

Center on Halsted

Financial Report
June 30, 2016

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Independent Auditor's Report

Board of Directors
Center on Halsted

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, 2016, 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. 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, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the Center on Halsted's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Chicago, Illinois
December 16, 2016

Center on Halsted

Statement of Financial Position
June 30, 2016 (With Comparative Totals for 2015)

	2016	2015
Assets		
Cash	\$ 14,378	\$ 207,595
Investments	3,237,652	3,359,590
Grants and other receivables	808,577	695,673
Pledges and bequest receivable, net	2,377,394	1,947,640
Prepaid expenses and deposits	142,744	150,341
Property and equipment, net	19,656,759	19,990,853
Other assets	468,497	471,430
	<u>\$ 26,706,001</u>	<u>\$ 26,823,122</u>
Liabilities and Net Assets		
Accounts payable	\$ 151,213	\$ 149,789
Accrued expenses	56,898	78,079
Line of credit	950,000	300,000
Deferred revenue	54,447	128,260
Deferred rent liability	37,273	7,549
Advances on tenant contract	3,200,000	3,400,000
Long-term debt	1,730,907	1,730,907
	<u>6,180,738</u>	<u>5,794,584</u>
Net assets:		
Unrestricted:		
Undesignated	14,630,397	15,496,486
Board designated	3,237,652	3,359,590
Total unrestricted	<u>17,868,049</u>	<u>18,856,076</u>
Temporarily restricted	2,532,214	2,047,462
Permanently restricted	125,000	125,000
	<u>20,525,263</u>	<u>21,028,538</u>
	<u>\$ 26,706,001</u>	<u>\$ 26,823,122</u>

See notes to financial statements.

Center on Halsted

Statement of Activities Year Ended June 30, 2016 (With Comparative Totals for 2015)

	Unrestricted			Temporarily Restricted	Permanently Restricted	2016	2015
	Operating	Property and Equipment	Total				
Revenue:							
Individual contributions, net	\$ 837,043	\$ -	\$ 837,043	\$ 436,442	\$ -	\$ 1,273,485	\$ 1,326,196
Bequest	-	-	-	-	-	-	385,718
Foundation and corporate contributions, net	1,029,257	-	1,029,257	155,000	-	1,184,257	963,853
Government grants	1,716,633	-	1,716,633	-	-	1,716,633	3,038,113
Program service fees	221,391	-	221,391	-	-	221,391	174,586
Investment income designated for current operations	88,200	-	88,200	-	-	88,200	74,500
Special events, net of direct expenses of \$304,059 and \$253,843 for 2016 and 2015, respectively	331,663	-	331,663	-	-	331,663	395,082
Rental income	586,243	-	586,243	-	-	586,243	504,332
Other income	48,926	-	48,926	-	-	48,926	124,363
Net assets released from restrictions	106,690	-	106,690	(106,690)	-	-	-
	<u>4,966,046</u>	<u>-</u>	<u>4,966,046</u>	<u>484,752</u>	<u>-</u>	<u>5,450,798</u>	<u>6,986,743</u>
Expenses:							
Program services	4,383,128	380,316	4,763,444	-	-	4,763,444	4,291,123
Management and general	667,628	129,167	796,795	-	-	796,795	782,613
Development	285,437	9,339	294,776	-	-	294,776	229,452
	<u>5,336,193</u>	<u>518,822</u>	<u>5,855,015</u>	<u>-</u>	<u>-</u>	<u>5,855,015</u>	<u>5,303,188</u>
(Decrease) increase in net assets before unrealized loss on investments	(370,147)	(518,822)	(888,969)	484,752	-	(404,217)	1,683,555
Unrealized loss on investments, net	(99,058)	-	(99,058)	-	-	(99,058)	(33,818)
(Decrease) increase in net assets	(469,205)	(518,822)	(988,027)	484,752	-	(503,275)	1,649,737
Net assets:							
Beginning of year	19,705,339	(849,263)	18,856,076	2,047,462	125,000	21,028,538	19,378,801
End of year	<u>\$ 19,236,134</u>	<u>\$ (1,368,085)</u>	<u>\$ 17,868,049</u>	<u>\$ 2,532,214</u>	<u>\$ 125,000</u>	<u>\$ 20,525,263</u>	<u>\$ 21,028,538</u>

See notes to financial statements.

Center on Halsted

Statement of Functional Expenses
Year Ended June 30, 2016 (With Comparative Totals for 2015)

	Program Services									Total Programs
	HIV Services	Behavioral Health Services	Youth Services	Youth Housing Initiative	Education & Victim Advocacy	Culinary Arts Services	Community Programming Services	Senior Services	Volunteer Services	
Salaries and wages	\$ 848,844	\$ 385,259	\$ 520,385	\$ 106,645	\$ 179,837	\$ 169,367	\$ 199,996	\$ 339,920	\$ 23,936	\$ 2,774,189
Payroll taxes and fringe benefits	192,760	62,078	104,726	19,194	32,142	36,557	40,216	61,204	4,308	553,185
	<u>1,041,604</u>	<u>447,337</u>	<u>625,111</u>	<u>125,839</u>	<u>211,979</u>	<u>205,924</u>	<u>240,212</u>	<u>401,124</u>	<u>28,244</u>	<u>3,327,374</u>
Professional fees	28,141	54,856	126,744	62,178	2,658	18,347	57,014	5,562	3,446	358,946
Supplies	13,750	5,844	28,999	4,427	-	10,394	2,120	6,621	17	72,172
Food	249	4,233	8,555	363	-	10,925	5,764	2,942	10,833	43,864
Occupancy	21,105	23,799	59,869	5,734	3,143	16,683	56,025	32,278	4,076	222,712
Rent	-	-	-	8,562	-	-	-	117,103	-	125,665
Telephone	3,026	1,740	5,608	419	230	1,220	4,096	417	298	17,054
Postage	17	53	108	-	2	18	5	78	-	281
Printing and copying	3,183	1,420	442	49	87	16	36	1,645	-	6,878
Insurance	3,334	3,760	9,456	906	497	2,636	8,851	1,758	644	31,842
Advertising and promotional	18,443	147	3,552	-	-	140	730	425	-	23,437
Dues and subscriptions	150	350	3,260	10	-	1,035	1,574	2,673	-	9,052
Conferences, meetings, and travel	3,578	24	29,901	2,647	1,098	8,213	2,727	7,457	-	55,645
Software and equipment rental	5,366	6,765	15,517	2,073	775	4,112	15,407	5,630	1,005	56,650
Bad debt	-	-	-	-	-	-	-	-	-	-
Interest	1,047	843	1,820	203	111	591	1,984	202	144	6,945
Program events	500	-	-	-	-	-	14,965	-	-	15,465
Repairs and maintenance	962	1,084	2,727	261	143	760	2,763	260	186	9,146
Depreciation and amortization	31,700	35,747	89,912	8,612	4,721	25,059	84,153	94,290	6,122	380,316
	<u>\$ 1,176,155</u>	<u>\$ 588,002</u>	<u>\$ 1,011,581</u>	<u>\$ 222,283</u>	<u>\$ 225,444</u>	<u>\$ 306,073</u>	<u>\$ 498,426</u>	<u>\$ 680,465</u>	<u>\$ 55,015</u>	<u>\$ 4,763,444</u>

See notes to financial statements.

Center on Halsted

Statement of Functional Expenses (Continued)
Year Ended June 30, 2016 (With Comparative Totals for 2015)

	Supporting Services				2016 Total	2015 Total
	Total Programs	Management and General	Development	Total Supporting Services		
Salaries and wages	\$ 2,774,189	\$ 176,727	\$ 176,070	\$ 352,797	\$ 3,126,986	\$ 2,727,722
Payroll taxes and fringe benefits	553,185	1,167	28,786	29,953	583,138	490,193
	3,327,374	177,894	204,856	382,750	3,710,124	3,217,915
Professional fees	358,946	120,976	15,171	136,147	495,093	573,760
Supplies	72,172	40,844	6,583	47,427	119,599	140,772
Food	43,864	9,915	33,059	42,974	86,838	62,789
Occupancy	222,712	143,069	6,335	149,404	372,116	366,470
Rent	125,665	-	-	-	125,665	68,310
Telephone	17,054	10,459	455	10,914	27,968	28,782
Postage	281	2,177	2,113	4,290	4,571	8,027
Printing and copying	6,878	8,233	1,586	9,819	16,697	12,962
Insurance	31,842	22,601	982	23,583	55,425	46,494
Advertising and promotional	23,437	36,393	-	36,393	59,830	34,159
Dues and subscriptions	9,052	14,298	6,010	20,308	29,360	32,317
Conferences, meetings, and travel	55,645	12,574	481	13,055	68,700	53,578
Software and equipment rental	56,650	35,260	7,303	42,563	99,213	86,040
Bad debt	-	10,800	-	10,800	10,800	21,867
Interest	6,945	5,067	220	5,287	12,232	7,659
Program events	15,465	-	-	-	15,465	22,345
Repairs and maintenance	9,146	17,068	283	17,351	26,497	29,998
Depreciation and amortization	380,316	129,167	9,339	138,506	518,822	488,944
	\$ 4,763,444	\$ 796,795	\$ 294,776	\$ 1,091,571	\$ 5,855,015	\$ 5,303,188

See notes to financial statements.

Center on Halsted

Statement of Cash Flows

Year Ended June 30, 2016 (With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (503,275)	\$ 1,649,737
Adjustments to reconcile decrease (increase) in net assets to net cash (used in) provided by operating activities:		
Amortization of advances on tenant contract	(200,000)	(200,000)
Depreciation and amortization	518,822	488,944
Decrease in allowance for doubtful accounts	(1,012)	(188,171)
Unrealized losses on investments	99,107	33,818
Legal fee amortization	2,933	2,933
Changes in:		
Grants and other receivables	(112,904)	115,916
Pledges and bequest receivable	(428,742)	(16,346)
Prepaid expenses and deposits	7,597	35,787
Accounts payable	1,424	(19,776)
Accrued expenses	(21,181)	(10,349)
Deferred revenue and deferred rent liability	(44,089)	(76,674)
Net cash (used in) provided by operating activities	(681,320)	1,815,819
Cash flows from investing activities:		
Additions to property and equipment	(184,728)	(1,148,924)
Proceeds from sale of investments	650,869	503,413
Purchases of investments	(628,038)	(1,596,656)
Net cash used in investing activities	(161,897)	(2,242,167)
Cash flows from financing activities:		
Net borrowings (repayments) under line of credit	650,000	(75,000)
Decrease in cash	(193,217)	(501,348)
Cash:		
Beginning of year	207,595	708,943
End of year	\$ 14,378	\$ 207,595
Supplemental disclosure of cash flow information:		
Interest paid	\$ 12,232	\$ 7,659

See notes to financial statements.

Center on Halsted

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

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 and amortization 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. At June 30, 2016 cash balances are lower than normal due to delayed payments from the State of Illinois.

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, 2016, 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. At June 30, 2015, the Center reported revenue of \$3,038,113, which included \$941,220 specifically for property and equipment received from the State of Illinois.

Center on Halsted

Notes to Financial Statements

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

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

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, 2016, the Center had an allowance for uncollectible contributions of \$21,013.

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

Deferred revenue: Cash received in advance for the rental of meeting space and future events at the Center and grants is recorded as deferred revenue. Deferred revenue at June 30, 2016 totaled \$54,447.

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.

Center on Halsted

Notes to Financial Statements

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

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 \$1,200 and having a useful life of more than one year. General maintenance and repairs are charged to expense. Leasehold improvements are amortized over the shorter of estimated useful life or lease period. 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
Leasehold Improvements	15 years

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, 2016 is \$204,535. In addition, the Center previously incurred legal costs in conjunction with a long-term rental contract with the tenant. The Center capitalized these costs and began amortizing them over the term of the lease beginning July 2007. The unamortized balance at June 30, 2016 is \$263,962, which is net of accumulated amortization of \$26,396.

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, 2015, from which the summarized information was derived.

Income taxes: 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 2013.

Center on Halsted

Notes to Financial Statements

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

Recent accounting pronouncements: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard will be effective for the Center's June 30, 2019 financial statements. Early adoption is permitted.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for the Center's June 30, 2020 financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard will be effective for the Center's June 30, 2021 financial statements.

The Center is currently evaluating the impact of the adoption of the above standards on its financial statements.

Subsequent events: The Center has evaluated subsequent events for potential recognition and/or disclosure through December 16, 2016, the date the financial statements were available to be issued.

Note 2. Pledges Receivable

Expected collection of pledges receivable as of June 30, 2016, net of discounts and respective allowances, are as follows:

	Annual	Capital	Total
Up to one year	\$ 708,010	\$ 104,900	\$ 812,910
Two years	283,493	28,498	311,991
More than two years	201,412	1,091,741	1,293,153
	1,192,915	1,225,139	2,418,054
Present value discount	(4,557)	(15,090)	(19,647)
Allowance for uncollectible contributions	(20,488)	(525)	(21,013)
	<u>\$ 1,167,870</u>	<u>\$ 1,209,524</u>	<u>\$ 2,377,394</u>

The present value discount uses rates of up to approximately 0.50 percent.

Center on Halsted

Notes to Financial Statements

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.

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, 2016, 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, 2016.

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.

The Center's investments are considered to be Level 1.

Center on Halsted

Notes to Financial Statements

Note 4. Investments

Investments at June 30, 2016 consist of:

Money market funds	\$ 109,022
Equity mutual funds	1,948,905
Fixed income mutual funds	801,368
Public real estate investment trust	161,192
Commodity mutual funds	217,165
	<u>\$ 3,237,652</u>

Designated investment income and undesignated unrealized (loss) on investments for the year ended June 30, 2016 was \$88,200 and \$(99,058), respectively.

Note 5. Property and Equipment

Property and equipment at June 30, 2016 consist of:

Land	\$ 6,762,611
Building	14,853,453
Leasehold improvements	1,423,771
Furniture and fixtures	1,182,738
Computer equipment	515,232
Computer software	107,056
	<u>24,844,861</u>
Accumulated depreciation and amortization	<u>(5,188,102)</u>
	<u>\$ 19,656,759</u>

Leasehold improvements are in connection with program space for senior services at 3600 N. Halsted (Note 13).

Depreciation and amortization expense for the year ended June 30, 2016 totaled \$518,822, including \$94,289 for leasehold improvements.

Note 6. Line of Credit

The Center has a revolving line of credit agreement with Bank of America. The Center is able to borrow up to \$1,750,000 which includes \$250,000 letter of credit in connection with the tenant contract (Note 8). The line contains a variable rate of interest equal to the BBA LIBOR Daily floating rate plus 1.75 percentage points. At June 30, 2016, the rate was 2.2 percent. The line is collateralized by equipment and receivables. At June 30, 2016, the Center had \$950,000 outstanding under the line of credit. The line expires on April 30, 2017, at which time management expects to renew the line.

Note 7. Long-Term Debt

Long-term debt at June 30, 2016 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 is collateralized by the Center's property.

Center on Halsted

Notes to Financial Statements

Note 8. Advances on Tenant Contract

The Center entered into a lease contract for 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 base rents. 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, 2016 was \$3,200,000.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$2,532,214 at June 30, 2016 consist of pledges and grants receivable. There are no purpose restrictions on temporarily restricted net assets at June 30, 2016.

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 from unrestricted net assets by the end of the subsequent fiscal period after borrowing the funds. The amount is included in permanently restricted net assets. At June 30, 2016, the Center has used \$115,000 to support program expansion.

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, 2016 are \$3,237,652, and are included in 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, 2016:

Endowment net assets, July 1, 2015	\$ 3,359,590
Investment purchases	49,886
Investment income:	
Unrealized losses	(122,950)
Dividends	62,156
Income designated for current operations	(88,200)
Investment fees	(22,830)
	<hr/>
Endowment net assets, June 30, 2016	<u><u>\$ 3,237,652</u></u>

Center on Halsted

Notes to Financial Statements

Note 11. Board-designated Endowment Fund (Continued)

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 and provide an income stream to the Center of up to 4 percent per year. Actual returns in any given year may vary from this amount.

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 by exceeding policy target indexes (listed below) net of fees. The policy target index is designed to indicate the returns that a passive investor would earn by consistently following the asset allocation policy. 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 are harmful to or violate the rights of LGBTQ persons. The asset class and range is as follows:

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>	
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 years' 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, 2016, \$88,200 was spent from the endowment.

Note 12. Youth Program Housing Initiative

In February 2016, the Board of Directors agreed to a two-year beta project known as the Youth Program Housing Initiative to address the needs of LGBTQ homeless youth in the Chicagoland area, focusing on Chicago. In April 2016, the Center began the process of housing youth, with a goal of 10 individuals, providing them with wraparound services, including case management and behavioral health treatment. These 10 units are located on the north side of Chicago with a satellite office to provide services.

After the beta program, the Center plans to expand and continue to meet the homeless youth population needs and expand geographic reach. During the year ended June 30, 2016, \$222,283 was spent on the new housing initiative.

Center on Halsted

Notes to Financial Statements

Note 13. Halsted GP, LLC and Senior Program Space

In April 2013, the Board of Directors entered into an agreement with Heartland Housing, Inc., an unaffiliated nonprofit organization located in Chicago, to form a development partnership to co-develop the "3600 N. Halsted project" and formed Halsted GP, LLC (LLC) with the intent to develop 79 affordable housing apartments for seniors. The Center has a 25 percent interest in the LLC, which is the general partner with a 0.01 percent interest in Halsted Limited Partnership (the Partnership). The LLC is consolidated with Heartland Housing, Inc. for financial statement purposes. The project was completed in August 2014 and opened in September 2014, at which time it was fully leased.

Leasehold improvements of \$1,423,771 (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 the Partnership for this program space, effective December 2014, with monthly rental payments of \$8,050 for 15 years escalating 3 percent each year.

At June 30, 2016, the future minimum payments under the lease are as follows:

2017	\$ 98,293
2018	101,242
2019	104,280
2020	107,408
2021	110,630
Thereafter	<u>1,084,557</u>
Total	<u>\$ 1,606,410</u>

The Center also entered into a support services agreement with the Partnership. Per the agreement, the Partnership will pay the Center an annual fee of \$15,000 which increases annually by 3 percent each year and expires on December 31, 2018, with two 5-year extensions possible. Payment of the fee is contingent on the Partnership having available cash flow. The Center has not accrued a receivable for the fees due to its contingent nature.

The Center was a proportionate guarantor, jointly and severally, with its co-general partner Heartland Housing, Inc., for an \$11,000,000 construction loan. Construction is completed and the loan was refinanced with a permanent mortgage, which did not require the Center's guarantee.