Center on Halsted

Financial and Compliance Report
June 30, 2014

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
Center on Halsted
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the Center on Halsted (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.

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 audit. We conducted our audit 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.

Opinion

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

Member of the RSM International network of independent accounting, tax and consulting firms.

Report on Summarized Comparative Information

We have previously audited the Center on Halsted's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014 on our consideration of the 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 the Center's internal control over financial reporting and compliance.

McGladrey LLP

Chicago, Illinois
December 16, 2014

Center on Halsted

Statement of Financial Position
June 30, 2014 (With Comparative Totals for 2013)

	2014	2013
Assets		
Cash	$ 708,943	$ 14,038
Investments	2,300,165	2,043,486
Grants and other receivables	811,589	441,017
Pledges and bequest receivable, net	1,743,123	1,574,980
Prepaid expenses and deposits	186,128	203,280
Property and equipment, net	19,330,873	19,500,850
Other assets	474,363	477,296
	$ 25,555,184	$ 24,254,947
Liabilities and Net Assets		
Accounts payable	$ 169,565	$ 261,597
Accrued expenses	88,428	53,571
Line of credit	375,000	690,000
Deferred revenue	212,483	36,135
Advances on tenant contract	3,600,000	3,800,000
Long-term debt	1,730,907	1,730,907
	6,176,383	6,572,210
Net Assets		
Unrestricted		
Board designated	2,960,165	2,043,486
Undesignated	14,525,513	13,819,093
Total unrestricted	17,485,678	15,862,579
Temporarily restricted	1,768,123	1,695,158
Permanently restricted	125,000	125,000
	19,378,801	17,682,737
	$ 25,555,184	$ 24,254,947

See Notes to Financial Statements.

Center on Halsted

Statement of Activities
Year Ended June 30, 2014 (With Comparative Totals for 2013)

	Unrestricted Operating	Unrestricted Property and Equipment	Unrestricted Total	Temporarily Restricted	Permanently Restricted	**2014**	2013
Revenue:							
Individual contributions, net	$ 622,405	$ 45,000	$ 667,405	$ -	$ -	**$ 667,405**	$ 558,437
Bequest, net	1,110,255	-	1,110,255	339,745	-	**1,450,000**	-
Foundation and corporate contributions, net	844,345	100,000	944,345	25,000	-	**969,345**	793,438
Government grants	2,039,041	158,780	2,197,821	-	-	**2,197,821**	1,992,850
Program service fees	167,801	-	167,801	-	-	**167,801**	189,962
Investment income designated for current operations:							
Interest and dividends	68,281	-	68,281	-	-	**68,281**	63,298
Unrealized gain	-	-	-	-	-	**-**	1,377
Special events, net of direct expenses of $288,655 and $372,580 for 2014 and 2013, respectively	480,349	-	480,349	-	-	**480,349**	231,472
Rental income	501,449	-	501,449	-	-	**501,449**	518,057
Other income	17,203	-	17,203	-	-	**17,203**	45,000
Net assets released from restrictions	291,780	-	291,780	(291,780)	-	**-**	-
	6,142,909	303,780	6,446,689	72,965	-	**6,519,654**	4,393,891
Expenses:							
Program services	3,656,967	343,442	4,000,409	-	-	**4,000,409**	4,311,673
Management and general	715,190	182,088	897,278	-	-	**897,278**	701,875
Development	194,421	10,178	204,599	-	-	**204,599**	349,656
	4,566,578	535,708	5,102,286	-	-	**5,102,286**	5,363,204
Increase (decrease) in net assets before unrealized gain on investments	1,576,331	(231,928)	1,344,403	72,965	-	**1,417,368**	(969,313)
Unrealized gain on investments	278,696	-	278,696	-	-	**278,696**	170,208
Increase (decrease) in net assets	1,855,027	(231,928)	1,623,099	72,965	-	**1,696,064**	(799,105)
Net assets:							
Beginning of year	17,001,578	(1,138,999)	15,862,579	1,695,158	125,000	**17,682,737**	18,481,842
End of year	$ 18,856,605	$ (1,370,927)	$ 17,485,678	$ 1,768,123	$ 125,000	**$ 19,378,801**	$ 17,682,737

See Notes to Financial Statements.

Center on Halsted

Statement of Functional Expenses

Year Ended June 30, 2014 (With Comparative Totals for 2013)

	Program Services								
	HIV Services	Mental Health Services	Youth Services	Education & Victim Advocacy	Culinary Arts Services	Community Programming Services	Volunteer Services	Senior Services	Total Programs
Salaries and wages	$ 863,257	$ 258,009	$ 421,813	$ 109,194	$ 181,587	$ 221,348	$ 20,738	$ 243,821	$ 2,319,767
Payroll taxes and fringe benefits	182,366	39,329	87,719	22,421	41,009	44,360	3,733	44,399	465,336
	1,045,623	297,338	509,532	131,615	222,596	265,708	24,471	288,220	2,785,103
Professional fees	182,806	34,257	118,917	1,938	16,678	32,409	3,499	16,384	406,888
Supplies	23,948	721	13,060	27	8,623	1,786	170	2,080	50,415
Food	445	219	4,963	-	9,890	944	2,949	860	20,270
Occupancy	17,263	17,489	51,958	2,430	13,420	47,127	5,905	25,541	181,133
Telephone	1,584	1,218	4,170	169	935	3,282	411	1,779	13,548
Postage	23	120	2	-	97	1	-	5	248
Printing and copying	8,183	348	83	38	-	1,449	49	-	10,150
Insurance	2,614	2,649	7,869	368	2,032	7,137	894	3,868	27,431
Advertising and promotional	9,923	-	1,000	-	-	2,430	-	-	13,353
Dues and subscriptions	510	650	245	200	5,643	735	495	3,023	11,501
Conferences, meetings, and travel	1,862	1,452	7,482	1,870	7,253	1,005	-	4,941	25,865
Software and equipment rental	4,715	4,777	14,191	664	3,666	14,529	1,613	6,976	51,131
Bad debt	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
Program events	-	-	-	-	-	33,855	-	-	33,855
Repairs and maintenance	2,485	2,518	7,480	350	1,932	6,784	850	3,677	26,076
Depreciation	32,732	33,160	98,517	4,607	25,446	89,356	11,196	48,428	343,442
	$ 1,334,716	$ 396,916	$ 839,469	$ 144,276	$ 318,211	$ 508,537	$ 52,502	$ 405,782	$ 4,000,409

See Notes to Financial Statements.

Center on Halsted

Statement of Functional Expenses (Continued)
Year Ended June 30, 2014 (With Comparative Totals for 2013)

	Total Programs	Supporting Services: Management and General	Supporting Services: Development	Supporting Services: Total Supporting Services	**2014 Total**	2013 Total
Salaries and wages	$ 2,319,767	$ 152,163	$ 115,524	$ 267,687	**$ 2,587,454**	$ 2,793,840
Payroll taxes and fringe benefits	465,336	22,217	22,147	44,364	**509,700**	608,918
	2,785,103	174,380	137,671	312,051	**3,097,154**	3,402,758
Professional fees	406,888	56,904	12,144	69,048	**475,936**	550,717
Supplies	50,415	44,035	10,364	54,399	**104,814**	124,667
Food	20,270	4,276	14,126	18,402	**38,672**	70,015
Occupancy	181,133	96,033	5,368	101,401	**282,534**	266,518
Telephone	13,548	6,688	374	7,062	**20,610**	17,948
Postage	248	3,674	2,767	6,441	**6,689**	12,074
Printing and copying	10,150	4,940	1,924	6,864	**17,014**	49,256
Insurance	27,431	14,543	813	15,356	**42,787**	43,513
Advertising and promotional	13,353	8,685	-	8,685	**22,038**	19,150
Dues and subscriptions	11,501	17,477	1,195	18,672	**30,173**	29,031
Conferences, meetings, and travel	25,865	14,303	546	14,849	**40,714**	54,174
Software and equipment rental	51,131	26,230	6,356	32,586	**83,717**	74,378
Bad debt	-	209,130	-	209,130	**209,130**	27,500
Interest	-	20,067	-	20,067	**20,067**	18,524
Program events	33,855	-	-	-	**33,855**	21,854
Repairs and maintenance	26,076	13,825	773	14,598	**40,674**	39,678
Depreciation	343,442	182,088	10,178	192,266	**535,708**	541,449
	$ 4,000,409	$ 897,278	$ 204,599	$ 1,101,877	**$ 5,102,286**	$ 5,363,204

See Notes to Financial Statements.

Center on Halsted

Statement of Cash Flows
Year Ended June 30, 2014 (With Comparative Totals for 2013)

	2014	2013
Cash Flows from Operating Activities		
Increase (decrease) in net assets	**$ 1,696,064**	$ (799,105)
Amortization of advances on tenant contract	**(200,000)**	(200,000)
Depreciation	**535,708**	541,449
Increase in allowance for doubtful accounts	**(181,323)**	(134,577)
Unrealized gain on investments	**(278,696)**	(171,585)
Legal fee amortization	**2,933**	2,933
Changes in:		
Grants and other receivables	**(370,572)**	240,293
Pledges and bequest receivable	**13,180**	238,563
Prepaid expenses and deposits	**17,152**	50,831
Accounts payable	**(92,032)**	(83,264)
Accrued expenses	**34,857**	1,546
Deferred revenue	**176,348**	(12,339)
Net cash provided by (used in) operating activities	**1,353,619**	(325,255)
Cash Flows from Investing Activities		
Additions to property and equipment	**(365,731)**	(65,295)
Proceeds from sale of investments	**2,017,083**	82,006
Purchases of investments	**(1,995,066)**	(72,648)
Net cash used in investing activities	**(343,714)**	(55,937)
Cash Flows from Financing Activities		
Net (repayments) borrowings under line of credit	**(315,000)**	245,000
Increase (decrease) in cash	**694,905**	(136,192)
Cash:		
Beginning of year	**14,038**	150,230
End of year	**$ 708,943**	$ 14,038
Supplemental Disclosure of Cash Flow Information		
Interest paid	**$ 20,067**	$ 18,524

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Center on Halsted (the Center) is the most comprehensive community center dedicated to advancing the Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) community and securing the health and well-being of LGBTQ people. Located in the heart of Chicago's Lakeview neighborhood, more than 1,000 individuals visit the Center every day. Community members participate in the diverse programs and services offered ranging from cooking classes, volleyball and theatrical performances to HIV testing and group therapy. The 175,000 square foot, silver LEED certified Center first opened its doors in 2007, building on the success of its preceding organization, Horizons Community Services, which was founded in 1973 as a resource for Chicago's growing LGBTQ community. The Center's facility also includes offices and meeting space for community organizations, program specific space for youth and senior adults, gallery space featuring exhibits from local LGBTQ artists, a 161-seat theater, a gymnasium and a rooftop garden along with ground level retail space and related underground parking.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

Basis of presentation: The financial statements have been prepared in accordance with accounting principles applicable to nonprofit organizations in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Classification of net assets:

> *Unrestricted net assets*: are available for support of the Center's operations and are not subject to donor-imposed restrictions. The Center has a Board designated endowment fund, which is classified as unrestricted. Also included in unrestricted net assets is a property and equipment fund, which includes contributions and grants for capital purchases as well as annual depreciation expense on property and equipment.
>
> *Temporarily restricted net assets*: are subject to donor-imposed restrictions that may or will be met either by actions of the Center or the passage of time.
>
> *Permanently restricted net assets*: are amounts for which the principal must remain intact per donor request and the earnings can be used for specified purposes or general operations to the extent of its investment income.

Cash: The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts and management believes the Center is not exposed to any significant credit risk on cash.

Grants and other receivables and revenues: Grants and other receivables consist primarily of reimbursements due from various governmental agencies and client fees due from individuals. These receivables are valued at management's estimate of the amount that will ultimately be collected. The allowance for doubtful accounts is based on specific identification of uncollectible accounts and the Center's historical collection experience. At June 30, 2014, the Center had no allowance for doubtful accounts related to grants and other receivables.

Revenue from government grants is recognized when earned, which is to the extent that the related grant expenses have been incurred.

Program service fees: Revenues from services charged for the Center's various programs are recognized when earned.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Contributions: Contributions, including unconditional promises to give, are recognized as revenue in the period received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases this net asset class. If satisfaction of temporary restrictions occurs in the same year as revenue recognition, contributions are then recorded as unrestricted revenue. When a temporary restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Center recognizes revenues from bequests when the Center has an irrevocable right to the gift, such as when the bequest has been through probate and declared valid.

Unconditional pledges are recorded net of a present value discount for any installments to be received at a date more than one year in the future. The allowance for uncollectible contributions is based upon management's analysis of various factors including prior collection history, type of contribution, and nature of fundraising activities. At June 30, 2014, the Center had an allowance for uncollectible contributions of $210,196.

Rental income: The Center recognizes revenue from the rental of certain meeting and conference rooms as the revenue is earned. The Center also recognizes revenue from a long-term rental contract with a tenant ratably over the life of the lease.

Deferred revenue: Cash received for the rental of meeting space and future events at the Center and grants are recorded as deferred revenue. The Center had deferred revenue at June 30, 2014 of $212,483.

Investments: Investments are presented in the financial statements at fair value in accordance with U.S. GAAP. The fair value of investments is generally determined based on quoted market price or estimated fair value.

Investment income, realized gains (losses), and change in unrealized gains (losses) are reflected in the statement of activities. Investments received as contributions are recorded at fair value at the date of receipt. The Center's investment portfolio is subject to various risks, such as interest rate, credit and overall market volatility. Because of these risks, it is possible that changes in the fair value of investments may occur and that such changes could materially affect the Center's financial statements.

Property and equipment: Property and equipment are stated at cost, except for donated assets, which are recorded at fair value at the time of receipt. The Center capitalizes additions and improvements to existing property and equipment over $2,500 and having a useful life of more than one year. General maintenance and repairs are charged to expense. Depreciation is being provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are:

Buildings	40 years
Furniture and fixtures	7 years
Computer equipment	5 years
Computer software	3 years

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Other assets: Included in other assets are all contributions of works of art and other similar non-depreciable items that have been recognized at their estimated fair value at the date of receipt based upon appraisals or similar valuations. The amount reported for these assets at June 30, 2014 is $204,535. In addition, the Center previously incurred legal costs in conjunction with a tenant contract agreement. The Center has capitalized these costs and began amortizing them over the term of the lease beginning July 2007. The unamortized balance at June 30, 2014 is $269,828, which is net of accumulated amortization of $20,531.

Functional allocation of expenses: The costs of providing the program and other activities have been presented on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that are common to program services, development and general administration are allocated based on management's determination.

Use of estimates: In preparing financial statements in conformity with U.S. GAAP, management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative data: The financial statements include certain prior year summarized comparative information in total but not in the level of detail required for a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Income taxes: The Center, an Illinois nonprofit corporation, is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income, if any.

The accounting standard on uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Center may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Center and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities during the year.

The Center files Forms 990 in the U.S. federal jurisdiction and the State of Illinois. The Center is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2011.

Subsequent events: The Center has evaluated subsequent events for potential recognition and/or disclosure through December 16, 2014, the date the financial statements were available to be issued.

Note 2. Pledges and Bequest Receivable

Pledges and bequest receivable as of June 30, 2014, net of respective allowances, consist of:

	Annual	Capital	Bequest	Total
Up to one year	$245,288	$ 132,655	$ 339,745	$ 717,688
Two years	5,000	12,499	-	17,499
More than two years	4,500	1,221,240	-	1,225,740
	254,788	1,366,394	339,745	1,960,927
Present value discount (approximately 0.13 to 0.31%)	(41)	(7,567)	-	(7,608)
Allowance for uncollectible contributions	(80,181)	(130,015)	-	(210,196)
	$174,566	$1,228,812	$ 339,745	$1,743,123

The present value discount rates are comparable to the Treasury's risk-free rate over similar time horizons.

Note 3. Fair Value Measurements

The accounting standard on fair value measurements provides a framework for measuring fair value under U.S. GAAP. The accounting standard defines fair value, establishes a framework for measuring fair value, sets out a fair value hierarchy and expands disclosures about fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the accounting standard as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the accounting standard are described below:

Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

Level 2. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Note 3. Fair Value Measurements (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. During the year ended June 30, 2014, there were no transfers between levels of investments.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014.

Equity and fixed income mutual funds: Valued at the closing price reported on the active market on which the funds are traded.

Money market funds, public real estate investment trust, and commodity mutual funds: Valued at the net asset value (NAV) of shares held at year-end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

All financial instruments detailed in Note 4 to the financial statements are considered Level 1.

Note 4. Investments

Investments at June 30, 2014 consist of:

Money market funds	$ 79,424
Equity mutual funds	1,514,845
Fixed income mutual funds	443,418
Public real estate investment trust	171,160
Commodity mutual funds	91,318
	$ 2,300,165

Investment income and unrealized gain on investments for the year ended June 30, 2014 was $68,281 and $278,696, respectively.

Note 5. Property and Equipment

Property and equipment at June 30, 2014 consist of:

Land	$ 6,762,611
Building	14,715,905
Leasehold improvements	303,780
Furniture and fixtures	1,147,688
Computer equipment	488,738
Computer software	92,487
	23,511,209
Accumulated depreciation	(4,180,336)
	$ 19,330,873

At June 30, 2014, the Center has leasehold improvements of $303,780, and no related depreciation expense, for newly developed program space for senior services at 3600 N. Halsted referred to in Note 12.

Depreciation expense for the year ended June 30, 2014 totaled $535,708.

Note 6. Line of Credit

The Center has a revolving line of credit agreement with Bank of America that provides for borrowings up to $1,200,000. The line contains a variable rate of interest equal to the BBA LIBOR Daily floating rate plus 2.50 percentage points. At June 30, 2014, the rate was 2.65 percent. The line is collateralized by the Center's Board-designated endowment fund assets (see Note 11) and equipment and receivables. At June 30, 2014, the Center had $375,000 outstanding under the line of credit. The line expires on February 28, 2015, at which time management expects to renew the line. The Center has received a waiver from its bank for a guarantee required for the affordable housing project. See Note 12

Note 7. Long-Term Debt

Long-term debt at June 30, 2014 consists of a note payable to the City of Chicago at no interest, originally in the amount of $2,740,000, which was amended on June 28, 2007 to a revised amount due of $1,730,907 due to a soil remediation credit. The note is due and payable in its entirety on August 1, 2018 and collateralized by the Center on Halsted.

Note 8. Advances on Tenant Contract

The Center entered into a lease contract for the retail space, including the parking garage, at the Center for a term of 99 years commencing July 22, 2007 when the Center delivered possession of the premises to the tenant. Per the lease agreement, the tenant has prepaid the first 25 years of the base lease rent. The prepaid rent has been reported as advances on tenant contract on the statement of financial position and is being amortized over the prepayment period. The unamortized amount as of June 30, 2014 was $3,600,000.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets of $1,768,123 at June 30, 2014 consist of pledges, bequest and grants receivable. There are no purpose restrictions on temporarily restricted net assets at June 30, 2014.

Note 10. Permanently Restricted Net Assets

During fiscal year 2012, the Center was awarded $125,000 from the Wallace Foundation. The funds are to be used as an internal line of credit to support expansion of program or delays in payments from external funders. Based on the agreement, the funds used each year are to be repaid by the end of the subsequent fiscal period after borrowing the funds. The amount is included in permanently restricted net assets. At June 30, 2014, the Center had borrowed $85,204, which is required to be repaid by June 30, 2015.

Note 11. Board-designated Endowment Fund

The Center has a Board-designated endowment fund. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Center is not subject to the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) since it has no donor-restricted endowment funds. The Center's Board-designated endowment net assets as of June 30, 2014 are $2,960,165, and are classified within unrestricted net assets on the statement of financial position.

The changes in endowment net assets for the Center were as follows for the year ended June 30, 2014:

Endowment net assets, July 1, 2013	$ 2,043,486
Contributions	690,679
Investment income:	
Unrealized gains	278,696
Disbursements	(73,350)
Dividends	37,602
Investment fees	(16,948)
Endowment net assets, June 30, 2014	$ 2,960,165

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 approved by the Board of Directors, the endowment assets are invested in a manner that is intended to earn a long-term real return (net of management fees and inflation) of 5 percent per annum. Actual returns in any given year may vary from this amount.

Note 11. Board-designated Endowment Fund (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved in accordance with the maximum and minimum range for each asset category described below. The Center targets a diversified asset allocation in accordance with the overall risk and return objectives of the portfolio. The Center also reviews its portfolio and, with the help of asset managers, tries to avoid investments in the securities of companies that actively and directly pursue corporate practices or policies that violate the rights of LGBTQ persons. The asset class and range is as follows:

Asset Class	Minimum	Target	Maximum	
Equity	50%	60%	70%	Large Cap, Mid Cap Stock, Emerging
Fixed Income	18%	28%	38%	Core Fixed Income, High Yield, Foreign
Alternate investments	0%	12%	15%	Real Estate, Alternative Funds
Cash	0%	0%	15%	

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Center has a policy of providing a cash income stream to the organization of up to 4 percent of the prior three calendar year's average net asset value of the fund, defined as the value of the fund net of any collateralized debt. This is consistent with the Center's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through contributions and investment returns. During the year ended June 30, 2014, $73,350 was spent from the endowment.

Note 12. Halsted GP, LLC and Senior Program Space

In April 2013, the Board of Directors entered into an agreement with Heartland Housing, Inc. to form a development partnership to co-develop the “3600 N. Halsted project”. The two parties formed Halsted GP, LLC (LLC) with the intent to develop 79 affordable housing apartments for seniors. The Center holds 25 percent of member equity in the LLC which will construct the project under the lead of Heartland Housing, Inc. The LLC is consolidated with Heartland Housing, Inc. for financial statement purposes. Construction on the project was completed in August 2014 and it officially opened in September 2014.

The leasehold improvements of $303,780 discussed in Note 5 relate to the newly constructed program space for the senior program developed at 3600 N. Halsted. The Center has entered into a fifteen year lease with Heartland Limited Partnership (a wholly-owned subsidiary of Heartland Housing, Inc.) for this program space, with expected monthly rental payments of $7,815 beginning in December 2014 for 15 years.

At June 30, 2014, the future minimum payments under the lease are as follows:

2015	$ 54,710
2016	93,789
2017	93,789
2018	93,789
2019	93,789
Thereafter	976,969
Total	$ 1,406,835

The Center is a proportionate guarantor, with its co-general partner Heartland Housing, Inc., for an $11 million construction loan, jointly and severally, that is funding the development’s construction costs. Construction is proceeding on budget and there is no present expectation that the Center would be required to fund any amount under the guarantee.

Supplementary Information

Center on Halsted

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Agency/Pass-Through Grantor/Program Name	Federal CFDA Number	Pass-Through Grantor's Contract Number	Federal Awards
U.S. Department of Housing and Urban Development			
Pass-through from City of Chicago Department of Public Health			
Community Development Block Grant			
HIV/STD Prevention for Young Men Who Have Sex with Men	14.218	29196	$ 91,796
Total U.S. Department of Housing and Urban Development			91,796
U.S. Department of Justice			
Pass-through from Illinois Criminal Justice Information Authority			
Services to Victims of Domestic Violence	16.575	212093	6,389
Services to Victims of Domestic Violence	16.575	213093	44,291
Total U.S. Department of Justice			50,680
U.S. Department of Labor			
Pass-through from Illinois Department of Aging			
Senior Community Services Employment Program	17.235	28032	46,604
Total U.S. Department of Labor			46,604
U.S. Department of Health and Human Services			
Pass-through from Test Positive Aware Network			
Our Voices Advocating Health (OVAH)	93.243	SP018057	57,008
Pass-through from Northwestern University			
Graduate Psychology Education Programs	93.191	60034720CH	22,216
Pass-through from City of Chicago Department of Public Health			
HIV Emergency Relief Project Grants			
Ryan White Program	93.914	23705-3	19,067
Ryan White Program	93.914	23705-4	11,700
			30,767
Pass-through from Chicago House and Social Service Agency			
Mental Health Services			
TransLife Care Project	93.928	H97HA24965-1	3,750
TransLife Care Project	93.928	H97HA24965-2	8,330
			12,080

Center on Halsted

Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2014

Federal Agency/Pass-Through Grantor/Program Name	Federal CFDA Number	Pass-Through Grantor's Contract Number	Federal Awards
Pass-through from City of Chicago Department of Public Health			
HIV Testing and Prevention Services for Young Men Who Have Sex with Men of Color	93.939	PS003526-01	$ 81,268
	93.939	PS003526-02	180,283
			261,551
Pass-through from City of Chicago Department of Public Health			
HIV Prevention Project Grants	93.940	25887-1	176,007
HIV Prevention Project Grants	93.940	25887-2	129,403
			305,410
Total U.S. Department of Health and Human Services			689,032
Total federal awards expended			**$ 878,112**

See Note to Schedule of Expenditures of Federal Awards.

Center on Halsted

Note to Schedule of Expenditures of Federal Awards

Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Center and 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 the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The Schedule includes total federal awards expended by the Center for each individual federal program. Such awards expended are determined based on the requirements set forth under Section 205 of Subpart B of OMB Circular A-133.

Basis of accounting: The Schedule has been prepared using the accrual basis of accounting.

Other federal awards: There were no federal awards expended for non-cash assistance, insurance or any loans or loan guarantees outstanding at year-end.

Amounts provided to subrecipients: No funds were identified as having been provided to subrecipients by the Center under the meaning of Sections 105 and 210 of OMB Circular A-133 and, accordingly, no funds identified in the Schedule are attributable to subrecipient entities as required under Section 310(b) of OMB Circular A-133.

McGladrey

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*

To the Board of Directors
Center on Halsted
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 the Center on Halsted (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, and have issued our report thereon dated December 16, 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 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.

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 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 may exist that have not been identified.

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the Center'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.

McGladrey LLP

Chicago, Illinois
December 16, 2014

McGladrey

Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of Directors
Center on Halsted
Chicago, Illinois

Report on Compliance for the Major Federal Program

We have audited the Center on Halsted (the Center's) 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 the Center's major federal programs for the year ended June 30, 2014. The Center's major federal program is 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 the Center's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on the Major Federal Program

In our opinion, 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 program for the year ended June 30, 2014.

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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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

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.

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

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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Center as of and for the year ended June 30, 2014, and have issued our report thereon dated December 16, 2014, which contained an unmodified opinion on those financial statements. 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 OMB Circular A-133 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 additional 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey LLP

Chicago, Illinois
December 16, 2014

Center on Halsted

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	____ Yes	_X_ No
Significant deficiency(ies) identified?	____ Yes	_X_ None Reported
Noncompliance material to financial statements noted?	____ Yes	_X_ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	___ Yes	_X_ No
Significant deficiency(ies) identified?	___ Yes	_X_ None Reported

Type of auditor's report on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___ Yes	_X_ No

Identification of major program:

CFDA Number	Name of Federal Program
93.940	HIV Prevention Project Grant

Dollar threshold used to determine type A and type B programs:	$ 300,000	
Auditee qualified as low-risk auditee?	_X_ Yes	___ No

II. Financial Statement Findings

There were no findings relating to the financial statement audit required to be reported in accordance with *Government Auditing Standards.*

III. Federal Awards Findings and Questioned Costs

There were no findings or questioned costs relating to federal awards.

Center on Halsted

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

There were no findings in the prior year.