Lawndale Christian Health Center and Affiliate

Financial Report and Reports on
Federal Awards in Accordance With
OMB Circular A-133
June 30, 2012

Contents

McGladrey

Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Directors
Lawndale Christian Health Center
Chicago, Illinois

We have audited the accompanying consolidated statement of financial position of Lawndale Christian Health Center and Affiliate (Lawndale) as of June 30, 2012, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Lawndale's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lawndale's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lawndale Christian Health Center as of June 30, 2012, and the results of their operations and changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 20, 2012 on our consideration of Lawndale'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Chicago, Illinois
December 20, 2012

Lawndale Christian Health Center and Affiliate

Consolidated Statement of Financial Position
June 30, 2012

Assets	
Current Assets	
Cash and cash equivalents	$ 9,820,738
Receivables:	
Patients accounts, less allowance of $177,294	2,390,662
Grants	1,241,448
Other	653,354
Inventories	58,274
Total current assets	14,164,476
Noncurrent Assets	
Investments	6,599,927
Assets whose use is limited	6,500,000
Notes receivable	16,149,829
Property and equipment, net	30,685,861
Total assets	$ 74,100,093
Liabilities and Net Assets	
Current Liabilities	
Current maturities of capital lease obligation	$ 64,422
Accounts payable	2,169,957
Accrued expenses:	
Salaries and related expenses	1,899,487
Contracted medical services	795,444
Total current liabilities	4,929,310
Long-Term Liabilities	
Long-term debt	23,819,970
Capital lease obligation, less current maturities	176,653
Total liabilities	28,925,933
Commitments (Note 13)	
Unrestricted Net Assets	45,174,160
Total liabilities and net assets	$ 74,100,093

See Notes to Consolidated Financial Statements.

Lawndale Christian Health Center and Affiliate

Consolidated Statement of Operations and Changes in Unrestricted Net Assets
Year Ended June 30, 2012

Revenue:	
Support and revenue:	
Grants	$ 7,982,581
Contributions	380,543
Patient revenue:	
Patient fees, net	10,428,878
Capitation revenue	15,406,592
Other	441,871
Net assets released from restrictions used for operations	116,194
Total support and revenue	34,756,659
Expenses:	
Program services:	
Medical services	24,053,894
Health support services	4,510,322
	28,564,216
Supporting services:	
Management and general	5,345,729
Total expenses	33,909,945
Operating income	846,714
Realized gain on sale of investments	-
Interest income	459,477
Dividends	109,319
	568,796
Excess of revenue over expenses	1,415,510
Other changes in unrestricted net assets:	
Net change in unrealized gains on investments	(45,267)
Grants for capital additions	8,780,548
Temporarily restricted net assets released for capital projects	188,732
	8,924,013
Increase in unrestricted net assets	$ 10,339,523

See Notes to Consolidated Financial Statements.

Lawndale Christian Health Center and Affiliate

Consolidated Statement of Changes in Net Assets
Year Ended June 30, 2012

Unrestricted net assets:	
Excess of revenue over expenses	$ 1,415,510
Net change in unrealized gains on investments	(45,267)
Grants for capital additions	8,780,548
Temporarily restricted net assets released for capital projects	188,732
Increase in unrestricted net assets	10,339,523
Temporarily restricted net assets:	
Contributions	304,926
Net assets released from restrictions	(304,926)
Change in temporarily restricted net assets	-
Increase in net assets	10,339,523
Net assets:	
Beginning of year	34,834,637
End of year	$ 45,174,160

See Notes to Consolidated Financial Statements.

Lawndale Christian Health Center and Affiliate

Consolidated Statement of Functional Expenses
Year Ended June 30, 2012

	Program Services			Supporting Services	
	Medical Services	Health Support Services	Total	Management and General	Total
Wages and salaries	$ 11,550,861	$ 3,066,413	$ 14,617,274	$ 2,796,911	$ 17,414,185
Payroll taxes	852,746	226,379	1,079,125	206,483	1,285,608
Employee benefits	1,109,784	294,615	1,404,399	268,721	1,673,120
Retirement plan expense	278,474	73,927	352,401	67,429	419,830
Total salaries and related expense	13,791,865	3,661,334	17,453,199	3,339,544	20,792,743
Contracted medical services	4,421,156	-	4,421,156	-	4,421,156
Maintenance and repairs	63,531	7,859	71,390	439,649	511,039
Lab	509,339	-	509,339	-	509,339
Information systems	519,228	31,970	551,198	46,806	598,004
Communications	216,708	13,343	230,051	19,535	249,586
Legal and accounting	-	-	-	126,970	126,970
Other contracted services	109,901	143,812	253,713	239,370	493,083
Total contracted expenses	5,839,863	196,984	6,036,847	872,330	6,909,177
Office supplies and equipment	302,858	52,216	355,074	184,203	539,277
Medical supplies	635,631	55,783	691,414	14,048	705,462
Optometry supplies	63,271	-	63,271	-	63,271
Dental supplies	89,347	-	89,347	-	89,347
Pharmacy	1,083,883	21,969	1,105,852	-	1,105,852
X-Ray	24,271	-	24,271	-	24,271
Cafe direct expenses	-	5,444	5,444	-	5,444
Total supplies expense	2,199,261	135,412	2,334,673	198,251	2,532,924
Occupancy	261,158	39,142	300,300	40,733	341,033
Reproduction, books and media	41,247	14,649	55,896	23,690	79,586
Postage	90	3,482	3,572	31,799	35,371
Recruitment	2,509	261	2,770	1,980	4,750
Staff and board functions	24,516	18,317	42,833	123,438	166,271
Fees and dues	112,703	16,452	129,155	165,833	294,988
Travel	765	20,722	21,487	8,955	30,442
Training	66,720	18,340	85,060	107,662	192,722
Utilities	270,513	40,544	311,057	42,192	353,249
Insurance	52,843	7,920	60,763	8,242	69,005
Patient services	26,915	156,639	183,554	1,371	184,925
Depreciation and amortization	1,066,471	159,840	1,226,311	166,339	1,392,650
Provision for uncollectible accounts	337,879	-	337,879	-	337,879
Service	-	-	-	68,104	68,104
Interest expense	-	-	-	113,616	113,616
Other	(41,424)	20,284	(21,140)	31,650	10,510
Total other expenses	2,222,905	516,592	2,739,497	935,604	3,675,101
Total expenses	$ 24,053,894	$ 4,510,322	$ 28,564,216	$ 5,345,729	$ 33,909,945

See Notes to Consolidated Financial Statements.

Lawndale Christian Health Center and Affiliate

Consolidated Statement of Cash Flows
Year Ended June 30, 2012

Cash Flows from Operating Activities	
Increase in net assets	$ 10,339,523
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,392,650
Provision for uncollectible accounts	337,879
Grants received for property and equipment	(8,780,548)
Contributions received for property and equipment	(188,732)
Net change in unrealized gains on investments	45,267
Net changes in assets and liabilities:	
Receivables	(729,211)
Inventories	39,971
Accounts payable	29,392
Accrued expenses	24,829
Other liabilities	(64,639)
Net cash provided by operating activities	2,446,381
Cash Flows from Investing Activities	
Purchases of investments and assets whose use is limited	(8,144,397)
Sales of investments and assets whose use is limited	35,077
Purchases of property and equipment	(13,595,778)
Funds loaned to Qualified Equity Investment Funds (Notes 4 and 7)	-
Net cash used in investing activities	(21,705,098)
Cash Flows from Financing Activities	
Proceeds from issuance of long-term debt	-
Payments on capital lease obligation	(56,358)
Grants received for property and equipment	8,780,548
Contributions received for property and equipment	188,732
Net cash provided by financing activities	8,912,922
Decrease in cash and cash equivalents	(10,345,795)
Cash and cash equivalents:	
Beginning of year	20,166,533
End of year	$ 9,820,738
Supplemental Disclosure of Cash Flow Information	
Interest paid, net of amounts capitalized	$ 82,341
Supplemental Schedule of Noncash Investing and Financing Activities	
Property and equipment additions included in accounts payable	$ 1,122,960

See Notes to Consolidated Financial Statements.

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: Lawndale Christian Health Center (LCHC) is an Illinois not-for-profit corporation that operates four clinics. LCHC provides affordable, quality health care services to anyone who seeks them with particular emphasis on residents of the North and South Lawndale communities, the East and West Garfield communities and the uninsured poor. LCHC seeks to improve the health of the community by emphasizing health education and prevention, as well as providing treatment of illness. LCHC works with other groups within the community to provide a holistic approach to restoring and maintaining good health.

Lawndale Christian Supporting Corporation (LCSC) is an Illinois not-for-profit corporation that was incorporated on December 10, 2010. LCSC was formed to support the charitable activities of LCHC and Lawndale Community Church. LCSC serves as the leverage lender for LCHC's New Market Tax Credit transaction. See Note 6.

The following programs and supporting services are included in the accompanying consolidated financial statements:

Medical services: LCHC was established to provide quality, affordable health care to the local community. The comprehensive services include primary medical care, obstetrics and gynecology, optometry, dental, and pharmacy services. Specific programs are provided in the areas of HIV, asthma, and tuberculosis.

Health support services: LCHC provides a variety of medical related support services for its patients, including case management, chaplain services, health education, and outreach services. These services are provided for LCHC's medical patients. Specific areas of emphasis include providing services for pregnant women, infants, asthmatic patients and persons with HIV/AIDS. Other patients receive services when deemed necessary by their medical and social needs.

Management and general: LCHC provides support functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of LCHC's program strategy through the office of the Executive Director; secure proper administrative functioning of the Board of Directors; maintain competent legal services for the proper administration of LCHC; and manage the financial and budgetary responsibilities of LCHC.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of LCHC and LCSC (together, "Lawndale"). All significant inter-entity transactions have been eliminated in consolidation.

Basis of accounting: The financial statements of Lawndale have been prepared on the accrual basis (except for HMO incentive pool contract settlements - see below), whereas, revenue is recognized when earned, and expenses are recognized when incurred, which is in accordance with accounting principles generally accepted in the United States of America. Lawndale's significant accounting policies are described below.

Basis of presentation: Lawndale classifies its net assets into three categories, which are unrestricted, temporarily and permanently restricted.

Unrestricted net assets are reflective of revenue and expenses associated with the principal operating activities of Lawndale and are not subject to donor-imposed stipulations.

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

Temporarily restricted net assets are subject to donor-imposed stipulations that will be met either by actions of Lawndale and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in unrestricted net assets as net assets released from restrictions. Lawndale had no temporarily restricted net assets at June 30, 2012.

Permanently restricted net assets are subject to donor-imposed stipulations that require that they be maintained permanently by Lawndale. Lawndale had no permanently restricted net assets at June 30, 2012.

Excess of revenue over expenses: The consolidated statement of operations and changes in unrestricted net assets includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include the net change in unrealized gains and losses on investments, contributions of long-lived assets (including assets acquired using contributions restricted by donors for the purpose of acquiring such assets), and grants for the acquisition of long-lived assets.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Lawndale considers all highly liquid investments available for current use with original maturities of three months or less to be cash equivalents. As of June 30, 2012, cash and cash equivalent balances of $1,535,447 were restricted for payment of construction costs.

Patient accounts receivable: Patient accounts receivable where a third-party payor is responsible for the payment, are carried at a net amount determined by the original charge for the service provided, less an estimate for contractual adjustments or discounts provided to third-party payors. Patient accounts receivable due directly from patients are carried at the original charge for the service provided, less amounts covered by third-party payors and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as a reduction of the provision for uncollectible accounts when received. Lawndale determines when an account is past due based on payor classifications. Lawndale does not charge interest on past due accounts.

Investments and assets whose use is limited: Lawndale follows the guidance issued under the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Investments at June 30, 2012, classified by level in the fair value hierarchy, are presented in Note 4. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in unrestricted revenue unless the income or loss is restricted by donor or law.

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

Investments are regularly evaluated for impairment. Lawndale considers factors affecting the investee, the industry the investee operates within, and general debt and equity market trends. Lawndale considers the length of time an investment's fair value has been below carrying value, the near-term prospects for recovery to carrying value, and whether it is more likely than not that Lawndale will be required to sell the security before recovery is realized. If and when a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to the estimated fair value and included as a realized loss in excess of revenue over expenses.

Assets whose use is limited consists of cash and investments designated by the Board of Directors for future contracted medical services costs and other purposes. The Board retains control over the assets whose use is limited and may, at its discretion, subsequently use these assets for other purposes.

Inventories: Inventories are stated at cost determined on a first-in, first-out (FIFO) basis. Inventories consist of pharmaceuticals.

Property and equipment: Property and equipment are stated at cost or, if donated, at the fair value at the date of donation. Property and equipment with a cost of $5,000 or more are capitalized and depreciated. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is calculated for all property and equipment on a straight-line basis over the estimated lives.

According to Federal regulations, the equipment items obtained through the Federal Health Grant are subject to lien by the Federal government. As long as Lawndale does not change its status from a "Not-For-Profit" organization, or as long as the equipment is used for a purpose closely related to the project goals, Lawndale is not required to reimburse the federal government. If the stated requirements are not met, Lawndale would be obligated to the Federal government in an amount equal to the fair value of the equipment. The net book value of such equipment was approximately $787,931 at June 30, 2012.

Accrued contracted medical services: Contracted medical services consist of care provided by other providers to Lawndale's Health Maintenance Organization (HMO) patients, for which Lawndale is financially responsible. The cost of contracted medical services is accrued in the period in which it is provided to the patients based in part on estimates, including an accrual for medical services provided but not reported to Lawndale.

Lawndale maintains stop-loss insurance coverage to limit its exposure to large contracted medical services claims. Related stop-loss insurance recoveries are recorded when received. Contracted medical services expense reported in the accompanying consolidated financial statements for the year ended June 30, 2012 is net of stop-loss insurance recoveries of $237,570.

Grant revenue: Grants are recognized as revenue when earned. Expense-driven grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. Grant funding from the federal government represents approximately 11 percent of total support and revenue for the year ended June 30, 2012. If this support were discontinued, it would have a material adverse effect on Lawndale. Lawndale must comply with certain grant requirements and is required to have periodic audits. Certain costs may be questioned, as a result of these audits, due to noncompliance with agreements. Such audits may require repayment of grant funds to the grantor. Management believes that Lawndale is in compliance with all applicable laws, regulations, and grant conditions.

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

Contributions: Contributions received, including unconditional promises to give, are recorded as revenue in the period the promise is received at its fair value. Conditional promises to give, whether received or made, are recognized when they become unconditional, that is, when the conditions are substantially met. Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Lawndale reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in Lawndale's activities).

Patient fees, net: Lawndale has agreements with third-party payors that provide for payments to Lawndale at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Patient fees are reported at estimated net realizable amounts from patients, third-party payors and other payors for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administrating agencies. These adjustments are considered in the recognition of revenue on an estimated basis and are adjusted in future periods, as final settlements are determined. Lawndale provides care to certain patients under Medicare and Medicaid payment arrangements. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Patient fees (net), received from Medicare and Medicaid represented 12 percent and 54 percent, respectively, of total patient fees, net, for the year ended June 30, 2012.

Capitation revenue: Lawndale has agreements with various HMOs to provide medical services to subscribing participants. Under these agreements, Lawndale receives monthly capitation payments based on the number of each HMO's participants assigned to Lawndale, regardless of services actually performed by Lawndale.

HMO incentive pool contract settlements: Lawndale's HMO contracts provide for annual settlements based on utilization. The contracts settle at various times during Lawndale's fiscal year. Settlements are recorded when made known to Lawndale (cash basis). Settlements recorded during the year ended June 30, 2012 were approximately $2,791,200 and are included in capitation revenue in the consolidated statements of operations and changes in unrestricted net assets. No provision has been made for unknown settlements as the amounts cannot be reasonably estimated.

Donated services and facilities: Contributions of donated services that create or enhance non-financial assets or that require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. There were no donated services recorded during the year ended June 30, 2012.

The financial statements reflect the recognition of the fair rental value of donated office space (see Note 10).

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of operations and changes in unrestricted net assets. Accordingly, certain costs have been allocated among programs and supported services benefited.

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

Charity care policy: Lawndale provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than the established rates. Because Lawndale does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Lawndale maintains records to identify and monitor the level of charity care it provides.

Income taxes: LCHC and LCSC are tax-exempt organizations under Internal Revenue Code Section 501(c)(3) and each as required files a Form 990 (Return of Organization Exempt from Income Tax) annually. Accordingly, income taxes are not provided for in the accompanying consolidated financial statements.

LCHC and LCSC both file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Forms 990 filed by LCHC and LCSC are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 filed by LCHC are no longer subject to examination for the years 2008 and prior.

New accounting guidance: During the year ended June 30, 2012, Lawndale adopted the disclosure guidance contained in the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure - a consensus of the FASB Emerging Issues Task Force*. This ASU requires that the measurement of charity care by a health care entity for disclosure purposes be based on the direct and indirect costs of providing the charity care, and that Lawndale provides disclosure regarding the method used to identify or determine such costs. The measurement and disclosure requirements in this were required to be applied to all periods presented in the financial statements. See Note 3 for further information.

Pending pronouncements: In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954) – Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay, to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, ASU 2011-07 requires those health care entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

For nonpublic entities such as Lawndale, the provisions of ASU 2011-07 are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The changes to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by ASU 2011-07 should be provided for the period of adoption and subsequent reporting periods. Lawndale is assessing the impact of the implementation of ASU 2011-07 on its consolidated financial statements.

Note 2. Concentrations of Credit Risk

Lawndale grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows at June 30, 2012:

Medicare	11 %
Medicaid	84
Other third-party payors and patients	5
	100 %

Throughout the year, Lawndale may have amounts on deposit with financial institutions in excess of the $250,000 FDIC insurance limits. Cash held at financial institutions in excess of these $250,000 limits at June 30, 2012 was $9,074,339. Management does not anticipate nonperformance by the financial institutions.

Note 3. Charity Care

In the ordinary course of business, Lawndale renders services to patients who are financially unable to pay for medical care. Lawndale provides care to these patients who meet certain criteria under its charity care policy without charge or at amounts less than the established rates. Charity care eligibility is established based on limited or no insurance coverage, income compared to published poverty levels and family size, as well as other factors. Because Lawndale does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Lawndale maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on Lawndale’s estimated direct and indirect costs of providing charity care services. That estimate is made by multiplying Lawndale’s Medicaid encounter rate by total charity encounters. The amount of charity care provided during the year ended June 30, 2012 was approximately $6,161,000.

Note 4. Notes Receivable

In May 2011, Lawndale loaned money in connection with the financing obtained through the New Markets Tax Credit (NMTC) program. The note receivable is from the Qualified Equity Investment Fund linked to Lawndale’s financing obtained using the NMTC program. See Note 7 for further information related to the NMTC Program.

The composition of notes receivable is as follows at June 30, 2012:

Stonehenge Community Development XLVII, LLC, interest accruing at 3.74% fixed rate (interest only payments due at a rate of 1.0% during Compliance Period) payable quarterly, through Compliance Period (May 2018), principal and interest payments of $617,506 due quarterly through maturity date of May 4, 2041	$ 7,799,829
Stonehenge Illinois NMTC Investment Fund II, LLC, interest accruing at 2.0142% fixed rate (interest only payments due at a rate of 1.0% during Compliance Period) payable quarterly, through Compliance Period (May 2018), principal and interest payments of $489,079 due quarterly through maturity date of May 4, 2041	8,350,000
	$ 16,149,829

Note 4. Notes Receivable (Continued)

The first seven years of the notes are defined as the Compliance Period. During the Compliance Period, only interest is paid. After the Compliance Period, there are put and call agreements between LCSC and the other investors in the QEI funds. If the other investors do not exercise their put options, LCSC has the ability to call the ownership in the interest in the QEI funds for fair market value. It is anticipated that the NMTC investors will put their option and LCSC will own the QEI funds at the end of the Compliance Period. However, if the other investors do not put their interest, management plans to exercise its option to call.

Note 5. Investments and Assets Whose Use is Limited

Fair value measurements: Guidance provided by the FASB 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. In determining fair value, Lawndale uses various methods including market, income and cost approaches. Based on these approaches, Lawndale often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. Lawndale utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, Lawndale is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions.

For the year ended June 30, 2012, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment Securities

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers.

Note 5. Investments and Assets Whose Use is Limited (Continued)

The following table summarizes Lawndale's investments and assets whose use is limited measured at fair value on a recurring basis as of the measurement date, June 30, 2012 and their level within the fair value hierarchy:

	Total	Level 1	Level 2	Level 3
Mutual Funds:				
Prime money market fund	$ 14,540	$ 14,540	$ -	$ -
Short-term bond index fund	2,572,939	2,572,939	-	-
Short-term Treasury fund	2,546,220	2,546,220	-	-
Bond index fund	4,635,084	4,635,084	-	-
Total stock index fund	1,069,204	1,069,204	-	-
Value stock index fund	1,175,940	1,175,940	-	-
International stock index fund	1,086,000	1,086,000	-	-
	$ 13,099,927	$ 13,099,927	$ -	$ -

Lawndale assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with Lawndale's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the year ended June 30, 2012, there were no such transfers.

Lawndale invests in various mutual fund securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level risk associated with certain investments it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

Assets whose use is limited have been designed by the Board for the following purposes at June 30, 2012:

Future contracted medical services	$ 5,000,000
Renovation of existing facility and future expansion	1,500,000
	$ 6,500,000

Note 6. Property and Equipment

Property and equipment, net, consisted of the following at June 30, 2012:

Land	$ 1,139,200
Buildings and improvements	21,578,144
Leasehold improvements	9,202,134
Furniture and equipment	4,686,392
Construction in process	803,935
	37,409,805
Accumulated depreciation and amortization	(6,723,944)
	$ 30,685,861

Interest expense capitalized during the year ended June 30, 2012 was approximately $210,068.

Note 7. Long-Term Debt

In May 2011, Lawndale obtained financing in an arrangement structured under the New Markets Tax Credit (NMTC) program. This program was enacted by Congress as part of the Community Renewal Tax Relief Act of 2000. Essentially, this program permits individual and corporate taxpayers to receive a credit against federal income taxes for making Qualified Equity Investments (QEIs) in qualified Community Development Entities (CDEs). Lawndale has obtained financing from two separate CDEs to fund the construction of its new facility at 3748 West Ogden Avenue in Chicago.

Under IRS guidelines for the NMTC program, Lawndale was required to provide investment funding through a separate legal entity (leveraged lender) into the QEI funds. For this reason, LCSC was created to provide partial funding into the QEI. See Note 4 relating to notes receivable from the QEI funds.

The taxpayers who invested in the QEIs funds may claim a tax credit related to their investment over a seven-year credit period (also referred to as the “Compliance Period”). During the Compliance Period, only interest is paid. Once the Compliance Period ends, there is a put and call agreement between the NMTC investors at both the state and federal level and the leverage lender (LCSC). The NMTC investors may put their ownership interests in the QEI funds to LCSC for $1,000. If the NMTC investors do not exercise their put option, LCSC has the ability to call the ownership in the interest in the QEI funds for fair market value. It is anticipated that the NMTC investors will put their options and LCSC would then own the QEI funds. LCSC would then forgive LCHC’s notes payable, resulting in no outstanding debt at that point in time and a benefit of equity from the NMTC program may be recognized.

The composition of debt is as follows at June 30, 2012:

NMTC PNBI - Note A	$ 10,000,000
NMTC PNBI - Note B	2,800,000
NMTC Impact VI CDE - Note A	7,799,829
NMTC Impact VI CDE - Note B	3,220,141
	$ 23,819,970

On May 5, 2011, Lawndale received proceeds totaling $23,819,970 from borrowings under the NMTC program. The related notes payable will mature in May 2041 and each bears interest at a rate of 1.39026 percent per annum. Interest only payments are due quarterly during the Compliance Period. Beginning in May 2018, principal and interest payments will be made on each note quarterly through the maturity date.

Debt is collateralized by land and real property of the new facility which is being constructed at 3748 West Ogden Avenue.

Note 8. Capital Lease Obligation

During 2011, Lawndale entered into a capital lease agreement for certain equipment. Interest expense on this capital lease for the year ended June 30, 2012 was $24,763.

Included in equipment at June 30, 2012, are assets recorded under this capital lease with a total cost of $327,770. Accumulated amortization related to this equipment at June 30, 2012 was $109,257.

Lawndale's estimated future minimum lease payments under capital lease obligations together with the present value of the net minimum lease payments at June 30, 2012, are shown below:

Years Ending June 30,		
2013	$	87,185
2014		87,185
2015		87,185
2016		43,506
Total minimum lease payments		305,061
Less amount representing interest		63,986
Present value of minimum lease payments	$	241,075

Note 9. Temporarily Restricted Net Assets

Net assets were released from donor restrictions by incurring costs satisfying the restricted purposes specified by donors as follows for the year ended June 30, 2012:

Capital projects	$	188,732
Program services		116,194
	$	304,926

Note 10. Lease/Space Sharing Commitments

Lawndale is obligated under a space agreement with the Lawndale Community Church covering its original medical center and administrative offices on Ogden Avenue. The space sharing term is through June 30, 2015 and provides for annual payments of $121,500. The space sharing agreement also requires Lawndale to pay insurance and utilities along with general repairs and maintenance.

Lawndale is obligated under a lease agreement with Homan Square Community Center Foundation. The lease agreement is through December 31, 2016 and provides for annual rental payments of $274,462, for a total future obligation of $1,235,077. The lease agreement also requires Lawndale to pay its pro rata share of real estate taxes, insurance, utilities and to be responsible for applicable general repairs and maintenance.

Lawndale entered into an agreement with the Chicago Public Schools (CPS) during 2003, whereby, CPS provides space to Lawndale at no charge. The estimated fair value of the space provided during the years ended June 30, 2012 and 2011, was approximately $43,000 for both years, which was recognized as both revenue and expense in the consolidated statements of operations and changes in unrestricted net assets.

Lawndale is leasing month-to-month 10 parking lot spaces from a neighboring business adjacent to the 5122 West Archer Avenue clinic in Archer Heights. Under this leasing arrangement, Lawndale is making monthly payments of $250.

Note 10. Lease/Space Sharing Commitments (Continued)

Minimum future lease payments under the above agreements having remaining terms in excess of one year as of June 30, 2012, for each of the next five years and thereafter are as follows:

Years ending June 30,		
2013	$	402,762
2014		402,762
2015		402,762
2016		281,262
2017		144,031
Thereafter		20,400
	$	1,653,979

Total rental expense incurred for the year ended June 30, 2012 was $446,767.

Note 11. Retirement Plan

Lawndale sponsors a 403(b) plan that is available to all eligible employees. Contributions to the plan are determined by the Board of Directors and are subject to certain limitations. Under the provisions of the plan, each participant may elect to contribute a limited portion of their compensation to the plan. Expense recognized by Lawndale under this plan was $419,830 for the year ended June 30, 2012.

Note 12. Professional Liability Insurance

The Federally Supported Health Centers Assistance Act of 1992 and 1995 granted medical malpractice liability protection through the Federal Tort Claims Act (FTCA) to Federally Qualified Health Centers. Under this legislation, Lawndale, employees, and eligible contractors are considered Federal employees immune from suit with the Federal government acting as their primary insurer.

Note 13. Commitments, Contingencies, and Subsequent Events

Construction in Progress – Lawndale constructed a café at the new facility at 3748 West Ogden Avenue. Construction of this project was completed in September 2012. This project cost approximately $815,000. At June 30, 2012, construction contracts of approximately $468,500 existed for the construction of the café. At June 30, 2012, the remaining commitments on these contracts approximated $193,000. Lawndale funded the cost of this construction through operations.

Purchase Commitment – Subsequent to year-end, Lawndale entered into a contract to purchase property in the amount of $970,000. The property to be purchased is located on Ogden Avenue in Chicago, Illinois near its current facilities. The expected close date for this purchase is January 31, 2012. Lawndale plans to fund this transaction with its existing reserves. The property's future uses may include additional parking and allow for the expansion of optometry services or other program related activities.

Self-Insurance – Lawndale is self-insured for employee health care coverage. The program is administered by a third-party administrator. Lawndale maintains individual and aggregate stop loss insurance coverages.

Note 13. Commitments, Contingencies, and Subsequent Events (Continued)

Regulatory Environment Including Fraud and Abuse Matters – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well significant repayments for patient services previously billed. Management believes that Lawndale is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries that are expected to have a material adverse effect on Lawndale have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

OIG Audit – In September 2012, Lawndale received an audit report from the U.S. Department of Health and Human Services Office of Inspector General (OIG) relating to an audit conducted by the OIG of certain grant funds provided to Lawndale by the Health Resources and Services Administration (HRSA). In its audit report, OIG identified $173,897 of costs charged to the HRSA grants that it believes were unallowable and $636,718 of costs for which OIG could not determine allowability. OIG has recommended that HRSA seek refunds from Lawndale of $109,720 and work with Lawndale to determine the eligibility of the remaining $636,718 or seek refunds of that amount. Lawndale believes that it has sufficient additional project expenses to apply to the grant which were not originally charged to the grant because Lawndale believed it had exhausted its budget. Lawndale has also been able to identify what it believes to be sufficient evidence from original awarding documentation that the cost methodology it chose for the questioned costs will be found reasonable by HRSA. Lawndale does not believe it will be required to refund any amounts to HRSA as a result of this audit, and accordingly, no refund liability has been recorded in the accompanying consolidated statement of financial position as of June 30, 2012.

Investment Risk – Lawndale invests in various mutual fund securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level risk associated with certain investment, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

Subsequent Events - Management has evaluated subsequent events through December 20, 2012, which is the date the financial statements were available to be issued.

Lawndale Christian Health Center and Affiliate

Consolidating Statement of Financial Position Information
June 30, 2012

	Lawndale Christian Health Center	Lawndale Christian Supporting Corporation	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 9,574,536	$ 246,202	$ -	$ 9,820,738
Receivables:				
Patients accounts, less allowance	2,390,662	-	-	2,390,662
Grants	1,241,448	-	-	1,241,448
Other	267,124	386,230		653,354
Inventories	58,274	-	-	58,274
Total current assets	13,532,044	632,432	-	14,164,476
Noncurrent Assets				
Investments	6,599,927	-	-	6,599,927
Assets whose use is limited	6,500,000	-	-	6,500,000
Notes receivable	-	16,149,829	-	16,149,829
Property and equipment, net	30,685,861	-	-	30,685,861
	$ 57,317,832	$ 16,782,261	$ -	$ 74,100,093
Liabilities and Net Assets				
Current Liabilities				
Current maturities of capital lease obligation	$ 64,422	$ -	$ -	$ 64,422
Accounts payable	2,169,957	-	-	2,169,957
Accrued expenses:				
Salaries and related expenses	1,899,487	-	-	1,899,487
Contracted medical services	795,444	-	-	795,444
Total current liabilities	4,929,310	-	-	4,929,310
Long-Term Liabilities				
Long-term debt	23,819,970	-	-	23,819,970
Capital lease obligation, less current maturities	176,653	-	-	176,653
Total liabilities	28,925,933	-	-	28,925,933
Unrestricted Net Assets	28,391,899	16,782,261	-	45,174,160
	$ 57,317,832	$ 16,782,261	$ -	$ 74,100,093

Lawndale Christian Health Center and Affiliate

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information
Year Ended June 30, 2012

	Lawndale Christian Health Center	Lawndale Christian Supporting Corporation	Eliminations	Total
Revenue:				
Support and revenue:				
Grants	$ 7,982,581	$ -	$ -	$ 7,982,581
Contributions	380,543	-	-	380,543
Patient revenue:				
Patient fees, net	10,428,878	-	-	10,428,878
Capitation revenue	15,406,592	-	-	15,406,592
Other	441,871	-	-	441,871
Net assets released from restrictions used for operations	116,194	-	-	116,194
Total support and revenue	34,756,659	-	-	34,756,659
Expenses:				
Program services:				
Medical services	24,053,894	-	-	24,053,894
Health support services	4,510,322	-	-	4,510,322
	28,564,216	-	-	28,564,216
Supporting services:				
Management and general	5,345,729	-	-	5,345,729
Total expenses	33,909,945	-	-	33,909,945
Operating income	846,714	-	-	846,714
Interest income	-	459,477	-	459,477
Dividends	109,319	-	-	109,319
	109,319	459,477	-	568,796
Excess of revenue over expenses	956,033	459,477	-	1,415,510
Other changes in unrestricted net assets:				
Net change in unrealized gains on investments	(45,267)	-	-	(45,267)
Grants for capital additions	8,780,548	-	-	8,780,548
Temporarily restricted net assets released for capital projects	188,732	-	-	188,732
	8,924,013	-	-	8,924,013
Increase in unrestricted net assets	$ 9,880,046	$ 459,477	$ -	$ 10,339,523

Lawndale Christian Health Center and Affiliate

Consolidating Statement of Changes in Net Assets Information
Year Ended June 30, 2012

	Lawndale Christian Health Center	Lawndale Christian Supporting Corporation	Eliminations	Total
Unrestricted net assets:				
Excess of revenue over expenses	$ 956,033	$ 459,477	$ -	$ 1,415,510
Net change in unrealized gains on investments	(45,267)	-	-	(45,267)
Grants for capital additions	8,780,548	-	-	8,780,548
Temporarily restricted net assets released for capital projects	188,732	-	-	188,732
Increase in unrestricted net assets	9,880,046	459,477	-	10,339,523
Temporarily restricted net assets:				
Contributions	304,926	-	-	304,926
Net assets released from restrictions	(304,926)	-	-	(304,926)
Change in temporarily restricted net assets	-	-	-	-
Increase in net assets	9,880,046	459,477	-	10,339,523
Net assets:				
Beginning of year	18,511,853	16,322,784	-	34,834,637
End of year	$ 28,391,899	$ 16,782,261	$ -	$ 45,174,160

Lawdale Christian Health Center and Affiliate

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Programs:			
Health Center Cluster:			
Consolidated Health Centers	93.224		$ 2,742,690
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527		1,903,085
Total Health Center Cluster			4,645,775
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501		250,000
ARRA: Grants to Health Center Programs - Facility Investment Program	93.703		5,420,984
Health Care and Other Facilities	93.887		150,872
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		407,327
Pass-Through Programs:			
Passed-Through City of Chicago Department of Public Health:			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	19741	86,013
Passed-Through City of Chicago Department of Public Health:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	17868	37,395
Passed-Through City of Chicago Department of Public Health:			
HIV Emergency Relief Project Grants	93.914	17179	220,074
Passed-Through Aids Foundation of Chicago:			
HIV Care Formula Grants	93.917		106,180
Passed-Through Access Family Health Centers:			
Healthy Start Initiative	93.926	H49MC00098	194,619
Passed-Through Illinois Department of Human Services:			
Maternal and Child Health Services Block Grant	93.994	11GM303000	829,500
Total U.S. Department of Health and Human Services			12,348,739
Total Expenditures of Federal Awards			$ 12,348,739

See Notes to Schedule of Expenditures of Federal Awards.

Lawndale Christian Health Center and Affiliate

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards summarizes the awards expended by Lawndale Christian Health Center and Affiliate (Lawndale) that were received directly or indirectly from the federal government for the year ended June 30, 2012, and is presented on the accrual basis of accounting. Expenditures are recognized at the time the liabilities are incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts in this may differ from amounts presented in, or used in the preparation of the basic financial statements,

Note 2. Major Programs

Major programs are those programs meeting certain thresholds, identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs, which were determined using a risk-based approach in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 3. Noncash Awards

There were no noncash awards such as loans and loan guarantees, surplus property, interest rate subsidies, insurance awards or other non-cash awards issued to Lawndale during the fiscal year under audit.

Note 4. Subrecipients

Lawndale did not make any awards to subrecipients during the fiscal year under audit.

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
Lawndale Christian Health Center
Chicago, Illinois

We have audited the consolidated financial statements of Lawndale Christian Health Center and Affiliate (Lawndale) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 20, 2012. 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.

Internal Control Over Financial Reporting

Management of Lawndale is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lawndale's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lawndale's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lawndale's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lawndale's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2012-01 and 2012-02.

Lawndale's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit Lawndale's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey LLP

Chicago, Illinois
December 20, 2012

McGladrey

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Lawndale Christian Health Center
Chicago, Illinois

Compliance

We have audited the compliance of Lawndale Christian Health Center and Affiliate (Lawndale) with the types of compliance requirements described in the *OMB Circular A-133, Compliance Supplement* that could have a direct and material effect on Lawndale's major federal programs for the year ended June 30, 2012. Lawndale's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lawndale's management. Our responsibility is to express an opinion on Lawndale's compliance based on our audit.

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 Lawndale'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. Our audit does not provide a legal determination on Lawndale's compliance with those requirements.

In our opinion, Lawndale complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2012-01 and 2012-02.

Internal Control Over Compliance

Management of Lawndale is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lawndale's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose expressing our opinion on compliance 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 Lawndale's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as Finding 2012-02 to be a significant deficiency.

Lawndale's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit Lawndale's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey LLP

Chicago, Illinois
December 20, 2012

Lawdale Christian Health Center and Affiliate

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified			
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?	X	Yes	___	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	X	Yes	___	No

The following programs were tested as major programs:

Program Name	CFDA #
Health Center Cluster	93.224 and 93.527
ARRA: Grants to Health Center Programs - Facility Investment Program	93.703
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918
Maternal and Child Health Services Block Grant	93.994

Dollar threshold used to distinguish between type A and type B programs: $ 370,462

Auditee qualified as a low-risk auditee? X Yes ___ No

Section II – Financial Statement Findings

None.

Schedule III – Federal Award Findings and Questioned Costs

2012-01: Governing Board Meetings

Agency: U.S. Department of Health and Human Services
Programs: Consolidated Health Centers, CFDA No. 93.224 and Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Centers Program, CFDA No. 93.527

Criteria or Specific Requirement: The program specific compliance supplement requires that the grantee must have a governing board that meets a least once a month.

Condition & Context: Lawndale's Board of Directors did not meet in September 2011 and June 2012.

Questioned Costs: None

Effect: Lawndale could lose reimbursement for submitted expenses and/or future funding based on non-compliance with the program specific compliance requirement.

Cause: Lawndale was unaware of this requirement.

Recommendation: We recommend that the Board of Directors hold monthly meetings.

2012-02: Report issued by the Office of Inspector General

Agency: U.S. Department of Health and Human Services
Programs: ARRA Grants to Health Center Programs, CFDA No. 93.703

Criteria or Specific Requirement: The grant agreement provided guidance on what expenditures were allowable under the program.

Condition & Context: The U.S. Department of Health and Human Services Office of Inspector General (OIG) performed an audit of Lawndale in April 2011 covering the period March 2009 through December 2011. Based on the audit performed by the OIG, Lawndale claimed Federal grant expenditures relating to the ARRA Grants to Health Center Programs totaling $85,167 that were deemed unallowable.

Questioned Costs: $85,167

Effect: Lawndale could lose reimbursement for submitted expenses and/or future funding based on non-compliance with the program specific compliance requirement.

Cause: Lawndale was unaware of the rule that costs related to land or facility purchases are not eligible for reimbursement under this grant.

Recommendation: We recommend that Lawndale fully review the criteria of each grant to ensure that all expenditures charged to the grant are allowable and are properly supported.

Lawndale Christian Health Center and Affiliate

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Prior Year Findings:

Finding 2011-01: Lease Analysis

According to accounting principles generally accepted in the United States of America (GAAP), leases must be evaluated based on four criteria to determine proper classification as either operating or capital leases. Lawndale did not analyze its leases for all four criteria, resulting in a capital lease being improperly recorded as an operating lease.

Management's Response: Management has incorporated all criteria going forward in future lease arrangements.

Current Status: Not repeated.

Finding 2011-02: Timeliness of Reporting

Agency: U.S. Department of Health and Human Services
Program: Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease, CFDA No. 93.918

The grant agreement requires that the grantee complete and submit reports throughout the course of the grant. Four out of eight reports were not submitted timely. The Budget Allocation Report was submitted one day late, the Federal Financial Report was submitted 21 days late, and the Ryan White Data Report was submitted 26 days late. The Annual Report was submitted late, however, the number of days late could not be determined by the audit team due to encryption software used in filing.

Management's Response: Management has prepared reports with ample time for supervisory review. Reports have been submitted timely this past year.

Current Status: Not repeated.

Finding 2011-03: Submission of Resumes

Agency: U.S. Department of Health and Human Services
Program: Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease Services, CFDA No. 93.918

The grant agreement requires the grantee submit resumes of any personnel hired into the program subsequent to the initial grant application, within 30 days of the hire date. No resumes for all subsequent personnel hired were submitted timely to the funding agency as required.

Management's Response: This requirement has been brought to the attention of responsible personnel, and no future occurrences are expected.

Current Status: Not repeated.

Finding 2011-04: Timeliness of Reporting

Agency: U.S. Department of Health and Human Services
Program: Consolidated Health Centers, CFDA No. 93.224

The grant agreement requires that the grantee complete and submit two annual reports. One out of two annual reports was not submitted timely, having been filed one day after the due date.

Management's Response: Management acknowledges due dates and reports are being filed timely.

Current Status: Not repeated.

Finding 2011-05: Timeliness of Reporting

Agency: U.S. Department of Health and Human Services
Program: Maternal and Child Health Services Block Grant, CFDA No. 93.994

The grant agreement requires that the grantee complete and submit quarterly reports for three separate components of the program. Six out of twelve reports were not submitted timely.

Management's Response: Reports are now prepared with ample time for supervisory review. Reports are being filed timely.

Current Status: Not repeated.

2012-01: Governing Board Meetings
Management agrees with the recommendation and will convene the governing board monthly. At the end of October 2012, Lawndale Christian Health Center held its strategic planning retreat where it welcomed several new and returning board members back to the organization bringing the roster to 12. Achieving a quorum should prove less difficult with a full roster for the coming year.

2011-02: Report issued by the Office of Inspector General
Management agrees with the recommendation. While it is Lawndale's policy and custom to fully review the criteria for each grant award, the unique construction nature of this award and a typical timeline spanning multiple fiscal periods created the opportunity for a clerical error that will not be repeated in the event of any future awards. Lawndale has presented to HRSA additional allowable costs that were previously not reported because the budget was believed to have been exhausted resulting in a completed award expenditure with fully allowable costs.