

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

**CONSOLIDATED FINANCIAL STATEMENTS
(INCLUDING SINGLE AUDIT)**

June 30, 2022 and 2021

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

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Howard Brown Health Center
Chicago, Illinois

Report on the Audit of the Financial Statements***Opinion***

We have audited the consolidated financial statements of Howard Brown Health Center ("Organization"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Howard Brown Health Center as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2022 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Chicago, Illinois
December 23, 2022

HOWARD BROWN HEALTH CENTER
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 17,482,158	\$ 44,081,747
Investments	62,317,249	49,872,103
Accounts receivable	15,286,994	17,942,642
Pledges receivable, current portion	1,371,144	1,769,695
Prepaid expenses and other	<u>1,418,716</u>	<u>817,788</u>
Total current assets	97,876,261	114,483,975
Property and equipment, net	47,928,504	37,322,790
Investment in Alliance	1,859,213	1,884,213
Pledges receivable, net, less amounts due within one year	1,636,972	-
Loan receivable	3,441,759	-
Deposits and other assets	<u>682,376</u>	<u>587,870</u>
Total assets	<u>\$ 153,425,085</u>	<u>\$ 154,278,848</u>
LIABILITIES		
Current maturities of long-term debt	\$ 7,658,845	\$ 6,265,412
Accounts payable	3,919,351	10,003,061
Accrued expenses	5,969,808	5,234,204
Deferred revenue	<u>6,450</u>	<u>1,922,391</u>
Total current liabilities	17,554,454	23,425,068
Interest rate swap agreement	254,956	-
Long-term debt, less current maturities and unamortized deferred issuance costs	<u>16,500,263</u>	<u>4,326,347</u>
Total liabilities	<u>34,309,673</u>	<u>27,751,415</u>
NET ASSETS		
Without donor restrictions	112,363,608	122,243,929
With donor restrictions	<u>6,751,804</u>	<u>4,283,504</u>
Total net assets	<u>119,115,412</u>	<u>126,527,433</u>
Total liabilities and net assets	<u>\$ 153,425,085</u>	<u>\$ 154,278,848</u>

See accompanying notes to consolidated financial statements

HOWARD BROWN HEALTH CENTER
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Patient service revenue	\$ 167,626,952	\$ -	\$ 167,626,952
Government contracts	17,864,305	-	17,864,305
Direct support	6,284,794	1,264,766	7,549,560
Donated services	128,182	-	128,182
Net assets released from restrictions	1,635,715	(1,635,715)	-
Other, including Alliance income	505,048	-	505,048
Total operating revenue and support	<u>194,044,996</u>	<u>(370,949)</u>	<u>193,674,047</u>
Expenses			
Medical	153,035,371	-	153,035,371
Youth services	3,775,520	-	3,775,520
Behavioral health	8,457,408	-	8,457,408
Research	1,965,543	-	1,965,543
Prevention	4,737,348	-	4,737,348
Total program expenses	<u>171,971,190</u>	<u>-</u>	<u>171,971,190</u>
Development	1,312,819	-	1,312,819
Public relations	957,829	-	957,829
Brown elephant	2,828,996	-	2,828,996
General and administrative	19,365,365	-	19,365,365
Total supporting expenses	<u>24,465,009</u>	<u>-</u>	<u>24,465,009</u>
Total expenses	<u>196,436,199</u>	<u>-</u>	<u>196,436,199</u>
Operating (loss) income	(2,391,203)	(370,949)	(2,762,152)
Direct support	-	2,839,249	2,839,249
Loss on disposal	(1,093,356)	-	(1,093,356)
Gain on loan forgiveness	5,605,800	-	5,605,800
Change in value of interest rate swap	(254,956)	-	(254,956)
Net investment return	<u>(11,746,606)</u>	<u>-</u>	<u>(11,746,606)</u>
Change in net assets	(9,880,321)	2,468,300	(7,412,021)
Net assets at beginning of year	<u>122,243,929</u>	<u>4,283,504</u>	<u>126,527,433</u>
Net assets at end of year	<u>\$ 112,363,608</u>	<u>\$ 6,751,804</u>	<u>\$ 119,115,412</u>

(Continued)

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
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>

See accompanying notes to consolidated financial statements

HOWARD BROWN HEALTH CENTER
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2022

	Program Services						Development	Public Relations	Brown Elephant	General and Administrative	Total
	Medical	Youth Services	Behavioral Health	Research	Prevention	Total Program Services					
Salaries	\$ 24,344,182	\$ 1,417,676	\$ 5,253,162	\$ 1,115,989	\$ 2,753,823	\$ 34,884,832	\$ 660,321	\$ 560,125	\$ 1,080,475	\$ 11,367,967	\$ 48,553,720
Fringe benefits	4,199,372	336,822	782,208	215,245	646,849	6,180,496	101,097	94,276	195,303	1,893,839	8,465,011
Payroll taxes	1,694,291	103,351	361,815	80,019	204,437	2,443,913	49,844	40,577	80,667	769,121	3,384,122
Accounting and legal fees	-	-	-	-	-	-	-	-	-	913,690	913,690
Supplies	278,201	182,631	23,388	1,935	8,538	494,693	2,382	1,655	9,317	107,650	615,697
Telephone	656,587	93,134	4,725	425	6,990	761,861	1,185	200	96,674	277,525	1,137,445
Postage and shipping	3,844	1,288	-	56	-	5,188	1,035	-	-	36,121	42,344
Occupancy and utilities	1,270,818	125,894	-	-	75,462	1,472,174	-	-	897,993	55,915	2,426,082
Repairs and maintenance	1,116,324	154,283	-	1,337	33,039	1,304,983	-	-	142,804	253,958	1,701,745
Printing	86,283	25,611	5,987	961	8,073	126,915	41,350	25,518	1,568	167,445	362,796
Travel	26,587	2,495	7,272	1,610	6,512	44,476	2,840	41	250	22,930	70,537
Seminars and meetings	73,748	5,953	92,814	4,366	4,245	181,126	1,271	-	-	61,338	243,735
Depreciation and amortization	506,161	353,501	140,023	-	-	999,685	-	-	30,690	514,827	1,545,202
Outside services	26,102,779	199,986	546,386	220,741	151,686	27,221,578	125,524	54,026	136,259	931,899	28,469,286
Staff services	393,413	21,655	10,807	2,214	4,244	432,333	7,577	1,266	275	91,369	532,820
Pharmaceuticals, outside labs and medical supplies	89,418,339	149	432,725	463	18,569	89,870,245	-	-	-	93,742	89,963,987
Client assistance	707,779	273,987	19,922	3,109	18,330	1,023,127	-	-	-	235	1,023,362
Dues and subscriptions	137,956	1,843	6,696	2,214	1,040	149,749	661	9,151	488	230,213	390,262
Advertising	-	-	-	579	-	579	12,786	92,976	1,822	20,850	129,013
Client development	3,704	39,830	2,029	83,463	31,736	160,762	1,163	1,125	-	-	163,050
Public relations	-	-	-	-	-	-	-	44,900	-	2,500	47,400
Other	19,254	646	564	561	1,805	22,830	7,069	3,558	24,986	43,913	102,356
Benefit expense	-	-	-	-	-	-	224,190	500	-	893	225,583
Donated services	13,818	18,811	-	-	-	32,629	10,000	-	-	85,553	128,182
Bank fees	38,102	-	1,640	-	-	39,742	22,993	39	63,477	70,322	196,573
Interest expense	-	185,766	-	-	-	185,766	-	-	-	277,561	463,327
Insurance expense	111,234	-	46,929	-	-	158,163	-	-	14,158	331,476	503,797
Subcontractor expense	80	112,711	326,449	194,817	668,500	1,302,557	-	-	-	352,287	1,654,844
Computer and software expense	1,832,515	117,497	391,867	35,439	93,470	2,470,788	39,531	27,896	51,790	390,226	2,980,231
Total expense	\$ 153,035,371	\$ 3,775,520	\$ 8,457,408	\$ 1,965,543	\$ 4,737,348	\$ 171,971,190	\$ 1,312,819	\$ 957,829	\$ 2,828,996	\$ 19,365,365	\$ 196,436,199

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HOWARD BROWN HEALTH CENTER
CONSOLIDATED 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

See accompanying notes to consolidated financial statements.

HOWARD BROWN HEALTH CENTER
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating activities		
Change in net assets	\$ (7,412,021)	\$ 34,757,500
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation and amortization	1,545,202	941,138
Realized gain on investment	(283,160)	(822,928)
Unrealized loss (gain) on investments	13,718,933	(5,294,982)
Gain on loan forgiveness	(5,605,800)	-
Loss on disposal of property and equipment	1,093,356	-
Unrealized loss on interest rate swap agreement	254,956	-
Equity share of Alliance loss (income)	25,000	(197,015)
Changes in assets and liabilities		
Accounts receivable	2,655,648	(1,517,848)
Pledges receivable	(1,238,421)	(877,944)
Prepaid expenses and other current assets	(600,928)	178,832
Deposits and other assets	(94,506)	172,968
Accounts payable	(2,344,528)	968,380
Accrued expenses	735,604	1,263,481
Deferred revenue	(1,915,941)	1,743,403
Net cash from operating activities	<u>533,394</u>	<u>31,314,985</u>
Investing activities		
Purchase of property and equipment	(16,983,454)	(13,350,560)
Purchase of investments	(32,663,575)	(39,732,125)
Proceeds from sale of investments	6,782,656	4,819,038
Issuance of loan receivable	(3,441,759)	-
Net cash from investing activities	<u>(46,306,132)</u>	<u>(48,263,647)</u>
Financing activities		
Funds received from notes payable	24,041,426	-
Payment for debt issuance costs	(398,129)	-
Principal payments on notes payable	(4,470,148)	(684,981)
Net cash from financing activities	<u>19,173,149</u>	<u>(684,981)</u>
Decrease in cash and cash equivalents	(26,599,589)	(17,633,643)
Cash and cash equivalents at beginning of year	<u>44,081,747</u>	<u>61,715,390</u>
Cash and cash equivalents at end of year	<u>\$ 17,482,158</u>	<u>\$ 44,081,747</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 463,327	\$ 335,458
Donated services	128,182	144,015
Property and equipment in accounts payable	813,123	4,552,305

See accompanying notes to consolidated financial statements.

HOWARD BROWN HEALTH CENTER
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization, Nature of Business: Howard Brown Health Center (the "HBHC") 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, HBHC also conducts behavioral and clinical research in a variety of areas that impact wellness in the LGBTQ community.

Principles of Consolidation: HBHC is the sole corporate member of Broadway Youth Center Service Corporation ("BYCSC"). BYCSC was formed as part of the 2021 New Markets Tax Credit transaction (Note 13). The accompanying consolidated financial statements include the accounts of HBHC and BYCSC. All significant intercompany transactions and balances have been eliminated upon consolidation. HBHC and BYCSC are referred to collectively as the "Organization".

Basis of Presentation: The consolidated 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 \$1,000,000 in net assets with donor restrictions in perpetuity as of June 30, 2022 and 2021. At June 30, 2022 and 2021 net assets with donor restrictions consisted of the following:

	<u>2022</u>	<u>2021</u>
Time	\$ 75,000	\$ 150,000
Specific programming	<u>6,676,804</u>	<u>4,133,504</u>
Total net assets with donor restrictions	<u>\$ 6,751,804</u>	<u>\$ 4,283,504</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>2022</u>	<u>2021</u>
Time	\$ 75,000	\$ 75,000
Specific programming	<u>1,560,715</u>	<u>1,588,772</u>
Total releases from restriction	<u>\$ 1,635,715</u>	<u>\$ 1,663,772</u>

(Continued)

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 off.

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 2022, 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. 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 non-operating activities. 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, 2022 and 2021, management believes that no impairments exist.

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.

Investment in Alliance: Investment in Alliance consists of an investment in one organization for the years ended June 30, 2022 and 2021, 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/(loss) in the Alliance was (\$25,000) and \$197,015, respectively, for the years ended June 30, 2022 and 2021, and is included in the statements of activities in other revenues.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized financial information for the Alliance at June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Assets	\$ 9,138,034	\$ 9,428,223
Liabilities	1,595,192	1,891,369
Equity	7,542,842	7,536,854

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.

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. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. Management believes that these positions are temporary in nature.

Changes in endowment net assets for years ended June 30, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Endowment net assets, beginning balance	\$ 1,167,140	\$ 1,000,000
Unrealized gain/(loss) of endowment investments	<u>(185,108)</u>	<u>167,140</u>
Endowment net assets, ending balance	<u>\$ 982,032</u>	<u>\$ 1,167,140</u>

Revenue Recognition: 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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022 and 2021, 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.

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.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022</u>					
Gross patient charges	\$ 836,666	\$ 5,870,192	\$ 5,024,859	\$ 4,417,192	\$ 16,148,909
Less:					
Contractual allowances, implicit price concessions, and discounts	242,514	1,555,310	1,883,986	1,339,288	5,021,098
Charity care	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,781,217</u>	<u>1,781,217</u>
Patient service revenue, excluding 340B pharmacy	<u>\$ 594,152</u>	<u>\$ 4,314,882</u>	<u>\$ 3,140,873</u>	<u>\$ 1,296,687</u>	<u>\$ 9,346,594</u>
<u>June 30, 2021</u>					
Gross patient charges	\$ 818,854	\$ 4,279,928	\$ 3,930,905	\$ 4,405,305	\$ 13,434,992
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>1,449,083</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>

The amounts above do not include the 340B pharmacy revenue of approximately \$158,280,000 and \$172,934,000 for the years ended June 30, 2022 and 2021, 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 \$10,965,000 and \$10,136,000 for 2022 and 2021, 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 2022 and 2021, the Organization received grant revenue of approximately \$6,333,000 and \$7,919,000 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 expenses are incurred. Subcontractor expense results from certain contracts passed through to sub-recipients.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$3,124,639 and \$2,165,000 for 2022 and 2021, 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 2022 and 2021 was \$0 and \$229, 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 consolidated financial statements as the Organization had no material unrelated business income in fiscal years 2022 and 2021.

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, 2022 or 2021. 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, 2022 or 2021.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated financial statements are contributions from such donated services and the corresponding expenses of approximately \$128,182 and \$144,000 for 2022 and 2021.

Use of Estimates: The preparation of consolidated 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 consolidated 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 consolidated 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, 2022 and 2021, 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 (loss) as the performance indicator.

Derivatives: The Organization entered into an interest rate swap agreement as part of its interest rate risk management strategy, not for speculation. As a result, related gains and losses are recognized in the change in net assets. The derivative financial instrument is recorded at fair value on the consolidated statements of financial position.

Deferred Issuance Costs: Deferred issuance costs are amortized on the straight-line method, which approximates the effective interest method. These costs are reported net against long-term debt on the consolidated statements of financial position.

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 consolidated 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 was not materially impacted as a result of the coronavirus.

The Organization has recognized revenue of \$3,551,000 and \$9,148,000 in COVID-19 related funding in 2022 and 2021, respectively.

(Continued)

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. The Organization classifies the interest rate swap agreement liability as Level 2 fair value measurements. These are valued using an income approach based on current information available.

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 fair value of the interest rate swap agreement, which was provided directly by the counterparty, was based on the expected cash flows over the life of the instrument and was estimated using the closing mid-market rate at June 30 (Level 2 inputs - income approach).

The following table presents information about the Organization's assets and liabilities measured at fair value on a recurring basis as of June 30, 2022 and June 30, 2021 and the valuation techniques used by the Organization to determine those fair values:

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2022				
	Level 1	Level 2	Level 3	NAV	Total
Assets					
Cash	\$ 1,252,606	\$ -	\$ -	\$ -	\$ 1,252,606
Fixed income mutual funds	12,745,207	-	-	-	12,745,207
US equities	12,224,727	-	-	-	12,224,727
International equities	15,361,239	-	-	-	15,361,239
Dynamic asset allocation overlay	-	-	-	20,733,470	20,733,470
	<u>\$ 41,583,779</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$20,733,470</u>	<u>\$ 62,317,249</u>
Liabilities					
Interest rate swap	<u>\$ -</u>	<u>\$ 254,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 254,956</u>
June 30, 2021					
	Level 1	Level 2	Level 3	NAV	Total
Assets					
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>

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

	<u>2022</u>	<u>2021</u>
Interest	\$ 2,056	\$ 149
Dividends	1,687,111	371,628
Realized gain	283,160	822,928
Unrealized (loss)/gain	<u>(13,718,933)</u>	<u>5,294,982</u>
	<u>\$ (11,746,606)</u>	<u>\$ 6,489,687</u>

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.

(Continued)

HOWARD BROWN HEALTH CENTER
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2022 and 2021

NOTE 3 - 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.

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.

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>2022</u>	<u>2021</u>
Land	\$ 11,322,997	\$ 10,983,353
Buildings and improvements	29,851,735	16,638,021
Construction in Progress	7,245,977	8,781,625
Leasehold improvements	4,114,582	4,114,582
Furniture, fixtures and equipment	1,256,406	1,236,691
Software	258,805	258,805
Vehicles	<u>359,239</u>	<u>359,239</u>
	54,409,741	42,372,316
Less accumulated depreciation and amortization	<u>6,481,237</u>	<u>5,049,526</u>
	<u>\$ 47,928,504</u>	<u>\$ 37,322,790</u>

The Organization has construction projects in progress at June 30, 2022 with estimated costs to complete of approximately \$37,300,000.

(Continued)

HOWARD BROWN HEALTH CENTER
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2022 and 2021

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 \$1,535,761 and \$1,387,991 in 2022 and 2021, respectively.

NOTE 6 - LEASES

At June 30, 2022 and 2021, 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:

2023		\$ 1,278,865
2024		1,287,744
2025		1,053,836
2026		1,079,216
2027		1,087,638
Thereafter		<u>2,966,391</u>
Total		<u>\$ 8,753,690</u>

Rent expense for the years ended June 30, 2022 and 2021 was approximately \$1,702,720 and \$1,563,522, respectively, 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>2022</u>	<u>2021</u>
Bank mortgage note (IFF) secured by real estate at 4025 N. Sheridan with monthly payments of \$18,561, including interest at 5.00%.	\$ 506,041	\$ 698,232
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
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
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 \$9,770 in 2023.	203,918	253,918

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Bonds payable (Wintrust Bank, N.A.) for construction of 3501 N Halsted and to refinance mortgages payable on 6500 N Clark with a maximum authorized principal of \$41,293,000 and annual payments beginning in November 2023 for interest only of \$1,238,790 and annual payments beginning in November 2030 of approximately \$2,885,000.	\$ 7,262,673	\$ -
Loan payable (Wintrust Bank, N.A.) for land and building construction of 3501 N Halsted with a maximum authorized principal of \$10,000,000 and annual payments of approximately \$1,649,000 beginning in November 2023 including interest at a variable rate of 0.9% over the secured overnight financing rate (SOFR).	8,084,605	-
Loan Payable to Southside Community Optimal Redevelopment Enterprise, LLC for a total of \$8,500,000 with monthly payments of interest only at 2.12%.	8,500,000	-
Note Payable (Fifth Third Bank) issued through the Small Business Administration's Payroll Protection Program with monthly payments of \$313,905 beginning July 30, 2021, including interest at 1%.	-	5,605,800
Total notes payable	24,557,237	10,591,759
Less current maturities	7,658,845	6,265,412
Less unamortized deferred issuance costs	398,129	-
Total long-term notes payable	<u>\$ 16,500,263</u>	<u>\$ 4,326,347</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. These loans were paid in full in April 2022 with proceeds from the bond issuance that was purchased by Wintrust Bank, N.A. (Wintrust Bank) as discussed below.

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 was forgiven in December 2021 as all conditions of use of the contract were met within 24 weeks from origination. See Note 12 for additional information.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

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

On November 30, 2021, the Organization obtained financing through the New Market Tax Credit program with Southside Community Optimal Redevelopment Enterprise, LLC in the amount of \$8,500,000 structured in four separate notes payable. Debt proceeds were used to fund the construction of a new facility at 1023 W. Irving Park for the Broadway Youth Center. All of the notes carry an interest rate of 2.12% and require interest-only payments through November 2028. The entire principal of one note for \$2,381,341 is due in November 2028. The other three notes are due and payable in full on December 5, 2051, however two of the notes may be forgiven if all conditions of use of the contract are met. See Note 13 for additional information.

On April 29, 2022, the Organization obtained financing through the Illinois Financing Authority and Wintrust Bank, N.A., for a maximum authorized principal amount of \$41,293,000 structured as a tax-exempt bond and loan payable purchased by Wintrust Bank, N.A. with a maturity date of November 1, 2047. Debt proceeds are being used for: 1) the construction of a new medical and dental clinic space at 3501 N Halsted, 2) refinancing of the mortgage notes payable for 6500 N Clark; and 3) costs of the bond issuance. At June 30, 2022, disbursements of \$7,262,673 had been made from the bonds to the Organization with the remaining funds to be disbursed as construction progresses through approximately July 2023. The bonds were issued with a variable interest rate based on 80% of one-month CME Term SOFR (1.56% at June 30, 2022) which the Organization entered into a swap agreement with Wintrust Bank in order to have a fixed interest rate of 2.974% through April 2034. See Note 14 for additional information on the swap transaction.

Subsequent to June 30, 2022, the Organization was notified by Wintrust Bank that they failed to comply with certain terms contained in the Continuing Covenant Agreement between Wintrust Bank and the Organization associated with the Illinois Finance Authority Revenue Bonds, Series 2022. As a result of this noncompliance, under terms of the Continuing Covenant Agreement, Wintrust Bank has reserved their right to not make further supplemental advances of bond proceeds. Additionally, under the Bond and Loan Agreement if any event of default occurs and is continuing, the lender may declare the principal on the bond to be due and payable immediately, thus, the principal amount outstanding at June 30, 2022 of \$7,262,673 has been classified as current on the consolidated statement of financial position. As of December 23, 2022, the date the consolidated financial statements were available to be issued, the Organization had drawn down approximately \$16,528,000 on the bonds.

The Organization is subject to various debt covenants under the arrangements described above. As of June 30, 2022, other than the matter noted in the previous paragraph, management believes they are in compliance with financial covenant requirements.

On April 29, 2022, the Organization obtained financing through Wintrust Bank, N.A. for a maximum authorized principal amount of \$10,000,000 structured as a note payable with a maturity date of November 1, 2029 and interest at a variable rate of 0.90% over SOFR. Debt proceeds were used to fund the purchase of land and the construction of a new medical and dental clinic space at 3501 N Halsted. At June 30, 2022, disbursements of \$8,084,605 had been made from the loan to the Organization with the remaining funds to be disbursed as construction progresses through approximately July 2023.

Future payments on debt are as follows:

2023	\$ 7,658,845
2024	1,734,129
2025	1,626,658
2026	1,558,000
2027	1,581,000
Thereafter	<u>10,398,605</u>
	<u>\$ 24,557,237</u>

(Continued)

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

Interest expense was \$463,327 and \$335,458 for the years ended June 30, 2022 and 2021, 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 \$140,757 certificate of deposit held at Fifth Third Bank. The letter of credit remained unused at June 30, 2022 and expires on June 12, 2023.

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 \$23,143 certificate of deposit at Fifth Third Bank. The letter of credit was terminated in October 2021.

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 \$3,288 certificate of deposit at Fifth Third Bank. The letter of credit remained unused at June 30, 2022 and expires on July 31, 2023.

The Organization entered into a letter of credit agreement with Fifth Third Bank on March 4, 2022 in the amount of \$500,000 which serves as collateral for an operating lease. The letter of credit is itself collateralized by a \$500,000 certificate of deposit held at Fifth Third Bank. The letter of credit remained unused at June 30, 2022 and expires on December 31, 2022.

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 \$796,139 and \$714,899 were incurred during 2022 and 2021. At June 30, 2022 and 2021, the Organization had accounts payable due to the Alliance of \$74,748 and \$0, 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.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 9 - 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, 2022 and 2021.

NOTE 10 - SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2022 to determine the need for any adjustments to and/or disclosures within the consolidated financial statements for the year ended June 30, 2022. Management has performed their analysis through December 23, 2022, the date the consolidated financial statements were available to be issued.

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>2022</u>	<u>2021</u>
Cash	\$ 17,482,158	\$ 44,081,747
Investments	62,317,249	49,872,103
Accounts receivable	15,286,994	17,942,642
Pledges receivable	1,371,144	1,769,695
Less net assets with donor restrictions	<u>(6,751,804)</u>	<u>(4,283,504)</u>
	<u>\$ 89,705,741</u>	<u>\$ 109,382,683</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 had 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.

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.

(Continued)

NOTE 12 - PAYCHECK PROTECTION PROGRAM LOAN (Continued)

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 had not repaid the loan balance and there has been no legal release and, therefore, the loan proceeds were recorded as a financial liability on the statement of financial position. In July 2021, the Organization applied for forgiveness of the PPP loan and was notified in December 2021 that the entire loan was forgiven and a gain on the forgiveness of \$5,605,800 was recorded on the consolidated statements of activities for the year ended June 30, 2022.

NOTE 13 - NEW MARKET TAX CREDIT TRANSACTION

On November 30, 2021, the BYCSC, a fully-owned subsidiary of the Organization, entered into loan agreements with SCORE SUB-CDE 29, LLC (Lender). The Lender funded the loans in the original aggregate principal amount of \$8,500,000 using the federal New Markets Tax Credits (NMTC) program and the State of Illinois NMTC Credit program. BYCSC developed, constructed, equipped and leased the development project for use as the Broadway Youth Center, located at 1023 W. Irving Park, Chicago, Illinois, which includes a medical clinic, behavioral health services, resource advocacy, and educational, vocational and other program services to support youth experiencing unstable housing. BYCSC constitutes a "qualified active low-income community business" (QALICB) within the meaning of the Illinois New Markets Development Program Act (20 ILCS 663) and related Guidance and Section 45D of the Internal Revenue Code (IRC) and the Treasury Regulations and Guidance.

The NMTC program was established under IRC Section 45D and is administered through the Community Development Financial Institutions ("CDFI") fund, which is a division of the US Department of Treasury. A similar program was established by the State of Illinois under statute 20 ILCS 663 and is administered by the Illinois Department of Commerce and Economic Opportunity. The CDFI provides authority for Community Development Entities ("CDEs") to sell the provided tax credits to qualified investors. The mission of CDEs is to provide capital to low-income communities for eligible projects such as for-profit retail, manufacturing plants, service businesses and nonprofit businesses. Once the tax credits are received by the CDE, investors, such as local corporations, banks or insurance companies, invest (equity) in the CDE, which in turn allows the CDE to invest in qualifying businesses. This investment made into the CDE is called a qualified equity investment ("QEI") and can be made either as an equity investment or a loan. That investment is typically made with a combination of funds contributed by the investor and loaned by a lender, allowing the investor to take tax credits on the combined amount. The investor receives new market tax credits on a portion of that aggregate amount of the QEI and is spread out over 7 years. The investment made by the CDE is typically structured as 7-year, below-market interest rate, interest-only loans. At the end of the 7-year compliance period, there are mechanisms in place that would result in the Organization purchasing all debt related to this transaction via a put option (forgiving the principal), as the investors would have received their financial return on investment via the tax credits.

As part of the transaction, the Organization provided a leveraged loan related to the Federal NMTC to the QEI for \$3,441,759 via an interest-bearing note receivable. In addition, Fifth Third Bank provided a leveraged loan related to the State of Illinois NMTC to the QEI for \$2,381,341. The Fifth Third loan is collateralized with a certificate of deposit in the amount of the principal from the Organization. Lastly, U.S. Bancorp Community Development Corporation and Advantage Capital 2020 State Tax Credit Investor, LLC made combined investments of \$3,244,800 to the QEI. BYCSC then borrowed \$8,500,000 from the CDE for the project. There were four separate promissory notes signed (Note A1 for \$2,381,341; Note B1 for \$1,618,659; Note A2 for \$3,441,759; and Note B2 for \$1,058,241). Notes B1 and B2 will be eligible for forgiveness upon successful completion of the seven-year tax credit investment period.

(Continued)

HOWARD BROWN HEALTH CENTER
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2022 and 2021

NOTE 13 - NEW MARKET TAX CREDIT TRANSACTION (Continued)

Until October 2028, interest only payments will be due quarterly on the 5th day of each March, June, September and December at a rate of 2.12472% for all notes. Principal payments are due beginning November 2028 for Notes B1, A2 and B2 and will be based on the Lender's amortization schedule in the loan agreement. The entire Principal payment for Note A1 is due on November 30, 2028. The loan is secured by a guaranty from the Organization. Loan and regulatory agreements restrict the use of the property to those allowed as a qualified active low-income community business, for the term of the note.

NOTE 14 - DERIVATIVE TRANSACTIONS

In April 2022, the Organization entered into an interest rate swap transaction whereby it pays a fixed rate of 2.254% and receives from the counterparty a floating rate based on 80% of one-month CME Term SOFR on an initial notional amount of \$41,293,000, with the cash flows to be exchanged to match the initial par amount and amortization of the Series 2022 Bonds. This swap (the 2022 Swap) hedges the variable interest rate payable on the Series 2022 Bonds by synthetically fixing that interest rate on the notional amount and over the term involved. The effective date for the 2022 Swap is November 1, 2023, and the termination date is April 1, 2034.

The Organization may terminate this transaction at any time with proper notice to the counterparty, in which case settlement would be based on the termination amount at that time, either as a liability or asset to the Organization. The termination value of the Organization's derivative instrument was in a liability position with a fair value of \$254,956 as of June 30, 2022.

Net interest paid or received under the 2022 Swap will be included in interest expense beginning on the effective date, November 1, 2023. Until that date, no interest will accrue on the 2022 Swap. The Organization has not designated the use of hedge accounting; therefore, the change in the fair value of the 2022 Swap is recorded as an unrealized non-operating loss of \$254,956 for the year ended June 30, 2022.

NOTE 15 – PLEDGES RECEIVABLE

Pledges receivable at June 30, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Pledges receivable	\$ 3,009,210	\$ 1,864,484
Less: allowance for doubtful accounts	<u>(1,093)</u>	<u>(94,789)</u>
	<u>\$ 3,008,117</u>	<u>\$ 1,769,695</u>

Expected timing of collection of pledges receivable at June 30, 2022, were as follows:

<u>Years ended June 30,</u>	
Less than one year	\$ 1,371,144
One to five years	<u>1,694,101</u>
Total expected contributions	3,065,245
Less: discount for net present value	<u>(56,035)</u>
	<u>\$ 3,009,210</u>

The Organization has received pledges for current operations and capital projects.

SUPPLEMENTARY INFORMATION

HOWARD BROWN HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

Federal Grantor/Pass-through Grantor/ Program Title for the Year ended June 30, 2022	Assistance Listing Number	Agency or Pass-through Number	Grant Period	Program or Award Amount	Sub-recipient Pass Through	Federal Expenditures
Department of Health and Human Services						
Health Resources and Services Administration, Dental Residency	93.530	T9B45344	12/01/2021 -11/30/2023	\$ 500,000	\$ -	\$ 16,563
Health Resources and Services Administration, IPHCA Patient Navigator	93.332	NAVCA210404	9/1/2021 - 8/31/2022	90,500	-	77,349
Health Resources and Services Administration, American Rescue Plan Act Funding for Health Centers	93.224	H8FCS41018 01 00	04/01/2021 03/31/2023	6,292,375	-	5,239,170
Health Resources and Services Administration, Section 330 Funding	93.224	H80CS29004 H80CS29004	06/01/2021 - 05/31/2022 06/01/2022 - 05/31/2023		-	1,315,169
					-	113,668
					-	1,428,837
					-	6,668,007
Health Resources and Services Administration, HIV/AIDS Bureau, Ryan White Part D	93.153	H12HA24805	08/01/2020 - 07/31/2022	536,289	-	309,995
Health Resources and Services Administration, HIV/AIDS Bureau, Ryan White Part D WICY COVID-19 Response	93.153	H1X37077	04/01/2020 - 03/31/2022	37,587	-	227
Health Resources and Services Administration, HIV/AIDS Bureau, Ryan White Part D Supplemental	93.153	H12HA24805	08/01/2019 - 7/31/2022	116,164	-	35,358
					-	345,580
Health Resources and Services Administration, AIDS Foundation of Chicago/HRSA, Ryan White Part A, Medical Case Management Services	93.914 93.914	AFC RW A 2021/2022 AFC RW A 2022/2023	03/01/2021 - 02/28/2022 03/01/2022 - 02/28/2023	238,515 238,515	-	164,139 81,210
					-	245,349
Health Resources and Services Administration, Chicago Department of Public Health - Ryan White Part A Population Centered Health Homes	93.914 93.914	PO 116670 PO 116670	03/01/2021 - 02/28/2022 03/01/2022 - 02/28/2023	3,029,792 3,029,792	202,435 102,644	1,697,175 1,313,296
					305,079	3,010,471

(Continued)

HOWARD BROWN HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

Federal Grantor/Pass-through Grantor/ Program Title for the Year ended June 30, 2022	Assistance Listing Number	Agency or Pass-through Number	Grant Period	Program or Award Amount	Sub-recipient Pass Through	Federal Expenditures
Health Resources and Services Administration, University of Chicago, Chicago Department of Public Health - Ryan White Part A Population Centered Health Homes	93.914	NA	03/01/2021 - 02/28/2022	\$ 164,632	\$ -	\$ 33,847
	93.914	NA	03/01/2022 - 02/28/2023	164,632	-	64,770
					-	98,617
					305,079	3,354,437
Health Resources and Services Administration, HIV/AIDS Bureau, Ryan White Part C	93.918	H76HA00184	01/01/2021 - 12/31/2021	787,591	-	467,840
	93.918	H76HA00184	01/01/2022 - 12/31/2022	787,591	-	380,731
					-	848,571
Health Resources and Services Administration, HIV/AIDS Bureau, Ryan White Part C EIS COVID-19 Response	93.918	H7C37259	04/01/2020 - 03/31/2022	178,627	-	24,713
					-	873,284
Health Resources and Services Administration, Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants, University of Illinois	93.924	17465	07/01/2021 - 06/30/2022	56,239	-	49,642
Health Resources and Services Administration, Heartland Advanced Nursing Education Grant Program	93.247	T14HP33133	07/01/2021 - 06/30/2022	361,648	-	105,890
Health Resources and Services Administration, COVID-19 Provider Relief Fund - Period 2	93.498	N/A	3/27/2020 - 12/31/2021	1,264,229	-	1,043,501
COVID-19 Provider Relief Fund - Period 3	93.498	N/A	3/4/2021 -6/30/2022	873,914	-	873,914
					-	1,917,415
Health Resources and Services Administration, NASTAD Special Projects of National Significance	93.928	U90HA31882	09/01/2018 - 4/15/2022	589,102	-	277,701
Department of Health and Human Services Illinois Department of Public Health - Syphilis Elimination Initiative	93.977	05180001H-2	7/1/2021 - 6/30/2022	75,000	-	56,069
Center for Disease Control and Prevention Chicago Department of Public Health, Population Centered Health Homes, CDC STI	93.977	PO 116671	01/01/2021 - 12/31/2021	60,000	-	40,572
					-	96,641

(Continued)

HOWARD BROWN HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

Federal Grantor/Pass-through Grantor/ Program Title for the Year ended June 30, 2022	Assistance Listing Number	Agency or Pass-through Number	Grant Period	Program or Award Amount	Sub-receipt Pass Through	Federal Expenditures
Center for Disease Control and Prevention Chicago Department of Public Health, Population Centered Health Homes, CDC Prevention	93.940 93.940	PO 110216 PO 110216	1/1/2021 - 12/31/2021 1/1/2022 - 12/31/2022	\$ 155,104 155,104	\$ 18,510 68,719	\$ 80,906 68,719
					-	149,625
Centers for Disease Control and Prevention Chicago Department of Public Health	93.940 93.940	PO 91187 PO 91187	01/01/2021 - 12/31/2021 01/01/2022 - 12/31/2022	287,500 287,500	118,140 66,474	181,198 133,631
					-	314,829
Centers for Disease Control and Prevention Cook County Department of Public Health, HIV/AIDS Prevention Education	93.940	1U62PS003681-01	07/01/2021 - 06/30/2022	33,725	-	16,084
					271,843	480,538
Centers for Disease Control and Prevention HIV Prevention Projects for Community-Based Organizations	93.939	1 NU65PS923654-01-00	04/01/2021 - 03/31/2022	388,365	96,940	321,663
Department of Health and Human Services Rush University Medical Center, Geriatrics Workforce Enhancement Program	93.969	15012901-Sub11	07/01/2019 - 06/30/2024	30,000	-	12,652
Department of Health and Human Services Chicago Department of Public Health, Capacity Building for Federally Qualified Health Center COVID-19 Contact Tracing	93.323	PO 132530	07/01/2021 - 06/30/2022	990,500	-	676,729
Department of Health and Human Services Chicago Department of Public Health, ELC – Contact Tracing	93.323	PO 137382	08/01/2021 - 07/31/2022	1,124,729	-	827,368
					-	1,504,097
Total U.S. Department of Health and Human Services					673,862	16,101,459
Research Development and Cluster						
Department of Health and Human Services, National Institute of Health Northwestern University, CFAR	93.855	60056410 HBHC	9/1/2021 - 4/30/2026	144,782	-	181,336
Department of Health and Human Services, National Institute of Health University of Chicago, COVID-19 Testing of Vulnerable Populations	93.910	AWD101615	10/1/2021 - 3/31/2022	160,938	-	104,325

(Continued)

HOWARD BROWN HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

Federal Grantor/Pass-through Grantor/ Program Title for the Year ended June 30, 2022	Assistance Listing Number	Agency or Pass-through Number	Grant Period	Program or Award Amount	Sub-recipient Pass Through	Federal Expenditures
Department of Health and Human Services, National Institute of Health Northwestern University, Alcohol Disparities in HIV Risk	93.273	60057464 HBHC	9/1/2021 - 8/31/2022	\$ 69,284	\$ -	\$ 39,134
Department of Health and Human Services, National Institute on Alcohol Abuse and Alcoholism Brown University, Alcohol Research Programs	93.273	1659	6/1/2021 - 5/31/2022	25,138	-	<u>24,297</u>
					-	63,431
Department of Health and Human Services, National Institute of Health Harnessing the Power of Social Network Support to Improve Retention in Care	93.242	1R01MH125744-01	3/26/2021 - 1/31/2022	91,066	-	81,627
Department of Health and Human Services, National Institute of Health Northwestern University, ECOGACRIN	93.399	60058307 HBHC	12/1/2020 -1/31/2022	20,003	-	17,355
Centers for Disease Control and Prevention, University of Illinois	93.978	16848-03	12/15/2017 - 04/30/2021	48,133	-	<u>35,052</u>
Total Research Development and Cluster					<u>-</u>	<u>483,126</u>
U.S. Department of Housing and Urban Development						
Department of Housing and Urban Development City of Chicago, Department of Family and Support Services, ESG CARES	14.231	01/01/2022 - 7/15/2022	PO 146602		-	<u>20,246</u>
Total Expenditures of Federal Awards					<u>\$ 673,862</u>	<u>\$ 16,604,831</u>

See accompanying notes to schedule of expenditures of federal awards

HOWARD BROWN HEALTH CENTER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Howard Brown Health Center (the "Organization") under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the Organization provided federal awards to subrecipients for the following programs:

<u>Program</u>	<u>AL Number</u>	<u>Amount Provided</u>
HIV Emergency Relief Project Grants	93.914	\$ 305,079
HIV Prevention Activities Non-Governmental Organization Based	93.939	96,940
HIV Prevention Activities Health Department Based	93.940	271,843

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AWARD EXPENDITURES

Expenditures consist of direct and indirect costs. Direct costs are those that can be readily identified with an individual federally sponsored project. The salary of a principal researcher of a sponsored research project and the materials consumed by the project are examples of direct costs.

Unlike direct costs, indirect costs cannot be readily identified with an individually sponsored project. Indirect costs are the costs of services and resources that benefit many projects as well as non-sponsored projects and activities. Indirect costs primarily consist of expenses incurred for administration, payroll taxes and fringe benefits.

The Organization and federal agencies use an indirect cost rate to charge indirect costs to individual sponsored projects. The rate is the result of a number of cost allocation procedures that the Organization uses to allocate its indirect costs to both sponsored and non-sponsored activities. The indirect costs allocated to sponsored projects are divided by the direct costs of sponsored projects to arrive at a rate. The U.S. Department of Health and Human Services ("DHHS") must approve the rate before the Organization can use it to charge indirect costs to federally sponsored projects.

(Continued)

HOWARD BROWN HEALTH CENTER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AWARD EXPENDITURES (Continued)

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 - NON-CASH ASSISTANCE, LOANS OR LOAN GUARANTEES, AND FEDERAL INSURANCE

No federal awards were expended in the form of non-cash assistance, loans or loan guarantees during the fiscal year. There was no federal insurance in effect from a federal insurance program during the fiscal year.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Howard Brown Health Center
Chicago, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Howard Brown Health Center (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 23, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

(Continued)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Crowe LLP". The word "Crowe" is written in a cursive style, and "LLP" is in a more blocky, sans-serif style.

Crowe LLP

Chicago, Illinois
December 23, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE

The Board of Directors
Howard Brown Health Center
Chicago, Illinois

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Howard Brown Health Center's (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

(Continued)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

(Continued)

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

A handwritten signature in black ink that reads "Crowe LLP". The word "Crowe" is written in a cursive style, and "LLP" is in a more blocky, uppercase style.

Crowe LLP

Chicago, Illinois
December 23, 2022

HOWARD BROWN HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

SECTION I - SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted?

Federal Awards

Yes No

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of major programs:

<u>AL or identifying number</u>	<u>Name of federal program or cluster</u>
93.498	COVID-19, Provider Relief Fund
93.914	HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A)

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.