310	141,867	-	-	1,103,902	-	-	844,886	107,483	2,056,271
Repairs and maintenance	1,526,240	107,484	42,825	404	2,953	1,679,906	-	-	139,767	732,259	2,551,932
Printing	139,393	6,525	3,648	325	24,805	174,696	10,864	28,253	1,906	93,503	309,222
Travel	76,141	27,917	15,702	11,899	20,140	151,799	1,725	1,180	92	70,283	225,079
Seminars and meetings	121,420	9,718	39,010	4,028	34,870	209,046	3,306	984	-	101,071	314,407
Depreciation and amortization	404,070	43,968	134,053	435	-	582,526	-	-	19,200	167,510	769,236
Outside services	20,713,987	91,546	450,717	68,238	139,168	21,463,656	38,123	43,683	17,087	876,657	22,439,206
Staff services	192,155	9,353	2,286	3,818	7,000	214,612	1,480	455	518	50,765	267,830
Pharmaceuticals, outside labs and medical supplies	77,415,326	117,246	562,683	286	87,549	78,183,090	-	-	-	762	78,183,852
Client assistance	690,667	520,148	5,700	3,607	13,580	1,233,702	-	-	-	113	1,233,815
Dues and subscriptions	54,052	214	3,916	1,628	60	59,870	1,103	10,275	790	99,496	171,534
Advertising	486	199	-	-	321	1,006	6,226	83,577	35	65,050	155,894
Client development	18,797	166,700	5,452	38,167	20,960	250,076	-	5,000	-	41,427	296,503
Public relations	-	-	-	-	3,000	3,000	-	69,261	-	-	72,261
Other	8,073	4,526	242	-	4	12,845	1,384	189	50,163	26,492	91,073
Benefit expense	-	-	-	-	-	-	72,964	323	-	-	73,287
Donated services	9,469	-	-	-	-	9,469	6,200	29,757	-	348,220	393,646
Bank fees	37,558	78	1,849	-	-	39,485	13,846	-	48,190	5,757	107,278
Interest expense	-	-	-	-	-	-	-	-	-	315,551	315,551
Insurance expense	89,048	7,232	12,117	-	-	108,397	-	-	4,266	180,651	293,314
Subcontractor expense	-	122,515	159,408	143,295	803,589	1,228,807	-	-	-	-	1,228,807
Computer and software expense	1,421,998	54,596	239,003	42,028	73,994	1,831,619	32,458	13,769	45,811	203,919	2,127,576
Total expense	\$ 125,150,745	\$ 3,235,548	\$ 5,535,128	\$ 1,379,139	\$ 3,783,097	\$ 139,083,657	\$ 643,496	\$ 692,010	\$ 2,731,695	\$ 12,318,174	\$ 155,469,032

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENTS OF CASH FLOWS
Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating activities		
Change in net assets	\$ 34,757,500	\$ 31,961,790
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation and amortization	941,138	769,236
Realized gain on investments	(822,928)	-
Unrealized gain on investments	(5,294,982)	(471,880)
Equity share of Alliance income	(197,015)	(302,256)
Changes in assets and liabilities		
Accounts receivable	(1,517,848)	(3,427,340)
Pledges receivable	(877,944)	330,893
Prepaid expenses and other current assets	178,832	137,711
Other assets	172,968	1,331,335
Accounts payable	968,380	573,844
Accrued expenses	1,263,481	(241,223)
Deferred revenue	<u>1,743,403</u>	<u>141,760</u>
Net cash from operating activities	31,314,985	30,803,870
Investing activities		
Purchase of property and equipment	(13,350,560)	(9,887,667)
Purchase of investments	(39,732,125)	(8,369,226)
Proceeds from sale of investments	<u>4,819,038</u>	<u>-</u>
Net cash from investing activities	(48,263,647)	(18,256,893)
Financing activities		
Funds received from notes payable	-	5,605,800
Principal payments on notes payable	<u>(684,981)</u>	<u>(611,662)</u>
Net cash from financing activities	<u>(684,981)</u>	<u>4,994,138</u>
(Decrease) increase in cash and cash equivalents	(17,633,643)	17,541,115
Cash and cash equivalents at beginning of year	<u>61,715,390</u>	<u>44,174,275</u>
Cash and cash equivalents at end of year	<u>\$ 44,081,747</u>	<u>\$ 61,715,390</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 335,458	\$ 304,205
Donated services	144,015	393,646
Property and equipment in accounts payable	4,552,305	-

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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 ("LGBTQ") communities. In addition to healthcare services, the Organization also conducts behavioral and clinical research in a variety of areas that impact wellness in the LGBTQ 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 \$1,167,140 and \$1,000,000 in net assets with donor restrictions in perpetuity as of June 30, 2021 and June 30, 2020, respectively. At June 30, 2021 and 2020 net assets with donor restrictions consisted of the following:

	<u>2021</u>	<u>2020</u>
Time	\$ 150,000	\$ 225,000
Specific programming	<u>4,133,504</u>	<u>2,621,679</u>
Total net assets with donor restrictions	<u>\$ 4,283,504</u>	<u>\$ 2,846,679</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>2021</u>	<u>2020</u>
Time	\$ 75,000	\$ 96,500
Specific programming	<u>1,588,772</u>	<u>1,538,651</u>
Total releases from restriction	<u>\$ 1,663,772</u>	<u>\$ 1,635,151</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
June 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient Accounts Receivable: Accounts receivable represents charges to patients, primarily on open account. The Organization reports patient accounts receivable at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. 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 to cover estimated contractual allowances and anticipated losses from patients, third-party payers and others. The net realizable value 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 written down net realizable value. Gross patient accounts receivable greater than 90 days outstanding at June 30, 2021 and 2020 were approximately \$752,914 and \$1,034,000.

Pledges Receivable: Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected within one year do not have a discount that has been applied to the receivable balance. During fiscal year 2021, the Organization began a capital campaign that received pledges spanning multiple years. These pledges have been discounted to net present value and this discount has been applied to this receivable balance. There were no long-term pledge receivables at June 30, 2020. 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. 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, 2021 and 2020, management believes that no impairments exist.

Investments: Investments are valued at their fair values in the statements of financial position. Unrealized gains (losses) are included in the change in net assets. See Note 2 for additional information on the nature of the Organization's investments.

Investment in Alliance: Investment in Alliance consists of an investment in one organization for the years ended June 30, 2021 and 2020, 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 \$197,015 and \$302,256 for 2021 and 2020, and is included in the statements of activities in other revenues.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized financial information for the Alliance at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Assets	\$ 9,428,223	\$ 8,100,217
Liabilities	1,891,369	1,351,427
Equity	7,536,854	6,748,790

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 executed an endowment agreement with a donor in June 2020. The required endowment funds are restricted to support a summer fellowship program, in perpetuity, for individuals from underserved communities. The Organization utilizes the donor's agreement to govern the use of the endowment funds.

Changes in endowment net assets for years ended June 30, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning balance	\$ 1,000,000	\$ -
Additions to restriction	<u>167,140</u>	<u>1,000,000</u>
Endowment net assets, ending balance	<u>\$ 1,167,140</u>	<u>\$ 1,000,000</u>

Revenue Recognition: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The Organization adopted the new standard effective July 1, 2019, using the full retrospective method. The presentation of the amount of patient service revenue and change in net assets were unchanged upon adoption of the new standard however, during the year of adoption, the Organization determined that amounts historically considered to be bad debt should be considered an implicit price concession, as defined in FASB Accounting Standards Codification 606, "Revenue From Contracts With Customers". This resulted in changes to the presentation of revenues and the provision for bad debts in the statements of activities and functional expenses. Previously, the estimate for unrealizable amounts was recorded to the provision for bad debts and presented as a component of operating expenses. Upon reassessment during the year of adoption, the estimate for unrealizable amounts is now reflected as an implicit price concession as a reduction to arrive at net revenue.

The Organization reports patient service revenue at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive adjustments due to settlement of audits and reviews. Generally, the Organization bills the patients and third-party after the services are performed. Revenue is recognized as performance obligations are satisfied.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Included in patient service revenue is pharmacy revenue from the 340B program. The 340B program allows the Organization to purchase certain outpatient drugs from manufacturers at discounted rates. The Organization contracts with third-party pharmacies to fill prescriptions for eligible 340 Program patients. The performance obligation for patient care through the 340B program is satisfied when medications are dispensed.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied at a point in time is recognized when patient service is provided, and the Organization does not believe it is required to provide additional services to the patient.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions (i.e. contractual adjustments) provided to third-party payors and implicit price concessions provided to self-pay patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience.

Agreements with third-party payors provide for payments at amounts less than established charges. Major third-party payors included Medicare, Medicaid, and commercial insurance. Laws and regulations concerning government programs are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who do not have insurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended June 30, 2021 and 2020, additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments was not considered material. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Service Revenue: Patient service revenue, net of contractual allowances, implicit price concessions, and discounts, by major payer sources, is as follows:

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial Payers</u>	<u>Self Pay</u>	<u>Total</u>
<u>June 30, 2021</u>					
Gross patient charges	\$ 818,854	\$ 4,279,928	\$ 3,930,905	\$ 4,405,305	\$ 13,434,922
Less:					
Contractual allowances, implicit price concessions, and discounts	370,702	1,334,346	1,659,584	873,371	4,238,003
Charity care	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,449,083</u>	<u>1,499,083</u>
Patient service revenue, excluding 340B pharmacy	<u>\$ 448,152</u>	<u>\$ 2,945,582</u>	<u>\$ 2,271,321</u>	<u>\$ 2,082,851</u>	<u>\$ 7,747,906</u>
<u>June 30, 2020</u>					
Gross patient charges	\$ 1,275,696	\$ 3,735,038	\$ 4,483,819	\$ 4,573,419	\$ 14,067,972
Less:					
Contractual allowances, implicit price concessions, and discounts	737,357	958,641	1,821,646	1,611,236	3,082,192
Charity care	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,085,036</u>	<u>2,085,036</u>
Patient service revenue, excluding 340B pharmacy	<u>\$ 538,339</u>	<u>\$ 2,776,397</u>	<u>\$ 2,662,173</u>	<u>\$ 877,147</u>	<u>\$ 6,854,056</u>

The amounts above do not include the 340B pharmacy revenue of approximately \$172,934,000 and \$162,144,000 for the years ended June 30, 2021 and 2020, respectively.

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 \$10,136,000 and \$14,610,000 for 2021 and 2020, 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 2021 and 2020, the Organization received grant revenue of approximately \$7,919,000 and \$4,491,000 to help defray the costs of indigent care.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government Grants and Contracts: Government grants and contracts are recognized as income in the period in which expenses are incurred. 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. Revenue earned from sale of donated second-hand goods were approximately \$2,165,000 and \$2,439,000 for 2021 and 2020, respectively.

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 2021 and 2020 was \$229,561 and \$144,262, 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 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 based on either salary expense ratios or individual line item expense ratios.

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 2021 and 2020.

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, 2021 or 2020. The Organization does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 or 2020.

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 \$144,000 and \$394,000 for 2021 and 2020.

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, 2021 and 2020, 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.

Performance Indicator: The statement of activities include operating income as the performance indicator.

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

Upcoming Accounting Guidance: 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, 2023. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the Organization's financial statements.

Coronavirus Impact: In December 2019, a novel strain of coronavirus surfaced and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. Government actions undertaken to contain the coronavirus have impacted the Organization. While the Organization's visit volumes have declined as a result of the coronavirus, 340B pharmacy revenue has not been materially impacted as of the date of issuance of the financial statements.

The Organization has received either in the form of cash or in the form of contractual commitments approximately \$11,851,000 and \$10,850,000 in COVID-19 related funding in 2021 and 2020, respectively. The funding includes approximately \$5,600,000 received in April 2020 in the form of a Paycheck Protection Program (PPP) loan as more fully described in Note 12. The residual funding, approximately \$5,250,000, was received during the year ended June 30, 2021.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization's principal or most advantageous market in an orderly transaction between market participants on the measurement date.

Accounting principles generally accepted in the United States of America require an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. The fair values of mutual funds, US equities, and international equities that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Certain investments held by the Organization are valued based on the net asset value ("NAV") determined by the investment manager. These investments are not classified in the fair value hierarchy, however they have been included in the table below to permit reconciliation to the total value of investments reported in the statement of financial position.

Howard Brown invests in a proprietary investment vehicle offered by Alliance Bernstein that utilizes a strategy to mitigate overall portfolio risk by adjusting asset mix in response to changing levels of market risks and expected returns. The proprietary investment vehicle consists of registered mutual fund portfolios that allow modifications to the overall exposure to stocks, bonds, currencies, and other asset classes, while remaining consistent with the stated investment objectives. There are no outstanding capital commitments, and the Organization has the ability to redeem their investment on a daily basis.

The following table presents information about the Organization's assets measured at fair value on a recurring basis as of June 30, 2021 and June 30, 2020 and the valuation techniques used by the Organization to determine those fair values:

	June 30, 2021				
	Level 1	Level 2	Level 3	NAV	Total
Cash	\$ 100,415	\$ -	\$ -	\$ -	\$ 100,415
Fixed income mutual funds	10,475,526	-	-	-	10,475,526
US equities	11,066,014	-	-	-	11,066,014
International equities	13,337,272	-	-	-	13,337,272
Dynamic asset allocation overlay	-	-	-	14,892,876	14,892,876
	<u>\$ 34,979,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,892,876</u>	<u>\$ 49,872,103</u>

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2020				
	Level 1	Level 2	Level 3	NAV	Total
Cash	\$ 18,799	\$ -	\$ -	\$ -	\$ 18,799
Fixed income mutual funds	1,840,820	-	-	-	1,840,820
US equities	1,942,454	-	-	-	1,942,454
International equities	2,390,105	-	-	-	2,390,105
Dynamic asset allocation overlay	-	-	-	2,648,928	2,648,928
	\$ 6,192,178	\$ -	\$ -	\$ 2,648,928	\$ 8,841,106

Investment return includes the following amounts for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Interest	\$ 149	\$ 930
Dividends	371,628	5,813
Realized gain	822,928	-
Unrealized gain	5,294,982	471,880
	\$ 6,489,687	\$ 478,623

NOTE 3 - 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 Use 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 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.

Health Resources and Services Administration: Funded by HRSA, Epidemiology and Laboratory Capacity for Infectious Diseases, the Organization sub-contracted with CDPH to provide Contact Tracing and Technical Assistance to other organizations developing Contact Tracing programs.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 3 - CONTRACTUAL AGREEMENTS (Continued)

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 and other arrangements. 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 4 - PROPERTY AND EQUIPMENT

At June 30, property and equipment consist of:

	<u>2021</u>	<u>2020</u>
Land	\$ 10,983,353	\$ 5,794,709
Buildings and improvements	16,638,021	13,149,750
Construction in Progress	8,781,625	963,500
Leasehold improvements	4,114,582	3,498,706
Furniture and fixtures	46,388	46,388
Office equipment	609,607	343,294
Software	258,805	258,805
Medical equipment	580,696	235,787
Vehicles	<u>359,239</u>	<u>178,512</u>
	42,372,316	24,469,451
Less accumulated depreciation and amortization	<u>5,049,526</u>	<u>4,108,388</u>
	<u>\$ 37,322,790</u>	<u>\$ 20,361,063</u>

NOTE 5 - 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 \$1,387,991 and \$1,128,175 in 2021 and 2020, respectively.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 6 - LEASES

At June 30, 2021 and 2020, the Organization was obligated for future rentals under various non-cancelable operating leases for their operating facilities. Monthly payments range from \$1,000 to \$27,708 through 2032, and various leases include escalation clauses and renewal options. Future minimum lease payments are as follows:

2022	\$ 1,244,396
2023	1,210,993
2024	1,054,515
2025	836,313
2026	836,313
Thereafter	<u>2,594,839</u>
Total	<u>\$ 7,777,369</u>

Rent expense for 2021 and 2020 was approximately \$1,563,522 and \$1,128,175, which is included in occupancy and utilities expense in the statements of functional expenses.

NOTE 7 - NOTES PAYABLE AND LETTER OF CREDIT

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

	<u>2021</u>	<u>2020</u>
Bank mortgage note (IFF) secured by real estate at 4025 N. Sheridan with monthly payments of \$18,561, including interest at 5.00%.	\$ 698,232	\$ 881,068
Bank mortgage note (IFF) secured by real estate at 6500 N. Clark with monthly payments of \$25,372 including interest at 6.035%.	2,430,125	2,582,897
Additional bank mortgage note (IFF) secured by real estate at 6500 N. Clark with monthly payments of \$16,209, including interest at 5.375%.	1,603,684	1,708,909
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 \$59,770 in 2023.	253,918	498,066
Note Payable (Fifth Third) issued through the Small Business Administration's Payroll Protection Program with monthly payments of \$313,905 beginning July 30, 2021, including interest at 1%.	<u>5,605,800</u>	<u>5,605,800</u>
Total notes payable	10,591,759	11,276,740
Less current maturities	<u>6,265,412</u>	<u>503,240</u>
Total long-term notes payable	<u>\$ 4,326,347</u>	<u>\$ 10,773,500</u>

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 7 - NOTES PAYABLE AND LETTER OF CREDIT (Continued)

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.

On April 15, 2020 the Organization obtained financing through Fifth Third Bank in the amount of \$5,605,800 structured as a note payable as part of the Small Business Administration's Payroll Protection Program. Debt proceeds were used to pay qualifying expenses. The loan can become forgivable if all conditions of use of the contract are met within 24 weeks from origination. See Note 12 for additional information.

Future payments on debt are as follows:

2022	\$ 6,265,412
2023	551,250
2024	518,962
2025	416,425
2026	344,011
Thereafter	<u>2,495,699</u>
	<u>\$ 10,591,759</u>

Interest expense was \$335,458 and \$315,551 for the years ended June 30, 2021 and 2020, respectively.

The Organization entered into a letter of credit agreement with Fifth Third 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 Fifth Third Bank. The letter of credit remained unused at June 30, 2021 and expires on June 12, 2022.

On May 23, 2016, the Organization entered into a letter of credit agreement with Fifth Third 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 Fifth Third Bank. The letter of credit remained unused at June 30, 2021 and expires on July 1, 2022.

The Organization entered into a letter of credit agreement with Fifth Third 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 Fifth Third Bank. The letter of credit remained unused at June 30, 2021 and expires on July 31, 2022.

(Continued)

NOTE 8 - 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 \$714,899 and \$444,868 were incurred during 2021 and 2020. At June 30, 2021 and 2020, the Organization had accounts payable due to the Alliance of \$0 and \$3,450, respectively.

NOTE 9 - 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.

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, 2021 and 2020.

NOTE 10 - SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2021 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2021. Management has performed their analysis through November 15, 2021, the date the financial statements were available to be issued.

HOWARD BROWN HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 11 - 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>2021</u>	<u>2020</u>
Cash, less endowment restrictions	\$ 42,914,607	\$ 60,715,390
Investments	49,872,103	8,841,106
Accounts Receivable	17,942,642	16,424,794
Pledges Receivable	<u>1,769,695</u>	<u>891,751</u>
	<u>\$ 112,499,047</u>	<u>\$ 86,873,041</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.

NOTE 12 - PAYCHECK PROTECTION PROGRAM LOAN

As a result of the economic uncertainty stemming from the impact of the COVID-19 pandemic, in April 2020, the Organization received a Paycheck Protection Program (PPP) loan in the principal amount of \$5,605,800 from the United States Small Business Administration (SBA). The PPP loan has a stated interest rate of 1% per annum and requires equal monthly payments of principal commencing July 30, 2021 through the contractual maturity date of December 30, 2022. The Organization began making payments during the subsequent fiscal year while working through the forgiveness application.

Under the terms of the Paycheck Protection Program, a PPP loan provides for conditional forgiveness if the Organization utilizes the loan proceeds on admissible expenses, including qualifying payroll, rent, and utility expenses, and maintains employment and compensation levels for a specified period of time. Although the Organization believes it is reasonably assured the PPP loan will be forgiven, ultimate forgiveness is conditioned upon the SBA concurring with management's good-faith assessment that the current economic uncertainty made the loan request necessary to support ongoing operations and the loan proceeds were used for admissible expenses. If the Organization is later determined to have violated the provisions of the Payroll Protection Program, the Organization may be required to repay the PPP loan in its entirety and/or be subject to additional penalties.

The Organization has elected to account for its PPP loan in accordance with ASC 470 and ASC 405. Under ASC 470 and ASC 405, the PPP loan proceeds are initially recorded as a financial liability and subsequently recognized as revenue upon repayment of the loan balance or upon legal release. At June 30, 2021, the Organization has not repaid the loan balance and there has been no legal release and, therefore, the loan proceeds have been recorded as a financial liability on the statement of financial position. The Organization expects to meet these conditions and apply for forgiveness during the year ending June 30, 2022. All principal paid toward the loan would be returned at that time.