

Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

For the eighteen-month period ended December 31, 2015

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

TABLE OF CONTENTS

	Page(s)
Report of Independent Certified Public Accountants	1 - 2
Consolidated Financial Statements:	
Consolidated Statement of Financial Position as of December 31, 2015	3
Consolidated Statement of Activities for the eighteen-month period ended December 31, 2015	4
Consolidated Statement of Functional Expenses for the eighteen-month period ended December 31, 2015	5
Consolidated Statement of Cash Flows for the eighteen-month period ended December 31, 2015	6
Notes to Consolidated Financial Statements	7 - 16



Grant Thornton LLP
757 Third Avenue, 9th Floor
New York, NY 10017
T 212.599.0100
F 212.370.4520
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors

Gay Men’s Health Crisis, Inc. and Affiliates:

We have audited the accompanying consolidated financial statements of Gay Men’s Health Crisis, Inc. and Affiliates (collectively, the “Organization”), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the eighteen-month period then ended, and the related notes to the consolidated financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’s preparation and fair presentation of the consolidated 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 Organization’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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gay Men's Health Crisis, Inc. and Affiliates as of December 31, 2015, and the changes in their net assets and their cash flows for the eighteen-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
September 30, 2016

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Consolidated Statement of Financial Position
As of December 31, 2015

ASSETS

Cash and cash equivalents	\$ 8,400,641
Government grants and contracts receivable	2,336,028
Medicaid receivable, net	493,850
Contributions receivable, net	661,062
Other receivables	219,877
Prepaid expenses and other assets	618,870
Leasehold improvements, furniture and equipment, net	2,851,660
Security deposit	2,000,000
Restricted cash	1,168,000
Total assets	<u>\$ 18,749,988</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 1,644,774
Deferred rent and rent incentives	1,766,365
Government contract advances	253,784
Accrued compensated absences	233,798
Total liabilities	<u>3,898,721</u>

Commitments and contingencies

NET ASSETS

Unrestricted:	
Available for operations	10,581,033
Designated - plant funds	2,285,785
Board - designated	885,229
Total unrestricted	<u>13,752,047</u>
Temporarily restricted	<u>1,099,220</u>
Total net assets	<u>14,851,267</u>
Total liabilities and net assets	<u>\$ 18,749,988</u>

The accompanying notes are an integral part of this consolidated financial statement.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Consolidated Statement of Activities
For the eighteen-month period ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Support:			
Contributions - general	\$ 6,250,384	\$ 1,370,736	\$ 7,621,120
Contributed services and in-kind support	724,168	-	724,168
Special events, net of direct costs	3,021,128	180,000	3,201,128
Total support	<u>9,995,680</u>	<u>1,550,736</u>	<u>11,546,416</u>
Revenue:			
Government grants and contracts	17,832,080	-	17,832,080
Medicaid revenue	4,070,579	-	4,070,579
Interest income	20,212	-	20,212
Rental income	497,805	-	497,805
Other	81,777	-	81,777
Total revenue	<u>22,502,453</u>	<u>-</u>	<u>22,502,453</u>
Net assets released from restrictions	1,862,410	(1,862,410)	-
Total support and revenue	<u>34,360,543</u>	<u>(311,674)</u>	<u>34,048,869</u>
EXPENSES			
Program services:			
Care and support	19,599,284	-	19,599,284
Prevention and education	5,223,708	-	5,223,708
Public policy, information and advocacy	2,406,606	-	2,406,606
Total program services	<u>27,229,598</u>	<u>-</u>	<u>27,229,598</u>
Supporting services:			
Management and general	6,420,494	-	6,420,494
Fundraising	2,963,414	-	2,963,414
Total supporting services	<u>9,383,908</u>	<u>-</u>	<u>9,383,908</u>
Total expenses	<u>36,613,506</u>	<u>-</u>	<u>36,613,506</u>
Change in net assets	(2,252,963)	(311,674)	(2,564,637)
Net assets, beginning of period	<u>16,005,010</u>	<u>1,410,894</u>	<u>17,415,904</u>
Net assets, end of period	<u>\$ 13,752,047</u>	<u>\$ 1,099,220</u>	<u>\$ 14,851,267</u>

The accompanying notes are an integral part of this consolidated financial statement.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Consolidated Statement of Functional Expenses
For the eighteen-month period ended December 31, 2015

	Program Services				Supporting Services			
	Care and Support	Prevention and Education	Public Policy, Information, and Advocacy	Total	Management and General	Fundraising	Total	Total
Personnel and contributed services:								
Staff compensation	\$ 5,710,417	\$ 1,931,286	\$ 848,313	\$ 8,490,016	\$ 3,284,466	\$ 1,017,067	\$ 4,301,533	\$ 12,791,549
Employee benefits and payroll taxes	1,596,399	584,585	167,480	2,348,464	460,027	222,338	682,365	3,030,829
Contributed services	666,578	-	-	666,578	-	-	-	666,578
Total	7,973,394	2,515,871	1,015,793	11,505,058	3,744,493	1,239,405	4,983,898	16,488,956
Other than personnel costs:								
Professional fees and contract services	305,122	99,439	331,499	736,060	852,035	193,918	1,045,953	1,782,013
Postage and shipping	29,105	4,154	3,129	36,388	3,029	16,137	19,166	55,554
Telephone	70,715	26,942	10,702	108,359	39,026	9,519	48,545	156,904
Occupancy	4,099,582	1,541,998	380,719	6,022,299	715,480	502,324	1,217,804	7,240,103
Supplies	105,598	23,607	6,089	135,294	47,740	9,129	56,869	192,163
Printing	2,672	10,040	71,041	83,753	305	8,843	9,148	92,901
Equipment rental and maintenance	48,366	31,359	4,436	84,161	48,577	5,852	54,429	138,590
Memberships and subscriptions	47,759	120	54,393	102,272	26,434	590	27,024	129,296
Staff and volunteer training and support	-	3,001	515	3,516	67,449	4,711	72,160	75,676
Meetings	-	-	2,324	2,324	17,128	-	17,128	19,452
Travel and related costs	26,130	20,803	28,054	74,987	54,153	3,406	57,559	132,546
Marketing and promotion	10,944	35,651	20,042	66,637	1,000	753,824	754,824	821,461
Food and related costs	583,638	105,871	-	689,509	2,060	-	2,060	691,569
Grants to other AIDS service organizations	-	-	315,313	315,313	73,628	-	73,628	388,941
Insurance	153,757	52,888	13,079	219,724	49,429	17,783	67,212	286,936
Real estate and other taxes	216,467	81,682	19,891	318,040	141,241	26,340	167,581	485,621
Client rentals	4,672,613	-	-	4,672,613	-	-	-	4,672,613
Programmatic supplies	158,137	214,364	27,189	399,690	27,760	2,852	30,612	430,302
Events	2,592	62,732	21,503	86,827	76,921	23,964	100,885	187,712
In-kind donations	-	57,590	-	57,590	-	-	-	57,590
Miscellaneous	139,378	-	2,530	141,908	50,807	-	50,807	192,715
Total	10,672,575	2,372,241	1,312,448	14,357,264	2,294,202	1,579,192	3,873,394	18,230,658
Total expenses before depreciation and amortization	18,645,969	4,888,112	2,328,241	25,862,322	6,038,695	2,818,597	8,857,292	34,719,614
Depreciation and amortization	953,315	335,596	78,365	1,367,276	381,799	144,817	526,616	1,893,892
Total expenses	\$ 19,599,284	\$ 5,223,708	\$ 2,406,606	\$ 27,229,598	\$ 6,420,494	\$ 2,963,414	\$ 9,383,908	\$ 36,613,506

The accompanying notes are an integral part of this consolidated financial statement.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Consolidated Statement of Cash Flows
For the eighteen-month period ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (2,564,637)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	1,893,892
Present value discount and provision for doubtful contributions receivable	156,887
Change in assets and liabilities	
Decrease in government grants and contracts receivable	1,204,278
Increase in medicaid receivable	(224,701)
Decrease in contributions receivable	485,416
Increase in other receivables	(135,192)
Decrease in prepaid expenses and other assets	128,144
Increase in security deposit	(2,000,000)
Increase in accounts payable and accrued expenses	102,480
Decrease in deferred rent and rent incentives	(813,996)
Decrease in government contract advances	(64,832)
Decrease in accrued compensated absences	<u>(21,284)</u>
Net cash used in operating activities	<u>(1,853,545)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of leasehold improvements, furniture and equipment	<u>(14,032)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Change in restricted cash	<u>2,639,405</u>
Net increase in cash and cash equivalents	771,828
Cash and cash equivalents at beginning of year	<u>7,628,813</u>
Cash and cash equivalents at end of year	<u>\$ 8,400,641</u>

The accompanying notes are an integral part of this consolidated financial statement.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2015

1. MISSION AND ORGANIZATIONAL STRUCTURE

Organizational Structure

The accompanying consolidated financial statements of Gay Men's Health Crisis, Inc. ("GMHC") and Affiliates (collectively, referred to as the "Organization") include the financial statements of three affiliated organizations, of which GMHC is the sole member:

Gay Men's Health Crisis, Inc. ("GMHC")	Acquired Immune Deficiency Syndrome ("AIDS") Service, Education, and Advocacy
Gay Men's Health Crisis Action, Inc. ("GMHC Action")	Lobbying and Public Policy Influence
Gay Men's Health Services, Inc. ("GMHC Health Services")	Human Immunodeficiency Virus ("HIV") Testing and Medical Service

GMHC and GMHC Health Services are not-for-profit organizations exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Additionally, GMHC has elected to operate under Section 501(h) of the Code to participate in limited lobbying activities regarding AIDS-related issues without jeopardizing its exemption from income taxes under Section 501(c)(3).

GMHC Action is a Delaware corporation exempt from Federal income taxes under Section 501(c)(4) of the Code.

Gay Men's Health Crisis, Inc.

GMHC is a volunteer-supported, community-based organization committed to national leadership in the fight against AIDS. Originally founded by volunteers in 1981 when the first cases of AIDS were reported in New York, GMHC was later incorporated under New York State law on June 25, 1982. Its mission statement: GMHC fights to end the AIDS epidemic and uplift the lives of all affected. Nearly 10,000 clients are served by GMHC's programs annually.

Gay Men's Health Crisis Action, Inc.

GMHC Action was incorporated under Delaware law on February 3, 1993. Its mission is to influence public policy on HIV and AIDS-related issues through a range of public education, advocacy, and electoral activities. GMHC Action monitors activities at all levels of government (federal, state, and local) to gauge the efforts of elected officials in responding to the HIV/AIDS epidemic and to encourage them to strengthen those efforts. GMHC Action, through its New York volunteer force, utilizes direct contact with legislators and communications to members of the general public who are concerned about the government's level of response to AIDS.

Some specific activities that GMHC Action undertakes are: conducting candidates' forums and visits to legislators, legislative lobbying and advocacy, soliciting the positions of political candidates and elected officials on AIDS-related issues, communicating with supporters and the general public about the positions of political candidates and elected officials, and conducting voter registration drives.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2015

GMHC Health Services, Inc.

GMHC Health Services was incorporated as a not-for-profit corporation in New York State on February 21, 1997. It was formed for the purpose of enhancing GMHC's capacity to render a range of services in connection with HIV testing.

Change in Fiscal Year End

During fiscal year 2015, the Organization changed its fiscal year end from June 30th to December 31st. Therefore, the consolidated financial statements are presented over an eighteen-month period.

Programs

In the effort to fight to end the AIDS epidemic and uplift the lives of all affected, the Organization provides a vast array of services for individuals living with HIV/AIDS, those who are at high risk of contracting HIV, and the community at large.

All programs employ a client-centered, harm reduction approach to behavioral change that includes motivational interviewing while respecting a client's readiness to change. The Organization strives to help clients achieve their highest level of stability and empowerment, and to decrease their risk of contracting or transmitting HIV and other sexually transmitted infections (STIs). Staff are guided by the Gardner's Treatment Cascade, the NYC Plan to Ends AIDS by 2020, and the National HIV/AIDS Strategy. To these ends, the Organization offers the following:

- Care Coordination Services include the agency intake, transitional care coordination, housing assistance and Health Homes services. These services all aim to comprehensively and collaboratively assess the clients' needs, link the clients to relevant and appropriate care and then to coordinate that care to ensure retention and the best possible health outcomes. Staff regularly coordinate care with medical doctors, family members, mental health practitioners, substance abuse counselors, lawyers, nutritionists, landlords, and other support professionals as needed.
- Mental Health Services provide the agency and clients with crisis intervention services when needed, but primarily focuses on short- and long-term assistance to help clients achieve their highest level of psychological functioning while simultaneously supporting the achievement of self-determined goals. Services begin with a comprehensive biopsychosocial assessment, followed by individual, couples, family and/or group counseling. The Organization offers services in-house, and also forge organizational partnerships to bring services out into the community. The GMHC HIV/AIDS Hotline, the longest standing first response helpline to the AIDS epidemic, responds to approximately 5,000 phone calls yearly with information, emotional support, and an expansive referral service.
- While substance abuse services are embedded and integrated within the Organization's mental health services, they are also offered as a primary service within the Women's Care, Prevention and Support Services ("WPCSS"). Here, the Organization specifically focuses on substance use and abuse issues among women of color. Services include health and STI screenings, health education, outreach, individual and group counseling, evidenced-based intervention, and connection to HIV testing and medical care.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2015

- The Nutrition, Workforce Development, and Wellness department includes the nutrition and meals, workforce development and wellness services. These services seek to provide comprehensive and holistic services to clients living with HIV and/or AIDS. The Nutrition programs provides individual and group level intervention with the goal of addressing food insecurity and improving overall health through nutritional health. The Nutrition program also houses the food pantry, where clients can obtain healthy foods that aid in their achievement of better health outcomes and addresses food insecurity. In addition to the Nutrition program, this department also provides congregate meals for HIV positive individuals. The Workforce Development program provides comprehensive workforce development services including, intake, vocational and educational assessment, benefits planning, job readiness training, internships, and job placement assistance, to decrease client reliance on public benefits and entitlements and increase self-sufficiency. The Wellness program provides a variety of services including reiki, massage, hair cutting, exercise, knitting and other complementary services.
- The Prevention Department provides HIV Prevention services to clients living with HIV and AIDS and those at-risk for HIV and STI infection. The department seeks to ensure that clients living with HIV/AIDS and unaware of their status have access to health care and supportive services and that clients who are HIV negative or at-risk have access to prevention services. The department provides the following services including HIV, syphilis, gonorrhea, and chlamydia testing, linkage to care services, access and referral to pre-exposure prophylaxis (PrEP) and post exposure prophylaxis (PEP), referrals for supportive and medical services regardless of their HIV status, evidence-based interventions targeted to youth and young adults, which includes the social and the Clubhouse, short-term counseling which includes individual counseling, pastoral counseling and support groups.
- The Legal and Advocacy department provides legal, advocacy and short-term rental assistance to clients who are HIV positive. The program provides a range of legal services including immigration, bankruptcy, housing, and entitlement assistance. The advocacy department provides advocacy services for clients having issues with entitlements such as social security, disability, health insurance, housing, and other entitlements. The short-term rental assistance program provides rental assistance and case management services to individuals with a history of homelessness or who are currently homeless and need assistance with rental payment, broker's fees, and security deposits to secure affordable and safe housing.
- The Representative Payee Program provides hands-on financial management assistance for individuals in need, who would otherwise have difficulties managing their own personal finances. Account management and bill-paying are supplemented by financial education, to support the growing self-sufficiency of high-need clients.
- The Health Informatics Department oversees program evaluation, outcome measurement, continuous quality improvement projects, and data management and reporting. Grants Management services are also provided by this unit, to ensure programmatic accountability, effectiveness, and integration.
- The Public Affairs and Policy department supports systemic HIV prevention by advocating for fair, effective, and evidence-based HIV prevention policies at the Federal, State and City levels. The Public Policy department aims to advance an HIV prevention agenda that promotes individual behavioral changes while acknowledging structural factors such as gender and racial inequality, poverty, anti-gay stigma, undocumented immigration status, and lack of access to

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2015

health care. The Organization's clients and members of the community are invited to participate in the Public Policy's Client Action Center, and are the true driving force behind the Organization's policy and advocacy work. The Action Center serves as a center for community organizing and advocacy activities while building participants' leadership skills. This high level of participation and organizational influence by clients and the community helps to ensure that the Organization is constantly working to serve its target populations as effectively and creatively as possible.

- The Communications and Marketing Department provides resources and assistance to all of the Organization's program areas on community relations, the Organization's web presence, social media campaigns, and marketing initiatives. It supports the Organization's goals to educate the public about drivers of the epidemic such as gender and racial inequality, poverty, anti-gay stigma, undocumented immigration status, and lack of access to health care.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include the accounts of GMHC, GMHC Action and GMHC Health Services. All significant intercompany account balances and transactions have been eliminated in consolidation.

The classification of the Organization's net assets, support and revenue is based on the existence or absence of donor-imposed restrictions. Amounts for each of the three classes of net assets (unrestricted, temporarily restricted and permanently restricted) are displayed in the accompanying consolidated statement of financial position and changes in each of those classes of net assets are displayed in the accompanying consolidated statement of activities.

These net asset classes are defined as follows:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization are considered unrestricted. Unrestricted net assets include those net assets that have been designated by the Board of Directors for specific purposes; as well as, amounts set aside for plant funds.

Temporarily restricted net assets

Net assets which include resources that have been limited by donor-imposed stipulations that either expire with the passage of time and/or can be fulfilled and removed by the actions of the Organization pursuant to those stipulations are considered temporarily restricted.

Permanently restricted net assets

Net assets which include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors. At December 31, 2015, the Organization did not possess any permanently restricted net assets.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2015

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents.

Security Deposit

In 2015, the Organization paid a security deposit of \$2 million to its landlord for the lease at 446 West 33rd Street in lieu of a letter of credit.

Concentration of Credit Risk

The Organization maintains its cash and cash equivalents in bank accounts. These accounts from time to time exceed the amount insured by the Federal Deposit Insurance Corporation and subject the Organization to concentration of credit risk. However, the Organization's management monitors this risk regularly to mitigate any exposure. The Organization has not experienced, nor does it anticipate, non-performance by any of these financial institutions.

Grants and Contributions

Contributions, both cash and in-kind, which include unconditional promises to give (pledges), are recognized at their fair value in the period received as unrestricted, temporarily restricted or permanently restricted revenue depending upon the existence or absence of donor-imposed stipulations. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate credit adjusted discount rate, and amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Contributions of assets, other than cash, are recorded at their estimated fair value as determined on the date of receipt.

The Organization reports contributions of cash and other assets as temporarily restricted contributions if they are received with donor restrictions that limit the use of the donated assets, and/or the stipulations will not be met until a future reporting period. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Special Events

Revenues and expenses relative to special events are recognized upon occurrence of the respective event.

Contributed Services and In-kind Support

Numerous volunteers contribute many hours to the Organization to provide services to persons with HIV/AIDS, conduct fundraising, and provide administrative support. Certain donated services have been reflected in the accompanying consolidated financial statements as in-kind support (revenue and

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2015

expenses) based on the estimated fair value for such services on the date received if they met the criteria for recognition under U.S. GAAP.

Donated goods that meet the criteria for capitalization are recorded as in-kind support revenues and assets (at fair value when received) in the accompanying consolidated financial statements.

Revenues

Revenues from government grants and contracts, including Medicaid, are recognized in the period when expenditures have been incurred or services have been performed in compliance with the respective contracts. Amounts received in advance are reported as government contract advances. Rental income, which is generally earned pursuant to short-term leases for apartments, is recognized as earned. Apartment rents are paid partially by the tenants and partially subsidized through various Federal programs.

Medicaid revenue is reimbursed to the Organization at the rate determined by state regulations. Medicaid revenue and other governmental grants and contracts under third-party payor agreements are subject to examination and contractual adjustment, and amounts realizable may change due to periodic changes in the regulatory environment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the amounts provided and subsequent settlements are recorded in operations in the period of settlement. The provision for contractual allowances is deducted directly from revenue and the net revenue amount is recorded as accounts receivable. It is management's opinion that any potential disallowances will not have a material effect on the accompanying consolidated financial statements.

Allowance for Uncollectible Accounts

The carrying value of grants and contracts receivable, Medicaid receivables, contributions receivable, and other receivables are reduced by an appropriate allowance for uncollectible accounts, and therefore approximates net realizable value. The Organization determines its allowance by considering a number of factors, including the length of time receivables are past due, the Organization's previous loss history, the donor's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. Receivables outstanding longer than the payment terms are considered past due. The Organization writes off accounts receivables when they become uncollectible, and payments subsequently received on such receivables are recorded as income in the period received.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, prepaid expenses, other assets, accounts payable and accrued expenses and other liabilities approximate fair value due to the short-term maturity of these financial instruments.

Leasehold Improvements, Furniture and Equipment

The Organization capitalizes all expenditures for leasehold improvement, furniture and equipment in excess of \$1,000. These assets are recorded at cost or, in the case of donations, at fair value at the date of the donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets. Equipment held under capital leases and leasehold improvements are amortized on the straight-line method over the estimated useful lives of the assets or the term of the respective lease, whichever is shorter. The estimated useful lives of leasehold improvements, furniture and equipment for purposes of determining depreciation are as follows:

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2015

	<u>Years</u>
Leasehold improvements	8
Furniture and equipment	3 - 6

Allocation of Functional Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the accompanying consolidated statement of activities, which includes all expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management allocates the direct costs of its operations to its programs and services based upon the percentage of direct labor costs charged to each program and supporting services by the Organization's staff.

Taxes

The Organization recognizes the tax effects from an uncertain tax position in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Organization is exempt from federal and New York income taxation by virtue of being an organization described in Section 501(c)(3) of the Internal Revenue Code and similar provisions of the New York State tax code. Nevertheless, the Organization may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The tax years ended June 30, 2013, 2014, and 2015 and December 31, 2015 are still open to audit for both federal and state purposes. Management determined that there are no material uncertain tax positions within its consolidated financial statements.

Accounting Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the consolidated financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

3. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at December 31, 2015 is as follows:

Less than one year	\$ 835,767
One to five years	<u>206,000</u>
Total	1,041,767
Less:	
Unamortized discount	(1,860)
Allowance for doubtful pledges	<u>(378,845)</u>
Total contributions receivable, net	<u>\$ 661,062</u>

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2015

Contributions that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using a risk-adjusted interest rate of 0.88% for the eighteen-month period ended December 31, 2015.

4. LEASEHOLD IMPROVEMENTS, FURNITURE AND EQUIPMENT, NET

Leasehold improvements, furniture and equipment consisted of the following at December 31, 2015:

Leasehold improvements	\$ 3,701,255
Furniture and equipment	<u>6,158,341</u>
	9,859,596
Less: Accumulated depreciation and amortization	<u>(7,007,936)</u>
	<u>\$ 2,851,660</u>

Depreciation and amortization expense, for the eighteen-month period ended December 31, 2015, totaled \$1,893,892.

5. RESTRICTED CASH

The Organization has a line of credit of \$4 million with a bank that expires on March 31, 2017. In addition, there is a letter of credit with the same bank to secure a deposit on the lease at 224 West 29th Street. As part of these agreements with the bank, the Organization is required to maintain a restricted cash account. The balance in this restricted cash account totaled \$1,168,000 at December 31, 2015. There was no outstanding balance on the line of credit and the letter of credit at December 31, 2015.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following time and/or program purposes at December 31, 2015:

Care and support	\$ 369,440
Prevention and education	30,190
Public policy, information, and advocacy	109,380
Mental health clinic	410,210
AIDS Walk	<u>180,000</u>
Total	<u>\$ 1,099,220</u>

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2015

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes and/or by the passage of time as follows for the eighteen-month period ended December 31, 2015:

Care and support	\$ 502,394
Mental health clinic	939,018
Prevention and education	218,275
Public policy, information, and advocacy	<u>202,723</u>
Total	<u>\$ 1,862,410</u>

7. COMMITMENTS AND CONTINGENCIES

Leases

The Organization has two separate leases for office space at its two locations in New York City. The Organization is obligated under an operating lease for its office facility at 446 West 33rd Street, which was signed on June 23, 2010 and expires on November 18, 2018. The other operating lease for office space at 224 West 29th Street was signed in January 24, 2011 and expires on June 30, 2018.

Future minimum annual rental payments under the two leases are as follows:

Year ending December 31,	<u>29th Street</u>	<u>33rd Street</u>
2016	\$ 352,047	\$ 4,662,765
2017	360,849	4,662,765
2018	369,870	4,274,201
2019	<u>187,218</u>	<u>-</u>
	<u>\$ 1,269,984</u>	<u>\$ 13,599,731</u>

Rent expense is recorded on the straight-line basis over the term of the lease, inclusive of rent abatements and lease incentives. Rent expense for the eighteen-month period ended December 31, 2015 totaled \$6,036,037. As part of the new lease agreement for its office space at West 33rd Street, the Organization was given a lease incentive of \$1,600,617 for reimbursement of leasehold improvements made prior to the move-in date. Deferred rent and rent incentives pertaining to the lease obligations at the West 33rd and West 29th Street locations as of December 31, 2015 totaled \$1,766,365.

The Organization may be involved in various legal actions from time to time arising in the normal course of business. In the opinion of management, there are no matters outstanding that would have a material adverse effect on the consolidated financial statements of the Organization as of and for the year ended December 31, 2015.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2015

8. SPECIAL EVENTS

Special events include fundraising events that are reported net of direct costs. For the eighteen-month period ended December 31, 2015, net support from special events was as follows:

	<u>Support</u>	<u>Direct Costs</u>	<u>Net</u>
AIDS Walk	\$ 5,263,552	\$ 2,468,898	\$ 2,794,654
Spring Gala	509,670	248,405	261,265
Thanks & Giving	67,510	50,015	17,495
Howard Ashman Award & Cabaret	52,466	10,421	42,045
Other Events	<u>159,787</u>	<u>74,118</u>	<u>85,669</u>
Total	<u>\$ 6,052,985</u>	<u>\$ 2,851,857</u>	<u>\$ 3,201,128</u>

9. CONTRIBUTED SERVICES AND IN-KIND SUPPORT

Contributed services and in-kind support, which are reflected in the accompanying consolidated financial statements at fair value at the date of the donation, include the following for the year ended December 31, 2015:

In-kind support	\$ 57,590
Legal services	<u>666,578</u>
Total	<u>\$ 724,168</u>

10. RETIREMENT PLAN

The Organization offers a defined contribution plan, as defined in U.S. Internal Revenue Code (the "Code") Section 403(b), to all eligible employees who may make voluntary contributions to the plan, up to the maximum amount allowed by the Code. The Organization's contribution for the eighteen-month period ended December 31, 2015 totaled \$109,235.

11. SUBSEQUENT EVENTS

The Organization evaluated its December 31, 2015 consolidated financial statements for subsequent events through September 30, 2016, the date the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.