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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

June 30, 2014 and 2013

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

FINANCIAL STATEMENTS
June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Howard Brown Health Center
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Howard Brown Health Center (the "Center"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Howard Brown Health Center as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated December 19, 2014 on our consideration of Howard Brown Health Center'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 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 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 Howard Brown Health Center's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
December 19, 2014

HOWARD BROWN HEALTH CENTER
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,393,464	$ 335,956
Restricted cash	125,000	125,000
Accounts receivable, net of allowance for doubtful accounts of $748,727 and $883,775	3,427,531	2,671,137
Pledges receivable, net of allowance for doubtful accounts of $183,398 and $193,412	355,105	244,850
Inventories	514,813	569,072
Prepaid expenses and other receivables	201,974	134,838
Total current assets	6,017,887	4,080,853
Property and equipment, net	2,868,869	2,556,200
Construction in progress	80,573	241,209
Investment in Alliance and others	661,626	557,693
Other assets, primarily works of art	384,519	366,197
	$ 10,013,474	$ 7,802,152
LIABILITIES AND NET ASSETS		
Current liabilities		
Line of credit, current	$ -	$ 73,585
Current maturities of long-term debt	230,873	1,825,139
Accounts payable	1,807,613	3,293,614
Accrued expenses	562,536	469,973
Due to the federal government	-	191,667
Total current liabilities	2,601,022	5,853,978
Due to the federal government	-	191,666
Long-term debt, less current maturities	3,321,193	-
Total liabilities	5,922,215	6,045,644
Net assets		
Unrestricted	3,516,073	1,224,792
Temporarily restricted	575,186	531,716
Total net assets	4,091,259	1,756,508
	$ 10,013,474	$ 7,802,152

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

	Unrestricted	Temporarily Restricted	2014 Total
Revenues, Gains and Other Support			
Net patient service revenue (net of contractual allowances, discounts, and charitable care)	$ 2,834,145	$ -	$ 2,834,145
Less: bad debt expense	(439,272)	-	(439,272)
Net patient revenue	2,394,873	-	2,394,873
Government contracts	4,772,990	-	4,772,990
Direct public support	4,285,324	593,082	4,878,406
Donated services	339,606	-	339,606
Interest	168	2	170
Net assets released from restriction	549,614	(549,614)	-
340B pharmacy revenue	14,997,632	-	14,997,632
Other, including Alliance income	388,257	-	388,257
Total revenues, gains and other support	27,728,464	43,470	27,771,934
Expenses			
Medical	14,612,531	-	14,612,531
Youth services	943,320	-	943,320
Behavioral health	789,872	-	789,872
Research	649,075	-	649,075
Prevention	1,053,735	-	1,053,735
Total program expenses	18,048,533	-	18,048,533
Development	558,770	-	558,770
Public relations	281,860	-	281,860
Brown elephant	2,402,370	-	2,402,370
Total expenses by function	21,291,533	-	21,291,533
General and administrative	4,145,650	-	4,145,650
Total expenses	25,437,183	-	25,437,183
Increase in net assets	2,291,281	43,470	2,334,751
Net assets at beginning of year	1,224,792	531,716	1,756,508
Net assets at end of year	$ 3,516,073	$ 575,186	$ 4,091,259

(Continued)

HOWARD BROWN HEALTH CENTER
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	Unrestricted	Temporarily Restricted	2013 Total
Revenues, Gains and Other Support			
Net patient service revenue (net of contractual allowances, discounts, and charitable care)	$ 2,327,000	$ -	$ 2,327,000
Less: bad debt expense	(324,181)	-	(324,181)
Net patient revenue	2,002,819	-	2,002,819
Government contracts	4,329,544	-	4,329,544
Direct public support	4,332,673	477,710	4,810,383
Donated services	139,007	-	139,007
Interest	455	3	458
Net assets released from restriction	344,903	(344,903)	-
340B pharmacy revenue	9,762,840	-	9,762,840
Other, including Alliance income	183,338	-	183,338
Total revenues, gains and other support	21,095,579	132,810	21,228,389
Expenses			
Medical	10,019,389	-	10,019,389
Youth services	962,488	-	962,488
Behavioral health	656,628	-	656,628
Research	712,772	-	712,772
Prevention	982,476	-	982,476
Total program expenses	13,333,753	-	13,333,753
Development	990,339	-	990,339
Public relations	234,798	-	234,798
Brown elephant	2,199,713	-	2,199,713
Total expenses by function	16,758,603	-	16,758,603
General and administrative	4,027,347	-	4,027,347
Total expenses	20,785,950	-	20,785,950
Increase in net assets	309,629	132,810	442,439
Net assets at beginning of year	915,163	398,906	1,314,069
Net assets at end of year	$ 1,224,792	$ 531,716	$ 1,756,508

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2014

	Program Services									
	Medical	Youth Services	Behavioral Health	Research	Prevention	Development	Public Relations	Brown Elephant	General and Administrative	2014 Total
Salaries	$ 3,907,468	$ 617,552	$ 618,952	$ 457,186	$ 808,000	$ 276,785	$ 78,329	$ 1,060,853	$ 1,608,617	$ 9,433,742
Fringe benefits	520,601	83,007	88,079	54,236	96,981	35,801	16,423	107,625	222,532	1,225,285
Payroll taxes	271,694	45,050	44,396	32,249	58,247	21,036	5,603	78,541	170,139	726,955
Accounting and legal fees	-	-	-	-	-	-	-	-	463,904	463,904
Supplies	116,084	23,826	22,999	7,486	25,544	6,380	967	17,164	169,456	389,906
Telephone	26,186	15,811	-	7,168	149	-	-	18,565	78,840	146,719
Postage and shipping	7,164	192	47	425	393	1,009	-	21	8,613	17,864
Occupancy and utilities	236,276	56,000	-	-	3,782	-	-	928,283	140,213	1,364,554
Repairs and maintenance	40,919	8,202	-	541	3,127	-	-	66,222	194,398	313,409
Printing	17,644	3,402	1,929	3,638	2,959	6,877	3,933	5,443	7,988	53,813
Travel	20,668	1,756	649	4,635	23,336	4,117	-	-	13,970	69,131
Seminars and meetings	558	-	108	-	1,686	1,450	-	-	2,677	6,479
Depreciation and amortization	-	-	-	-	-	-	-	-	231,066	231,066
Outside services	334,133	7,200	1,000	32,661	1,200	70,667	165,000	4,328	396,703	1,012,892
Staff services	32,621	2,091	10,343	4,582	10,803	2,860	-	371	98,597	162,268
Pharmaceuticals, outside labs and medical supplies	8,914,697	12,303	230	15,672	5,043	-	-	-	-	8,947,945
Client assistance	43,880	45,776	595	2,468	9,515	-	-	-	-	102,234
Licenses and fees	3,267	525	100	198	-	-	-	315	8,149	12,554
Dues and subscriptions	5,452	1,160	445	2,705	205	4,625	1,569	834	39,313	56,308
Advertising	18,678	-	-	1,055	1,615	2,139	895	11,268	1,348	36,998
Client development	1,358	680	-	22,443	-	-	-	-	-	24,481
Public relations	-	-	-	-	-	8	9,012	-	-	9,020
Leases and equipment	45,887	-	-	(273)	-	-	-	-	-	45,614
Other	29,519	17,495	-	-	750	2,766	129	5,921	38,381	94,961
Benefit expense	-	729	-	-	400	106,357	-	-	-	107,486
Bank fees	12,977	563	-	-	-	2,665	-	49,649	47,532	113,386
Interest expense	-	-	-	-	-	-	-	302	107,024	107,326
Insurance expense	4,800	-	-	-	-	13,228	-	46,665	96,190	160,883
Subcontractor expense	-	-	-	-	-	-	-	-	-	-
Total expense	$ 14,612,531	$ 943,320	$ 789,872	$ 649,075	$ 1,053,735	$ 558,770	$ 281,860	$ 2,402,370	$ 4,145,650	$ 25,437,183

(Continued)

HOWARD BROWN HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2013

	Program Services									
	Medical	Youth Services	Behavioral Health	Research	Prevention	Development	Public Relations	Brown Elephant	General and Administrative	2013 Total
Salaries	$ 2,967,869	$ 585,077	$ 522,040	$ 504,609	$ 692,508	$ 601,401	$ 127,898	$ 961,504	$ 1,266,291	$ 8,229,197
Fringe benefits	339,581	85,533	62,061	41,187	81,472	22,545	14,611	63,770	17,937	728,697
Payroll taxes	214,433	42,447	37,833	37,899	50,809	44,161	9,485	71,371	170,566	679,004
Accounting and legal fees	-	-	-	-	-	-	-	-	743,803	743,803
Supplies	52,736	78,407	5,212	13,386	43,331	5,436	2,332	11,919	193,556	406,315
Telephone	27,426	19,909	-	13,707	202	-	-	15,198	70,339	146,781
Postage and shipping	6,273	121	50	1,144	240	4,657	-	-	6,259	18,744
Occupancy and utilities	268,852	67,810	-	-	3,336	-	-	857,540	129,006	1,326,544
Repairs and maintenance	11,536	31,942	-	536	8,054	-	-	52,694	124,565	229,327
Printing	10,420	1,586	1,604	2,039	6,406	11,958	16,085	2,970	3,678	56,746
Travel	35,809	1,954	1,914	11,887	13,219	11,002	1,419	-	25,976	103,180
Seminars and meetings	4,100	497	2,065	640	3,468	1,365	595	-	4,873	17,603
Depreciation and amortization	-	-	-	-	-	-	-	5,069	175,900	180,969
Outside services	351,905	4,688	518	31,153	60,670	135,828	5,000	7,501	616,060	1,213,323
Staff services	45,643	3,875	17,396	4,155	10,048	5,774	153	154	154,900	242,098
Pharmaceuticals, outside labs and medical supplies	5,576,143	3,217	410	16,693	2,531	3,757	-	-	-	5,602,751
Client assistance	17,337	8,478	-	-	-	1,200	-	-	-	27,015
Licenses and fees	12,017	-	913	-	-	(84)	-	340	473	13,659
Dues and subscriptions	1,400	155	470	2,925	55	5,653	1,463	210	39,465	51,796
Advertising	-	-	590	726	370	1,155	12,523	45	1,135	16,544
Client development	8,963	2,285	-	23,660	3,260	-	-	-		38,168
Public relations	706	-	-	-	1,203	70	42,985		110	45,074
Leases and equipment	273	-	-	546	-	-	-	-	-	819
Other	26,782	24,440	-	939	-	10,167	249	53,778	19,788	136,143
Benefit expense	1,927	-	-	-	49	119,030	-	-	-	121,006
Bank fees	13,294	67	-	-	535	4,001	-	49,635	29,626	97,158
Interest expense	-	-	-	-	-	-	-	-	153,808	153,808
Insurance expense	23,964	-	3,552	4,941	710	1,163	-	46,015	79,233	159,578
Subcontractor expense	-	-	-	-	-	100	-	-	-	100
Total expense	$ 10,019,389	$ 962,488	$ 656,628	$ 712,772	$ 982,476	$ 990,339	$ 234,798	$ 2,199,713	$ 4,027,347	$ 20,785,950

See accompanying notes to financial statements

HOWARD BROWN HEALTH CENTER
STATEMENTS OF CASH FLOW
Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Increase in net assets	$ 2,334,751	$ 442,439
Adjustments to reconcile increase in net assets to net cash from operating activities		
Bad debt (recoveries) expense	439,272	324,181
Depreciation and amortization	231,066	180,969
Gain on disposal of equipment	24,851	-
Equity share of Alliance income	(73,933)	(66,624)
Changes in assets and liabilities		
Accounts receivable	(1,195,666)	(278,612)
Pledges receivable	(110,255)	18,283
Inventories	54,259	87,100
Prepaid expenses and other receivables	(67,136)	14,934
Accounts payable	242,181	410,277
Accrued expenses	92,563	35,368
Other assets	(18,322)	(705)
Due to federal government	(383,333)	(191,667)
Net cash from operating activities	1,570,298	975,943
Cash flows from investing activities		
Purchase of property and equipment	(407,950)	(315,323)
Investment in Together4Health	(10,000)	(15,000)
Investment in Alliance	(20,000)	(20,000)
Net cash from investing activities	(437,950)	(350,323)
Cash flows from financing activities		
Borrowings from notes payable	77,909	-
Principal payments on notes payable	(79,164)	(85,355)
Payments on line of credit	(73,585)	(715,321)
Net cash from financing activities	(74,840)	(800,676)
Net change in cash and cash equivalents	1,057,508	(175,056)
Cash and cash equivalents at beginning of year	335,956	511,012
Cash and cash equivalents at end of year	$ 1,393,464	$ 335,956
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 119,054	$ 155,851
Accounts payable converted to long term debt	$ 1,728,182	$ -

See accompanying notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

On March 29, 2012, the Center negotiated a final Settlement Agreement with a federal agency regarding the previous administration's mismanagement of grant funds (see Note 7). In addition, the Center was in default of its debt terms and requirements (see Note 6 regarding forbearance terms of debt and subsequent restructuring).

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

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

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or passage of time. At June 30, 2014 and 2013 temporarily restricted net assets consisted of the following:

	2014	2013
Board designated endowment	$ 136,410	$ 136,233
Time	108,928	257,149
Specific programming	329,848	138,334
Total temporarily restricted net assets	$ 575,186	$ 531,716

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

	2014	2013
Time	$ 276,069	$ 152,403
Specific programming	273,545	192,500
Total releases from restriction	$ 549,614	$ 344,903

Permanently restricted – Net assets are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be retained permanently. There were no permanently restricted net assets at June 30, 2014 and 2013.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: Cash and cash equivalents consist of demand deposits in accounts insured up to $250,000 per financial institution. The Center 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 Center to concentrations of credit risk include the Center's cash and cash equivalents. At certain times cash and cash equivalents may be in excess of federal insurance limits.

The Center maintains cash and cash equivalents in the form of a certificate of deposit account that is externally restricted by the Chicago Title Land Trust Company (the "Company"). The certificate of deposit along with a letter of credit (Note 6), serve as security related to property leased from the Company. The amount of cash limited as to use was $125,000 at June 30, 2014 and 2013.

Patient Accounts Receivable and Allowances: Accounts receivable represents charges to patients, primarily on open account. Past due receivables are determined based on contractual terms. The Center does not accrue interest on any of its accounts receivable. Adjustments to patient accounts are made in amounts estimated to maintain allowances to cover estimated contractual allowances and anticipated losses from patients, third-party payers and others. The allowance is determined by management based on the Center's historical net collection percentages, specific patient circumstances, and general economic conditions. As payments are received, specific contractual adjustments detailed in the explanation of benefits are charged against the patient's account and the allowance. After all reasonable collection efforts have been exhausted patient accounts are charged against the allowance for doubtful accounts. Accounts receivable is shown net of allowances on the statement of financial position. Gross patient accounts receivable greater than 90 days outstanding at June 30, 2014 and 2013 were approximately $525,000 and $795,000.

Pledges Receivable: Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the pledges are received. Amortization of the discounts is included in direct public support. There were no long-term pledge receivables at June 30, 2014, and 2013, respectively. Conditional promises to give are not included as support until the conditions are substantially met.

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets: On an ongoing basis, the Center reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Center 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, 2014 and 2013, management believes that no impairment existed.

Investment in Alliance and others: Investment in Alliance and others consists of investments in two organizations, on the equity and cost methods of accounting.

Equity Method Investment: The Center 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 Center and the other member agencies are each required to contribute $20,000 annually to the Alliance. The Alliance also receives grants from government and private foundations. The Center's share of equity gain in the Alliance (unconsolidated affiliate) was $73,933 and $66,624 for 2014 and 2013, and is included in the statements of activities in other revenues.

Summarized unaudited financial information for the Alliance at June 30, 2014 and 2013 is as follows:

	2014	2013
Assets	$ 5,475,739	$ 5,970,132
Liabilities	2,686,143	3,469,336
Equity	2,789,596	2,500,793

Cost Method Investment: During 2013 the Center acquired a 2.5% ownership interest in Together4Health, LLC ("Together4Health"). The Center does not have significant influence over the management or operations of Together4Health. The investment in Together4Health is $25,000 and $15,000 at June 30, 2014 and 2013, respectively. No dividends were received during the years ended June 30, 2014 and 2013.

Deferred Rent: The Center 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.

Due to Federal Government: Due to federal government represents the Center's estimated liability resulting from the events described in Note 7.

Endowment: The Center's endowment funds include funds designated by the Board of Directors to function as an endowment. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There are no permanently restricted endowment funds at June 30, 2014.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in endowment net assets for years ended June 30, 2014 and 2013, are as follows:

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, July 1, 2012	$ 135,776	$ -	$ 135,776	$ -
Interest income	457	-	457	-
Endowment net assets, June 30, 2013	136,233	-	136,233	-
Interest income	177	-	177	-
Endowment net assets, June 30, 2014	$ 136,410	$ -	$ 136,410	$ -

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

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

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Center reports gifts of property and equipment and works of art as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support, and released from restriction as depreciated. There were no donor restricted long-lived assets at June 30, 2014 or 2013.

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

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

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

	June 30, 2014					
	Medicare	Medicaid	Grant or Trial Sponsored	Commercial Payers	Self Pay	Total
Gross patient charges	$ 409,874	$ 947,763	$ 329,430	$ 1,466,135	$ 1,216,650	$ 4,369,852
Contractual allowances and discounts	86,583	181,687	96,680	330,880	72,043	767,873
Charity care	-	-	-	-	767,834	767,834
Net patient service revenue	$ 323,291	$ 766,076	$ 232,750	$ 1,135,255	$ 376,773	$ 2,834,145

	June 30, 2013					
	Medicare	Medicaid	Grant or Trial Sponsored	Commercial Payers	Self Pay	Total
Gross patient charges	$ 370,337	$ 292,855	$ 660,194	$ 1,276,763	$ 1,332,850	$ 3,932,999
Contractual allowances and discounts	54,033	25,777	157,589	331,448	5,501	574,348
Charity care	-	-	-	-	1,031,651	1,031,651
Net patient service revenue	$ 316,304	$ 267,078	$ 502,605	$ 945,315	$ 295,698	$ 2,327,000

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Charity Care: The Center provides charity care (care for which the Center 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 Center to provide these services to patients who are unable to pay was approximately $3,734,918 and $4,281,929 for 2014 and 2013, 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 Center's charity care policy and that do not otherwise qualify for reimbursement from a government program. During 2014 and 2013, the Center received grant revenue of $1,620,656 and $1,738,858 to help defray the costs of indigent care.

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

Resale Shop: The Center operates three resale shops supported solely by donations of second-hand goods. Revenue from sales of donated goods at the date of sale, as well as net increases or decreases of inventory, are recorded as direct public support in the statement of activities. The net decrease in inventories were $42,408 and $71,929, and donations of second-hand goods were $3,419,463 and $3,281,523 for 2014 and 2013, respectively.

Donated Services: Various services and support (primarily professional fees) for the Center's operations and staff members have been provided by volunteers with specialized skills. The Center recognizes the estimated fair value of the donated services as a contribution when such services are rendered. Included in the financial statements are contributions from such donated services and the corresponding expenses of approximately $340,000 and $140,000 for 2014 and 2013.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Incentive Program Revenue: The Patient Protection and Affordable Care Act of 2010 (PPACA), the American Recovery and Reinvestment Act of 2009 (ARRA) and the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) all include provisions for incentive revenue to be provided to physicians who participate in providing data on quality measures or utilize electronic prescription, or demonstrate meaningful use of certified electronic health records technology, within their practice of medicine. The Center 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 2014 and 2013 is $148,750 and $53,125, respectively. Such incentive revenue is included in other revenues in the statements of activities.

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

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

Income Tax Status: The Center is incorporated under the laws of the State of Illinois as a not-for-profit organization. The Center has received a determination letter from the Internal Revenue Service indicating that it is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements as the Center had no material unrelated business income in fiscal years 2014 and 2013.

The Center 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 Center recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Center has no amounts accrued for interest or penalties as of June 30, 2014. The Center does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Center has applied this criterion to all tax positions for which the statute of limitations remains open. The tax years open to examination by tax authorities under the statute of limitations include fiscal 2011 through 2013. The Center 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, 2014.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Areas where significant estimates that are sensitive to change in the near term are used in the accompanying financial statements include allowances for contractual adjustments and doubtful accounts, useful lives of fixed assets, incurred but not reported self-funded health insurance

liability, net realizable value of pledge receivables, and fair value of inventory. Actual results may differ from these estimates.

Concentrations: At June 30, 2014 and 2013, substantially all of the Center's cash and cash equivalents were with two financial institutions. At times amounts on deposit may exceed federally insured limits which represents a concentration of credit risk; however, management monitors this risk and believes the likelihood of loss to be remote.

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

NOTE 2 - CONTRACTUAL AGREEMENTS

The Center's principal contractual agreements are as follows:

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

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

Health Resources and Services Administration (Ryan White Part D): The Center 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 (Comprehensive Geriatric Education Program): The Center was awarded a multi-year contract to support the training and education of individuals in providing care for the elderly and to develop and disseminate a replicable cultural competency program. The Center is partnering with two nursing colleges on this project.

The Center 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 Center receives a significant amount of its funding from federal government agencies, though grants. Accordingly, the Center'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.

(Continued)

NOTE 3 - PROPERTY AND EQUIPMENT

At June 30, property and equipment consist of:

	2014	2013
Land	$ 343,421	$ 343,421
Buildings	3,047,383	3,047,383
Leasehold improvements	632,911	118,388
Furniture and fixtures	133,263	163,188
Office equipment	239,993	335,043
Software	99,777	238,450
Medical equipment	47,122	51,449
Vehicles	117,927	102,990
	4,661,797	4,400,312
Less accumulated depreciation and amortization	1,792,928	1,844,112
	$ 2,868,869	$ 2,556,200

NOTE 4 - PRETAX SAVINGS PLAN

The Center 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. The Center made no contributions to the Plan in 2014 or 2013.

On January 1, 2008, the Center offered certain employees an unqualified deferred compensation plan created in accordance with IRC Section 457. The Plan is available for a select group of management or highly compensated employees as defined in Sections 201, 301, and 401 of the Employee Retirement Income Security Act of 1974 (ERISA). The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are, until made available to the employee or other beneficiary, solely the property and rights of the Center without being restricted to the provision of benefits under the Plan and are thus subject to the claims of the Center's general creditors. Participants' rights created under the Plan are equivalent to those of general creditors of the Center.

The Center's liability to each participant is equal to the amount of the participant's deferred compensation adjusted by an amount equal to the investment performance in a related asset account. The related asset accounts are recorded at fair value, which is equal to the liability to plan participants. The Center has not matched any participant's contributions since inception.

(Continued)

NOTE 5 - LEASES

At June 30, 2014 and 2013, the Center was obligated for future rentals under various non-cancelable operating leases for their operating facilities. Monthly payments range from $4,667 to $31,293 through 2024, and various leases include escalation clauses and renewal options. Future minimum lease payments are as follows:

2015	$ 810,670
2016	624,978
2017	531,168
2018	545,749
2019	484,412
Thereafter	2,789,360
Total	$ 5,786,337

Rent expense for 2014 and 2013 was $1,030,365 and $1,034,266, which is included in occupancy and utilities expense in the statement of functional expenses.

NOTE 6 - NOTES PAYABLE AND LETTER OF CREDIT

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

	2014	2013
Bank mortgage note secured by real estate with monthly payments of $15,474, including interest at 6.50%. The bank mortgage note is in forbearance through October 29, 2014.	$ 1,758,467	$ 1,825,139
Note payable of $41,803 collateralized by a truck, with monthly payments of $1,179, including interest at 1.50%, though August 20, 2016.	30,315	-
Bank operating line of credit, collateralized by accounts receivable, with interest at the prime rate plus the default rate of 3.00% (6.25% at June 30, 2013). The line of credit was paid off on July 30, 2013 and was terminated on July 31, 2013.	-	73,585
Note payable of $36,104 collateralized by a truck, with monthly payments of $1,003, non-interest bearing through May 22, 2017.	35,102	-
Ten year non-interest bearing note payable of $1,728,182 with Northwestern University per settlement agreement reached on June 27, 2014. Payments are due in the amounts of $75,000 on July 15, 2014, $100,000 on July 15, 2015, and $194,148 each year subsequent July 2016 through 2023.	1,728,182	-
Total notes payable	3,552,066	1,898,724
Less current portion of line of credit	-	73,585
Less current maturities	230,873	1,825,139
Total long-term notes payable	$ 3,321,193	$ -

(Continued)

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

The bank mortgage note and line of credit contain, among other things, financial requirements regarding the Center's maintenance of minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") to debt service and liabilities to taxable net worth ratios and certain other provisions limiting the incurrence of additional debt.

On June 30, 2014 the Center was in default of the aforementioned loan arrangements. On January 31, 2014, the Bank lender agreed to forbear, for the eighth consecutive time, from exercising their rights and remedies under the loan arrangement through October 31, 2014. A previous forbearance agreement required full payment of the outstanding balance of the line of credit of $73,585 on execution at July 31, 2013. The forbearance agreement requires regular monthly payments on the bank mortgage note, based upon a 25-year amortization schedule, through October, 31, 2014.

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

Future payments on debt are as follows:

2015	$ 230,873
2016	348,816
2017	430,267
2018	416,880
2019	416,880
Thereafter	1,708,350

Interest expense was $107,326 and $153,808 for the years ended December 31, 2014 and 2013, respectively.

The Center entered into a letter of credit agreement with Northern Trust Company on June 13, 2012, in the amount of $125,000 which serves as collateral for an operating lease. The Letter of credit remains unused at June 30, 2014 and 2013 and is scheduled to expire June 16, 2015.

NOTE 7- DUE TO FEDERAL GOVERNMENT

The Center finalized an agreement with the Office of the Inspector General to settle the allegations of mismanagement of funds from January 1, 2006 through December 31, 2010. The agreement calls for repayment of $715,000 through September 30, 2014. As of June 30, 2014, the Center has paid the Federal Government in full.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Center 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 $194,763 and $127,447 were incurred during 2014 and 2013. At June 30, 2014 and 2013, the Center had accounts payable due to the Alliance of $14,536 and $1,100.

(Continued)

NOTE 9 - EMPLOYEE HEALTH BENEFIT PLAN

The Center participates in a self-funded health insurance plan covering substantially all employees. Covered services include medical benefits and prescription drugs. The plan has annual reinsurance coverage for a maximum eligible claim expense per covered person in excess of $50,000, and an unlimited maximum aggregate per covered person. The Center recorded a provision for claims incurred but not reported, which amounted to $116,855 and $39,495 at June 30, 2014 and 2013 respectively, and is included in accrued expenses.

The Center has included $184,990 and $0 in prepaid expenses and other assets at June 30, 2014 and 2013, respectively, for claims paid by the Center in excess of reinsurance coverage limits. Expenses of the plan for 2014 and 2013 were $1,122,619 and $629,523, respectively, and are recorded net of stop-loss coverage reimbursements in the accompanying statements of activities. The plan had two claimants who exceeded the stop-loss during 2014, and had no claimants who exceeded the stop-loss during 2013.

NOTE 10 - CONSTRUCTION IN PROGRESS

Construction in progress as of June 30, 2014 primarily consists of funds expended for leasehold improvements related to interior renovations to the health center. The remaining costs to complete this project were approximately $124,000 and it was completed in October 2014.

Construction in progress as of June 30, 2013 primarily consists of funds expended for leasehold improvements related to a medical facility. The remaining costs to complete this project were approximately $211,000 and it was completed in September 2013.

NOTE 11 - 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 Center. Management believes the Center does not have any significant claims or other litigation which the ultimate resolution would have a material financial impact. Accrued legal settlements are recorded in accounts payable at June 30, 2013 and were subsequently paid in full during fiscal year 2014.

NOTE 12 - SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2014. Management has performed their analysis through December 19, 2014, the date the financial statements were available to be issued.

See Note 6 for other subsequent events.

SUPPLEMENTAL SCHEDULES

HOWARD BROWN HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

Federal Grantor/Pass-Through Grantor/ Program Title for Year ended June 30, 2014	Federal CFDA Number	Agency or Pass-Through Number	Grant Period	Program or Award Amount	Federal Expenditure
Department of Health and Human Services					
R&D Cluster					
National Institutes of Health, University of Illinois at Chicago					
Targeted Smoking Cessation	93.279	1R01DA023935-01A2	08/01/12-07/31/13	$ 387,445	$ 26,760
	93.279	1R01DA023935-01A2	08/01/13-07/31/14	406,855	225,442
Health Resources and Services Administration					
Erie Family Health Center, Community Health Applied Research Network (ARRA)	93.420	1UB2HA20234	09/01/12-08/31/13	7,972	2,737
Centers for Disease Control and Prevention					
University of Kentucky Research Foundation, RCPC Core Research Project	93.135	3049024673-13-102	09/30/12-09/29/13	56,566	17,546
	93.135	3049025337-14-063	09/30/13-09/29/14	53,749	41,379
Department of Health and Human Services	93.977	25180004	01/01/13-12/31/13	50,000	21,890
Illinois Department of Public Health – Syphilis Elimination Initiative	93.977	45180010B	01/01/14-12/31/14	50,000	23,072
Center for Disease Control and Prevention,	93.977	PO # 26524	01/01/13-12/31/13	93,457	90,595
Chicago Department of Public Health, Syphilis Elimination	93.977	PO # 30634	01/01/14-12/31/14	134,000	69,113
Centers for Disease Control and Prevention					
Chicago Department of Public Health, STD Syphilis Surveillance Network (SSuN)	93.977	25330	09/30/12-09/29/13	49,080	11,763
National Institutes of Health					
Family Health International, HIV Prevention Trials Network Scholars Program	93.855	NIH/NIAID UM1 AI068619	06/01/12-12/31/13	85,785	19,025
Total R&D Cluster					**549,322**
Health Resources and Services Administration,	93.153	6 H12 HA 24805-01-02	08/01/12-07/31/13	500,000	40,043
HIV/AIDS Bureau, Ryan White Part D	93.153	6 H12 HA 24805-02-03	08/01/13-07/31/14	554,985	500,526
					540,569
Health Resources and Services Administration					
AIDS Foundation of Chicago/HRSA, Ryan White Part A	93.914	AFC CCRAO-FY13	03/01/13-02/28/14	260,522	158,358
Medical Case Management Services	93.914	AFC CCRAO-FY14	03/01/14-02/28/15	300,972	82,091
Health Resources and Services Administration					
Chicago Department of Public Health - Ryan White Part A	93.914	P.O. #23755	03/01/13-02/28/14	504,312	350,955
Primary Care/Behavioral Science/Substance Abuse	93.914	P.O. #29988	03/01/14-02/28/15	201,726	179,226
					770,630

(Continued)

HOWARD BROWN HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

Federal Grantor/Pass-Through Grantor/ Program Title for Year ended June 30, 2014	Federal CFDA Number	Agency or Pass-Through Number	Grant Period	Program or Award Amount	Federal Expenditure
Health Resources and Services Administration	93.918	6 H76 HA 00184-17-00	01/01/13-12/31/13	$ 793,908	$ 438,526
HIV/AIDS Bureau, Ryan White Part C	93.918	6 H76 HA 00184-87-00	01/01/14-12/31/14	715,782	337,118
					775,644
Health Resources and Services Administrations,	93.224	6 H80 CS 00215-03-01	12/01/12-11/30/13	258,785	127,490
Heartland International Health Center, 330 Funding	93.224	6 H80 CS 00215-03-01	12/01/13-11/30/14	258,785	176,953
					304,443
Special Projects of National Significance					
Health Resources and Services Administration					
Hepatitis C Expansion	93.928	4 H97HA22725-02-02	09/01/12-08/31/14	92,288	26,628
Health Resources and Services Administration	93.928	6 H97HA24969-02-04	09/01/13-08/31/14	392,490	289,910
Special Projects of National Significance, Transgender	93.928	1 H97HA24969-01-00	09/01/12-08/31/13	300,000	51,834
					341,744
Total Special Projects of National Significance					**368,372**
Department of Health and Human Services					
Health Resources and Services Administration,	93.917	AFC CCRAO-FY13	04/01/13-03/31/14	71,400	15,000
AIDS Foundation of Chicago, Ryan White Part B	93.917	AFC CCRAO-FY14	04/01/14-03/31/15	30,132	2,916
					17,916
Department of Health and Human Services					
Illinois Department of Public Health – Illinois Breast and Cervical Cancer Program	93.283	46180012B	07/01/13-06/30/14	120,546	120,546
Department of Health and Human Services	93.667	FCSRE01574	07/01/13-06/30/14	4,327	4,327
Illinois Department of Human Services - Domestic Violence	93.558	FCSST01574	07/01/13-06/30/14	44,335	41,804
					46,131
Center for Disease Control and Prevention					
Cook County Department of Public Health, HIV/AIDS Prevention Education	93.940	1275809	07/01/12-06/30/13	40,400	40,400
Illinois Dept. of Public Health/Illinois Public Health Assoc., HIV Prevention	93.940	1U62PS003681-01	01/01/14-12/31/14	80,200	33,617
					74,017
Health Resources and Services Administration	93.265	5 D62HP24185.02.00	07/01/13-06/30/14	191,440	191,440
Comprehensive Geriatric Education ATN 093 –Linkage to Care					

(Continued)

HOWARD BROWN HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

Federal Grantor/Pass-Through Grantor/ Program Title for Year ended June 30, 2014	Federal CFDA Number	Agency or Pass-Through Number	Grant Period	Program or Award Amount	Federal Expenditure
Health Resources and Services Administration The Night Ministry, Street Outreach Program	93.557	HHS-2007-ACF-ACYF-YO-0105	09/30/12-09/29/13	25,000	$ 8,069
Health Resources and Services Administration Chicago Department of Public Health, CDBG – LGBT Homeless Youth	14.218	29600	01/01/14-12/31/14	57,858	28,573
Total Department of Health and Human Services					$ 3,795,672

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Center and is presented on the accrual basis of accounting. For the purpose of the Schedule, federal awards include pass-through funds from grants and contracts entered into directly between the Center and state or local agencies and departments of the federal government. The federal expenditures are primarily related to research and development projects. There were no noncash federal awards during the fiscal year ended June 30, 2014. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 - 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 Center 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 Center 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 Center can use it to charge indirect costs to federally sponsored projects.

During fiscal year 2014, the Center charged indirect costs at rates which DHHS has approved as provisional rates.

NOTE 3 - 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*

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 financial statements of Howard Brown Health Center (the "Center"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Howard Brown Health Center's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the 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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of 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 determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-002 and 2014-003.

The Center's Responses to Findings

The Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this 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 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.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
December 19, 2014

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

Board of Directors
Howard Brown Health Center
Chicago, Illinois

Report on Compliance for Each Major Federal Program

We have audited Howard Brown Health Center's (the "Center") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Basis for Qualified Opinion on All Major Programs

As described in the accompanying schedule of findings and questioned costs, the Center did not comply with requirements regarding eligibility and program income that is applicable to CFDA Numbers 93.914 and 93.918 for Ryan White Part A and Ryan White Part C, respectively, as described in finding number 2014-002, and for SEFA preparation, which is applicable to all major programs, as described in finding number 2014-003. Compliance with such requirements is necessary, in our opinion, for the Center to comply with the requirements applicable to those programs.

(Continued)

Qualified Opinion on All Major Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

Other Matter

The Center's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Center's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-002 and 2014-003 to be material weaknesses.

The Center's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
December 19, 2014

SECTION I - SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditor's report issued:	*Unmodified*
Internal control over financial reporting:	
• Material weakness(es) identified?	_X_ Yes ____ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	____ Yes _X_ No
Noncompliance material to financial statements noted?	_X_ Yes ____ No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	_X_ Yes ____ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	____ Yes _X_ No
Type of auditor's report issued on compliance for major programs:	*Qualified*
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_X_ Yes ____ No

(Continued)

SECTION I - SUMMARY OF AUDITORS RESULTS (Continued)

Identification of major programs:

CFDA or identifying number	Name of federal program or cluster
93.279, 93.420, 93.135 93.977, and 93.855	R&D Cluster (ARRA)
93.153	Department of Health and Human Services Health Resources and Services Administration HIV/AIDS Bureau – Ryan White Part D
93.914	Department of Health and Human Services Health Resources and Services Administration Chicago Department of Public Health – Ryan White Part A
93.918	Health Resources and Services Administration HIV/AIDS Bureau - Ryan White Part C
93.224	Health Resources and Services Administration Heartland International Health Center, 330 Funding
93.928	Special Projects of National Significance Hepatitis C Expansion, Transgender

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? ______ Yes ___X___ No

SECTION II - FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Finding 2014-001 – Estimated Accounts Receivable Reserves – Material Weakness

Criteria: Information must be identified, captured and analyzed to ensure that accounts receivable are properly valued, and should be maintained to support the adequacy of management's estimates and judgment.

Condition: The allowance for uncollectible accounts was calculated based on the aging of receivables, regardless of financial class or insurance payer, and applied to gross accounts receivable and not supported by historical collections experience. Industry best practice is to calculate reserves at the financial class or insurance payer level, as the payer mix can have a significant impact on the reserve estimate.

In addition, the calculation for the allowance did not include an estimate for future contractual adjustments.

Cause: There has been turnover of employees and systems, as well as a lack of defined policies and procedures, which has resulted in inconsistent and incomplete implementation of internal controls.

Effect: There were misstatements detected during the financial audit as a result of the control deficiencies. Because there is not a standard procedure in place to adjust uncollectible accounts, it is possible that additional balances in accounts receivable, in excess of the established reserves, are not realizable.

Recommendation: Management should generate accounts receivable detail at the financial class or insurance payer level, and estimate the reserve at a more granular level. Accounts receivable balances should be investigated for collectability by financial services staff. Accounts deemed uncollectible should be approved for adjustment by a supervisor. Financial accounting staff should trend bad debt write-offs to get a better understanding of historical activity, which can be used to estimate uncollectible accounts at a point in time.

Management's Response and Corrective Action Plan We agree. We agree. HBHC has taken steps to remedy the estimated accounts receivable reserve finding. The accounting staff has been meeting monthly with the patient billing services staff in order to achieve the following results: (1) The establishment and implementation of collections policies and procedures that support HBHC's mission as well as its financial stability; (2)The establishment of a procedure to collect outstanding patient balances and write-off uncollectable amounts. This is being done by the patient billing manager in collaboration with HBHC's outside patient billing company; (3) The establishment of a patient bad debt write-off procedure that will be implemented on a monthly basis; (4) The generation of accounts receivable detailed reports at the financial class or insurance payer level so that the estimation of the bad debt reserve is done at a more granular level, including both the bad debt and contractual allowance components.

(Continued)

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2014 – 002 – SEFA Preparation – Material Weakness

Major Programs Impacted:

CFDA or Identifying Number	Name of Federal Program or Cluster
93.701, 93.279, 93.420, 93.135 93.977, and 93.855	R&D Cluster (ARRA)
93.153	Department of Health and Human Services Health Resources and Services Administration HIV/AIDS Bureau – Ryan White Part D
93.914	Department of Health and Human Services Health Resources and Services Administration Chicago Department of Public Health – Ryan White Part A
93.918	Health Resources and Services Administration HIV/AIDS Bureau – Ryan White Part C
93.224	Health Resources and Services Administration Heartland International Health Center, 330 Funding
93.928	Special Projects of National Significance Hepatitis C Expansion, Transgender

Criteria: OMB Circular A-110, *"Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*" requires that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. This required internal control should ensure that preparation of the SEFA is adequately monitored by responsible personnel with proper training in SEFA preparation to ensure that the SEFA is presented timely and free of material error to ensure accuracy of reporting and compliance. Additionally, evidence of this review process should be maintained.

Condition: Management was unable to compile and provide the SEFA in a timely manner in accordance with the Center's SEFA Preparation Policy.

Context: While we noted that the SEFA was prepared using an appropriate methodology at June 30, 2014, this was not completed in a timely manner in accordance with the Center's SEFA Preparation Policy.

Cause: The Center was unable to prepare the June 30, 2014 SEFA in a timely manner as management was converting from tracking expenditures using excel to tracking expenditures through their general ledger system.

Effect: By not properly implementing the Center's SEFA Preparation Policy, the Center becomes more susceptible to incorrect financial reporting and non-compliance.

(Continued)

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation: We recommend that the Center's SEFA Preparation Policy be properly implemented to allow for compilation in a timely manner by an individual(s) with proper training in SEFA preparation.

Management's Response and Corrective Action Plan: We agree. HBHC has taken steps to correct the SEFA preparation finding. For the fiscal year ended June 30, 2014 HBHC implemented a process to track the contract and grant related expenditures in the general ledger which in turn HBHC used to prepare the SEFA. This was subsequently reviewed by the Controller. HBHC will ensure that in fiscal year 2015 we will reconcile contract and grant related expenditures to the general ledger quarterly which will allow HBHC to prepare the SEFA on time. Lowell B. Raven, CPA is the person responsible for corrective action.

Finding 2014 – 003 – Application of Sliding Fee Schedule – Material Weakness

Major Programs Impacted:

CFDA or Identifying Number	Name of Federal Program or Cluster
93.914	Department of Health and Human Services Health Resources and Services Administration Chicago Department of Public Health – Ryan White Part A
93.918	Health Resources and Services Administration HIV/AIDS Bureau - Ryan White Part C
93.224	Health Resources and Services Administration Heartland International Health Center, 330 Funding

Criteria: OMB Circular A-110, *"Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*" requires that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. This required internal control should include a monitoring process of the Sliding Fee Scale and the application requirements to ensure accuracy of reporting and compliance.

Condition: There is inconsistent application of the Center's sliding fee scale policy.

Context: Out of sixty (60) Ryan White Part A & C sliding fee scale patients, we noted:

- Twenty nine (29) instances in which appropriate proof of income was unavailable
- Nineteen (19) instances of patients being assigned to the incorrect sliding fee scale category
- Forty three (43) instances of the sliding fee scale not being updated properly or timely, when necessary, in accordance with the policy
- Four (4) instances of the sliding fee charge being greater than the allowed amount based upon the compliance supplement

Cause: The Center does not monitor sliding fee scale and admission policies and procedures.

(Continued)

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (Continued)

Effect: Because the Center is not in compliance with the sliding fee scale application requirements, the Center may have improperly charged Ryan White Part A and C patients, as the sliding fee scale was improperly applied to patients. Because the monitoring process in place is not operating effectively, it is possible that patients could have been charged amounts greater than allowed by the grants, that program income is not properly reported, and that these activities would not be detected and corrected in a timely manner.

Recommendation: We recommend that management implement monitoring procedures related to the sliding fee scale application process. Monitoring procedures should include review and approval of all sliding fee scale applications, and periodic internal audits to ensure that the process properly identifies patients that qualify for the sliding fee scale. Management should implement a mandatory training program on the sliding fee scale for all employees involved in the admissions process.

Questioned Cost: Over-billings- $3,668

Management's Response and Corrective Action Plan: We agree. HBHC took the following steps to remedy the sliding fee scale audit finding: (1) Revised the sliding fee scale policies and procedures effective July 16, 2013; (2) Retrained all employees involved in patient registration process on July 17 and 23, 2013. Training included proof of income collection, patient sliding fee scale category assignment, requirements for updating sliding fee scale patient information, and documentation in the electronic medical record system for proper patient billing; (3) HBHC conducted a follow-up training session on March 28, 2014 and continues to train all new staff on these requirements; (4) Revised the sliding fee scale application for patients effective April 15, 2014. (5) Beginning in March 2014 monthly audits have been performed by the patient services billing manager in order to catch incorrect documentation and provide additional training to staff as needed. In order to improve monitoring, a "sliding fee pending" status was developed in order to mark patient charts that have incomplete income information so these charts can be easily identified and follow up conducted with the patients. This process is monitored on a monthly basis by both the Ryan White Coordinator and Billing Manager. Lowell B. Raven, CPA is the person responsible for corrective action

SECTION IV - SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

<u>Financial Statement Findings</u>

<u>Finding 2013-a – Controls over Financial Reporting – Material Weakness</u>

Condition: We were unable to corroborate independent review of reconciliations. Additionally, we noted that many accounts had not been consistently reconciled throughout the year.

Status of Finding: Certain mitigating controls were implemented by management that partially corrected this finding. Certain aspects of the problem remain that are not deemed to be a significant deficiency or material weakness and thus this is not reported as a finding in fiscal year 2014.

<u>Finding 2013-b – Estimated Accounts Receivable Reserves – Material Weakness</u>

Condition: The allowance for uncollectible accounts was calculated based on zero balance claims, regardless of financial class or insurance payer, and applied to gross accounts receivable, regardless of financial class or insurance payer. Industry best practice is to calculate reserves at the financial class or insurance payer level, as the payer mix can have a significant impact on the reserve estimate.

Status of Finding: This finding is repeated. See item 2014-001.

(Continued)

SECTION IV - SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (Continued)

Finding 2013-c - Segregation of Duties - Journal Entries – Significant Deficiency

Condition: For a portion of the year the controller and several accounting staff had access to initiate and post journal entries.

Status of Finding: This finding has been resolved for 2014.

Federal Awards Findings and Questioned Costs

Finding 2013 – 1 – SEFA Preparation – Material Weakness

Major Programs Impacted: All

Condition: Management was unable to compile and provide the SEFA in a timely manner in accordance the Center's SEFA Preparation Policy.

Status: This finding was repeated and modified. See item 2014-002.

Finding 2013 – 2 – Application of Sliding Fee Schedule – Material Weakness

Major Programs Impacted:

CFDA or Identifying Number	Name of Federal Program or Cluster
93.914	Department of Health and Human Services, Health Resources and Services Administration Chicago Department of Public Health – Ryan White Part A
93.918	Health Resources and Services Administration HIV / AIDS Bureau – Ryan White Part C

Condition: There was inconsistent application of the Center's sliding fee scale policy.

Status: This finding is repeated. See item 2014-003.