

**LAWDALE CHRISTIAN HEALTH CENTER
AND AFFILIATE
Chicago, Illinois**

**CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**



CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lawndale Christian Health Center and Affiliate
Chicago, Illinois

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lawndale Christian Health Center and Affiliate (the "Organization") which comprise the consolidated statement of financial position as of June 30, 2014 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, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditors' 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 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 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 2014 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2014, and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2013 consolidated financial statements were audited by other auditors, whose report dated November 12, 2013, expressed an unmodified opinion on those consolidated financial statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2014 consolidated financial statements as a whole. The 2014 consolidating statement of financial position, consolidating statement of operations and changes in unrestricted net assets, and consolidating statement of changes in net assets are presented for purposes of additional analysis and are not a required part of the 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 2014 consolidated financial statements as a whole. The 2013 consolidating statement of financial position, consolidating statement of operations and changes in unrestricted net assets, and consolidating statement of changes in net assets were subjected to the auditing procedures applied in the 2013 audit of the basic consolidated financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2013 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014 on our consideration of the Organization'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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Oak Brook, Illinois
November 6, 2014

**LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013**

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,222,485	\$ 8,691,591
Receivables:		
Patients accounts, net	1,958,291	1,084,080
Grants	665,323	813,376
Other	155,212	418,451
Prepaid expenses	17,989	-
Inventories	<u>224,296</u>	<u>284,090</u>
Total current assets	10,243,596	11,291,588
NONCURRENT ASSETS		
Investments	22,602,421	13,740,799
Other receivable	982,617	684,424
Notes receivable	16,149,829	16,149,829
Property and equipment, net	<u>30,475,652</u>	<u>31,182,741</u>
TOTAL ASSETS	<u>\$ 80,454,115</u>	<u>\$ 73,049,381</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Current maturities of capital lease obligation	\$ 79,042	\$ 64,422
Accounts payable	1,291,487	1,099,309
Accrued expenses:		
Salaries and related expenses	1,965,846	1,863,088
Contracted medical services	<u>454,645</u>	<u>725,657</u>
Total current liabilities	3,791,020	3,752,476
LONG-TERM LIABILITIES		
Long-term debt	23,819,970	23,819,970
Capital lease obligation, less current maturities	<u>28,963</u>	<u>113,822</u>
Total long-term liabilities	<u>23,848,933</u>	<u>23,933,792</u>
Total liabilities	<u>27,639,953</u>	<u>27,686,268</u>
NET ASSETS		
Unrestricted	52,790,273	45,363,113
Temporarily restricted	<u>23,889</u>	<u>-</u>
Total net assets	<u>52,814,162</u>	<u>45,363,113</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 80,454,115</u>	<u>\$ 73,049,381</u>

The accompanying notes are an integral part of the consolidated financial statements.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN
UNRESTRICTED NET ASSETS
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue:		
Support and revenue:		
Grants	\$ 8,142,816	\$ 7,202,621
Contributions	4,515,868	2,338,194
Patient revenue:		
Patient fees	14,667,872	10,576,585
Provision for uncollectible accounts	(67,387)	(93,542)
Capitation revenue	14,451,705	14,868,134
Other	2,012,148	1,348,083
Net assets released from restrictions used for operations	<u>57,424</u>	<u>78,187</u>
Total revenue	<u>43,780,446</u>	<u>36,318,262</u>
Expenses:		
Program services:		
Medical services	27,338,240	26,922,912
Health support services	<u>5,509,403</u>	<u>5,144,569</u>
	32,847,643	32,067,481
Supporting services:		
Management and general	<u>5,917,382</u>	<u>5,361,980</u>
Total expenses	<u>38,765,025</u>	<u>37,429,461</u>
OPERATING INCOME (LOSS)	<u>5,015,421</u>	<u>(1,111,199)</u>
OTHER REVENUE		
Interest income	459,692	459,692
Dividends	<u>302,373</u>	<u>285,236</u>
Total other revenue	<u>762,065</u>	<u>744,928</u>
SURPLUS (DEFICIT) OF REVENUE OVER EXPENSES	<u>5,777,486</u>	<u>(366,271)</u>
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Net change in unrealized gains on investments	1,303,461	355,637
Grants for capital additions	346,213	153,787
Temporarily restricted net assets released for capital projects	<u>-</u>	<u>45,800</u>
Total other changes in unrestricted net assets	<u>1,649,674</u>	<u>555,224</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 7,427,160</u>	<u>\$ 188,953</u>

The accompanying notes are an integral part of the consolidated financial statements.

**LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET ASSETS		
Deficit of revenue over expenses	\$ 5,777,486	\$ (366,271)
Net change in unrealized gains on investments	1,303,461	355,637
Grants for capital additions	346,213	153,787
Temporarily restricted net assets released for capital projects	-	45,800
	7,427,160	188,953
Increase in unrestricted net assets		
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	81,313	123,987
Net assets released from restrictions	(57,424)	(123,987)
	23,889	-
Change in temporarily restricted net assets		
CHANGE IN NET ASSETS	7,451,049	188,953
NET ASSETS, BEGINNING OF YEAR	45,363,113	45,174,160
NET ASSETS, END OF YEAR	\$ 52,814,162	\$ 45,363,113

The accompanying notes are an integral part of the consolidated financial statements.

**LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014**

	<u>Program Services</u>			<u>Management and General</u>	<u>Total Functional Expenses</u>
	<u>Medical Services</u>	<u>Health Support Services</u>	<u>Total</u>		
EXPENSES					
Wages and salaries	\$ 12,522,060	\$ 3,393,743	\$ 15,915,803	\$ 2,840,961	\$ 18,756,764
Payroll taxes	930,575	252,206	1,182,781	211,126	1,393,907
Employee benefits	1,281,443	347,298	1,628,741	290,729	1,919,470
Retirement plan expense	<u>277,382</u>	<u>75,176</u>	<u>352,558</u>	<u>62,932</u>	<u>415,490</u>
Total salaries and related expenses	<u>15,011,460</u>	<u>4,068,423</u>	<u>19,079,883</u>	<u>3,405,748</u>	<u>22,485,631</u>
Contracted medical services	4,453,176	-	4,453,176	-	4,453,176
Maintenance and repairs	83,859	31,177	115,036	682,202	797,238
Lab	7,876	-	7,876	-	7,876
Information systems	691,422	65,100	756,522	30,069	786,591
Communications	146,703	13,813	160,516	6,380	166,896
Legal and accounting	-	-	-	91,642	91,642
Other contracted services	<u>34,816</u>	<u>132,812</u>	<u>167,628</u>	<u>133,109</u>	<u>300,737</u>
Total contracted expenses	<u>5,417,852</u>	<u>242,902</u>	<u>5,660,754</u>	<u>943,402</u>	<u>6,604,156</u>
Office supplies and equipment	154,048	43,198	197,246	153,835	351,081
Medical supplies	753,013	56,896	809,909	8,776	818,685
Optometry supplies	43,528	-	43,528	-	43,528
Dental supplies	73,937	-	73,937	-	73,937
Pharmacy	2,709,919	2,459	2,712,378	-	2,712,378
X-ray	4,704	-	4,704	-	4,704
Cafe direct expenses	-	226,981	226,981	-	226,981
Fitness vending and merchandise	<u>-</u>	<u>22,520</u>	<u>22,520</u>	<u>-</u>	<u>22,520</u>
Total supplies expenses	<u>3,739,149</u>	<u>352,054</u>	<u>4,091,203</u>	<u>162,611</u>	<u>4,253,814</u>
Occupancy	345,804	58,959	404,763	42,412	447,175
Reproduction, books, and media	52,386	9,320	61,706	18,450	80,156
Postage	4,376	13,301	17,677	37,874	55,551
Recruitment	1,727	106	1,833	795	2,628
Staff and board functions	25,167	5,510	30,677	75,113	105,790
Fees and dues	155,151	59,862	215,013	415,222	630,235
Travel	719	9,162	9,881	4,514	14,395
Training	86,561	12,844	99,405	93,778	193,183
Utilities	369,949	63,076	433,025	45,374	478,399
Insurance	97,770	16,670	114,440	11,991	126,431
Patient services	37,517	242,659	280,176	19,171	299,347
Depreciation and amortization	2,004,833	341,823	2,346,656	245,891	2,592,547
Service charges	-	-	-	20,592	20,592
Interest expense	-	-	-	348,107	348,107
Other	<u>(12,181)</u>	<u>12,732</u>	<u>551</u>	<u>26,337</u>	<u>26,888</u>
Total other expenses	<u>3,169,779</u>	<u>846,024</u>	<u>4,015,803</u>	<u>1,405,621</u>	<u>5,421,424</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 27,338,240</u>	<u>\$ 5,509,403</u>	<u>\$ 32,847,643</u>	<u>\$ 5,917,382</u>	<u>\$ 38,765,025</u>

The accompanying notes are an integral part of the consolidated financial statements.

**LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013**

	<u>Program Services</u>			<u>Management and General</u>	<u>Total Functional Expenses</u>
	<u>Medical Services</u>	<u>Health Support Services</u>	<u>Total</u>		
EXPENSES					
Wages and salaries	\$ 11,473,421	\$ 3,201,762	\$ 14,675,183	\$ 2,767,206	\$ 17,442,389
Payroll taxes	832,313	232,264	1,064,577	200,741	1,265,318
Employee benefits	1,245,273	347,505	1,592,778	300,339	1,893,117
Retirement plan expense	250,839	69,999	320,838	60,499	381,337
Total salaries and related expenses	<u>13,801,846</u>	<u>3,851,530</u>	<u>17,653,376</u>	<u>3,328,785</u>	<u>20,982,161</u>
Contracted medical services	4,778,475	-	4,778,475	-	4,778,475
Maintenance and repairs	60,146	25,629	85,775	519,190	604,965
Lab	488,051	-	488,051	-	488,051
Information systems	587,542	54,659	642,201	27,112	669,313
Communications	144,348	13,429	157,777	6,661	164,438
Legal and accounting	-	-	-	94,656	94,656
Other contracted services	192,504	144,417	336,921	59,870	396,791
Total contracted expenses	<u>6,251,066</u>	<u>238,134</u>	<u>6,489,200</u>	<u>707,489</u>	<u>7,196,689</u>
Office supplies and equipment	273,298	89,544	362,842	179,086	541,928
Medical supplies	606,244	66,083	672,327	2,391	674,718
Optometry supplies	63,955	-	63,955	-	63,955
Dental supplies	75,534	-	75,534	-	75,534
Pharmacy	2,908,869	2,230	2,911,099	-	2,911,099
X-ray	4,830	-	4,830	-	4,830
Cafe direct expenses	-	180,944	180,944	-	180,944
Fitness vending and merchandise	-	27,058	27,058	-	27,058
Total supplies expense	<u>3,932,730</u>	<u>365,859</u>	<u>4,298,589</u>	<u>181,477</u>	<u>4,480,066</u>
Occupancy	268,654	46,401	315,055	34,842	349,897
Reproduction, books, and media	80,883	9,158	90,041	8,458	98,499
Postage	923	4,370	5,293	30,619	35,912
Recruitment	2,342	154	2,496	3,013	5,509
Staff and board functions	38,333	5,311	43,644	59,258	102,902
Fees and dues	72,162	43,439	115,601	194,580	310,181
Travel	82	8,215	8,297	6,077	14,374
Training	152,609	15,631	168,240	82,373	250,613
Utilities	315,575	54,505	370,080	40,927	411,007
Insurance	84,611	14,614	99,225	10,973	110,198
Patient services	40,757	146,351	187,108	20,940	208,048
Depreciation and amortization	1,920,240	331,656	2,251,896	249,038	2,500,934
Service charges	-	-	-	22,928	22,928
Interest expense	-	-	-	355,514	355,514
Other	(39,901)	9,241	(30,660)	24,689	(5,971)
Total other expenses	<u>2,937,270</u>	<u>689,046</u>	<u>3,626,316</u>	<u>1,144,229</u>	<u>4,770,545</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 26,922,912</u>	<u>\$ 5,144,569</u>	<u>\$ 32,067,481</u>	<u>\$ 5,361,980</u>	<u>\$ 37,429,461</u>

The accompanying notes are an integral part of the consolidated financial statements.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,451,049	\$ 188,953
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,592,547	2,500,934
Provisions for uncollectible accounts	67,387	93,542
Grants received for property and equipment	(346,213)	(153,787)
Contributions received for property and equipment	-	(45,800)
Net change in unrealized gains on investments, net	(1,303,461)	(355,637)
Effects of changes in operating assets and liabilities:		
Receivables	(828,499)	1,191,591
Inventories	59,794	(225,816)
Prepaid expenses	(17,989)	-
Accounts payable	192,178	228,955
Accrued expenses	(168,254)	(106,186)
	7,698,539	3,316,749
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(7,558,161)	(285,235)
Purchases of property and equipment	(1,885,458)	(4,297,417)
	(9,443,619)	(4,582,652)
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(70,239)	(62,831)
Grants received for property and equipment	346,213	153,787
Contributions received for property and equipment	-	45,800
	275,974	136,756
Net cash provided by financing activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,469,106)	(1,129,147)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,691,591	9,820,738
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 7,222,485	\$ 8,691,591
SUPPLEMENTARY DATA - INTEREST PAID	\$ 348,107	\$ 355,514

The accompanying notes are an integral part of the consolidated financial statements.

**LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the Lawndale Community Church. LCSC serves as the leverage lender for LCHC's New Markets Tax Credit (NMTC) transaction. See Note 7.

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 (collectively referred to as "the Organization"). All significant inter-entity transactions have been eliminated in consolidation.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

The consolidated financial statements of the Organization 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. The Organization's significant accounting policies are described below.

Basis of Presentation

The Organization 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 the Organization and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that will be met either by actions of the Organization 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 used for operations".

Permanently restricted net assets are subject to donor-imposed stipulations that require that they be maintained permanently by the Organization. The Organization had no permanently restricted net assets at June 30, 2014 and 2013.

Surplus (Deficit) of Revenue over Expenses

The Consolidated Statements of Operations and Changes in Unrestricted Net Assets includes surplus (deficit) of revenue over expenses. Changes in unrestricted net assets, which are excluded from the surplus (deficit) of revenue over expenses, consistent with industry practice, include the net change in unrealized gains and losses on other-than-trading 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 in Preparing Consolidated Financial Statements

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The Organization considers all highly liquid investments available for current use with original maturities of three months or less to be cash equivalents.

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. The Organization determines when an account is past due based on payor classifications. The Organization does not charge interest on past due accounts.

Grants Receivable

Grants receivable consists of costs under the grant agreements that were incurred prior to year-end, for which payment has not been received.

Inventories

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

Investments

The Organization follows the guidance issued under the fair value measurements and disclosures topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), 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, 2014 and 2013, classified by level in the fair value hierarchy, are presented in Note 5. 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.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Investments are regularly evaluated for impairment. The Organization considers factors affecting the investee, the industry the investee operates within, and general debt and equity market trends. The Organization 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 the Organization 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 surplus (deficit) of expenses over revenue.

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 the Organization 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, the Organization is not required to reimburse the federal government. If the stated requirements are not met, the Organization would be obligated to the federal government in an amount equal to the fair value of the equipment.

Accrued Contracted Medical Services

Contracted medical services consist of care provided by other providers to the Organization's Health Maintenance Organization (HMO) patients, for which the Organization 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 the Organization.

The Organization 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 in the accompanying consolidated financial statements for the years ended June 30, 2014 and 2013 is reported net of stop-loss insurance recoveries of \$60,579 and \$45,663, respectively.

Deferred Revenue

Deferred revenue consists of grant funds received which have not yet been expended.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 14% and 16% of total revenue for the years ended June 30, 2014 and 2013, respectively. If this support were discontinued, it would have a material adverse effect on the Organization. The Organization 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 the Organization is in compliance with all applicable laws, regulations, and grant conditions.

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, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Organization's activities).

Donated assets are recorded at fair value on the date of donation. The Organization received donated pharmaceuticals of \$1,328,126 and \$2,213,369 during the years ended June 30, 2014 and 2013, respectively, that is reported in contributions revenue and medical services expense in the accompanying Consolidated Statements of Operations and Changes in Unrestricted Net Assets.

Patient Fees, Net

The Organization has agreements with third party payors that provide for payments to the Organization 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 administering 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. The Organization 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 9% and 62%, of total patient fees, net, for the year ended June 30, 2014. Patient fees, net received from Medicare represented 10% and 59%, of total patient fees, net, for the year ended June 30, 2013.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitation Revenue

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

HMO Incentive Pool Contract Settlements

The Organization's HMO contracts provide for annual settlements based on utilization. The contracts settle at various times during the Organization's fiscal year. Settlements are recorded when made known to the Organization (cash basis). Settlements recorded during the years ended June 30, 2014 and 2013 were approximately \$2,041,042 and \$2,087,748, respectively, 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 nonfinancial 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 years ended June 30, 2014 and 2013

The consolidated 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.

Charity Care Policy

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

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Medicaid Electronic Health Record (EHR) Incentive Program

The American Recovery and Reinvestment Act of 2009 provides for a Medicaid Incentive Program beginning in federal fiscal year 2011 for eligible professionals that are meaningful users of certified electronic health record (EHR) technology, as defined by the Federal Register. Certain of the Organization's physicians implemented certified EHR technology that enabled them to demonstrate their meaningful use and to qualify for the incentive program. The Organization recognized \$1,192,910 and \$148,750 of Medicaid EHR incentive, reported in grant revenue, in the accompanying Consolidated Statements of Operations and Changes in Unrestricted Net Assets during the years ended June 30, 2014 and 2013, respectively. The Organization accounts for EHR incentive funds using the contingency model. Under this model, the Organization records EHR incentive revenue in the period in which the last remaining contingency associated with its recognition is resolved.

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 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 2010 and prior.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

The Organization 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:

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - CONCENTRATIONS OF CREDIT RISK (continued)

	<u>2014</u>	<u>2013</u>
Medicare	5%	13%
Medicaid	80%	80%
Other third party payors and patients	<u>15%</u>	<u>7%</u>
	<u>100%</u>	<u>100%</u>

Throughout the year, the Organization may have amounts on deposit with financial institutions in excess of the \$250,000 Federal Deposit Insurance Corporation insurance limits. Cash held at financial institutions in excess of these \$250,000 limits was \$6,972,485 and \$8,444,591 at June 30, 2014 and 2013. Management does not anticipate nonperformance by the financial institutions.

NOTE 3 - CHARITY CARE

In the ordinary course of business, the Organization renders services to patients who are financially unable to pay for medical care. The Organization 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 the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Organization maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Organization's estimated direct and indirect costs of providing charity care services. That estimate is made by multiplying the Organization's Medicaid encounter rate by total charity encounters. The amount of charity care provided during the years ended June 30, 2014 and 2013 was approximately \$4,527,000 and \$5,516,000, respectively.

NOTE 4 - NOTES RECEIVABLE

In May 2011, the Organization loaned money in connection with the financing obtained through the NMTC program. The note receivable is from the QEI fund linked to the Organization's financing obtained using the NMTC program. See Note 7 for further information related to the NMTC program.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 4 - NOTES RECEIVABLE (continued)

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

	<u>2014</u>	<u>2013</u>
Stonehenge Community Development XLVII, LLC, interest accruing at 3.74% fixed rate (interest only payments due at a rate of 1% 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	\$ 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.	<u>8,350,000</u>	<u>8,350,000</u>
	<u><u>\$ 16,149,829</u></u>	<u><u>\$ 16,149,829</u></u>

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. Collection is fully expected and accordingly, no allowance has been provided for on these notes.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 5 - INVESTMENTS AND FAIR VALUE

Fair Value Measurements

The fair value measurements and disclosures topic of the codification 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, the Organization uses various methods including market, income, and cost approaches. Based on these approaches, the Organization 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. The Organization 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, the Organization 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 years ended June 30, 2014 and 2013, 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.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 5 - INVESTMENTS AND FAIR VALUE (continued)

Fair Value Measurements (continued)

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

<u>June 30, 2014</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Other Unobservable Inputs (Level 3)</u>
Mutual funds:				
Prime money market fund	\$ 514,560	\$ 514,560	\$ -	\$ -
Short-term bond index fund	3,925,160	3,925,160	-	-
Short-term treasury fund	3,077,146	3,077,146	-	-
Bond index fund	5,528,002	5,528,002	-	-
Total stock index fund	2,153,393	2,153,393	-	-
Value stock index fund	2,847,981	2,847,981	-	-
Mixed allocation fund	710,381	710,381		
International stock index fund	2,517,878	2,517,878	-	-
Equities	<u>915,300</u>	<u>915,300</u>	<u>-</u>	<u>-</u>
Total investments at fair value	22,189,801	<u>\$ 22,189,801</u>	<u>\$ -</u>	<u>\$ -</u>
Cash - cost method	212,620			
Investment in LLC - equity method (see Note 15)	<u>200,000</u>			
Total investments	<u>\$ 22,602,421</u>			

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 5 - INVESTMENTS AND FAIR VALUE (continued)

Fair Value Measurements (continued)

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	
<u>June 30, 2013</u>	<u>Total</u>			
Mutual funds:				
Prime money market fund	\$ 14,543	\$ 14,543	\$ -	\$ -
Short-term bond index fund	2,584,732	2,584,732	-	-
Short-term treasury fund	2,550,869	2,550,869	-	-
Bond index fund	4,595,802	4,595,802	-	-
Total stock index fund	1,298,398	1,298,398	-	-
Value stock index fund	1,462,998	1,462,998	-	-
International stock index fund	1,233,457	1,233,457	-	-
Total investments	<u>\$ 13,740,799</u>	<u>\$ 13,740,799</u>	<u>\$ -</u>	<u>\$ -</u>

The Organization 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 the Organization's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the years ended June 30, 2014 and 2013, there were no such transfers.

The Organization 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 Statements of Financial Position.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 6 - PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Land	\$ 1,162,782	\$ 1,162,782
Buildings and improvements	32,758,159	32,718,252
Furniture and equipment	6,629,426	6,194,478
Construction in progress	<u>1,742,712</u>	<u>332,108</u>
	42,293,079	40,407,620
Accumulated depreciation and amortization	<u>(11,817,427)</u>	<u>(9,224,879)</u>
Property and equipment, net	<u>\$ 30,475,652</u>	<u>\$ 31,182,741</u>

NOTE 7 - LONG-TERM DEBT

In May 2011, the Organization obtained financing in an arrangement structured under the 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 QEIs in qualified Community Development Entities (CDEs). The Organization has obtained financing from two separate CDEs to fund the construction of its new facility at 3748 West Ogden Avenue in Chicago, Illinois.

Under IRS guidelines for the NMTC program, the Organization 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.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7 - LONG-TERM DEBT (continued)

The composition of debt is as follows at June 30:

	<u>2014</u>	<u>2013</u>
NMTC PNBI - Note A	\$ 10,000,000	\$ 10,000,000
NMTC PNBI - Note B	2,800,000	2,800,000
NMTC Impact VI CDE - Note A	7,799,829	7,799,829
NMTC Impact VI CDE - Note B	<u>3,220,141</u>	<u>3,220,141</u>
Total	<u>\$ 23,819,970</u>	<u>\$ 23,819,970</u>

Long-term debts' scheduled maturities, in each of the next five years and thereafter, are as follows:

2015	\$ -
2016	-
2017	-
2018	574,148
2019	889,555
Thereafter	<u>22,356,267</u>
Total	<u>\$ 23,819,970</u>

On May 5, 2011, the Organization 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% 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, Chicago, Illinois.

NOTE 8 - CAPITAL LEASE OBLIGATION

During 2011, the Organization entered into a capital lease agreement for certain equipment. Interest expense on this capital lease for the years ended June 30, 2014 and 2013 was \$16,571 and \$24,763, respectively.

Included in equipment at June 30, 2014 and 2013, are assets recorded under this capital lease with a total cost of \$327,770. Accumulated amortization related to this equipment at June 30, 2014 and 2013 was \$240,365 and \$174,811, respectively.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 8 - CAPITAL LEASE OBLIGATION (continued)

The Organization's estimated future minimum lease payments under capital lease obligations together with the present value of the net minimum lease payments at June 30, 2014, are shown below:

Years Ending June 30,

2015	\$ 87,185
2016	<u>29,062</u>
Total minimum lease payments	116,247
Less amount representing interest	<u>8,242</u>
Present value of minimum lease payments	<u>\$ 108,005</u>

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:

	<u>2014</u>	<u>2013</u>
Capital projects	\$ -	\$ 45,800
Program services	<u>57,424</u>	<u>78,187</u>
Total released from restrictions	<u>\$ 57,424</u>	<u>\$ 123,987</u>

The remaining balance in temporarily restricted net assets as of June 30, 2014 is restricted for various program services.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
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NOTE 10 - LEASE/SPACE SHARING COMMITMENTS

The Organization 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 the Organization to pay insurance and utilities along with general repairs and maintenance.

The Organization assumed a lease from Ogden Building Company, LLC with the state of Illinois as lessee for property it purchased on Ogden Avenue in December 2012. The lease term expires on October 31, 2014 and provides for annual payments of \$410,175.

The Organization 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. The lease agreement also requires the Organization to pay its pro rata share of real estate taxes, insurance, utilities, and to be responsible for applicable general repairs and maintenance.

The Organization entered into an agreement with the Chicago Public Schools (CPS) during 2003, whereby CPS provides space to the Organization at no charge. The estimated fair value of the space provided during the years ended June 30, 2014 and 2013, was approximately \$76,000 and \$43,000, respectively, which was recognized as both revenue and expense in the Consolidated Statements of Operations and Changes in Unrestricted Net Assets.

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

Minimum future lease payments under the above agreements having remaining terms in excess of one year as of June 30, 2014, for each of the next five years and thereafter, are as follows:

2015	\$ 402,762
2016	281,262
2017	144,031
2018	6,800
Thereafter	<u>13,600</u>
Total	<u>\$ 848,455</u>

Total rental expense incurred for the years ended June 30, 2014 and 2013 was \$447,175 and \$425,931, respectively.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 - RETIREMENT PLAN

The Organization 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 the Organization under this plan was \$415,490 and \$381,337 for the years ended June 30, 2014 and 2013, respectively.

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, the Organization, 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

Self-Insurance

The Organization is self insured for employee health care coverage. The program is administered by a third party administrator. The Organization maintains individual and aggregate stop-loss insurance coverages. Insurance expense under the employee health insurance program amounted to \$1,703,562 and \$1,635,143 for the years ended June 30, 2014 and 2013, respectively

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 as significant repayments for patient services previously billed. Management believes that the Organization 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 the Organization 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.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 - COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS (continued)

Investment Risk

The Organization 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 Statements of Financial Position.

Construction in Progress

The Organization has one significant construction project underway as of June 30, 2014 to update a portion of its original exam rooms and redesign of its layout to expand the space and accommodate technologies that are integral to current care delivery models. Construction is expected to be complete during the year ending June 30, 2015. A grant from the Health Resources and Services Administration is providing \$500,000 of the funding for the project, with the rest of the \$879,000 project cost to be funded through operations. The Organization is providing its own general contracting services to complete the project. As of June 30, 2014, approximately \$1,196,000 has been completed and is recorded in construction in progress.

Office of Inspector General (OIG) Audit

In May 2013, the Organization received notice from the U.S. Department of Health and Human Services, Office of Federal Assistance Management, Division of Financial Integrity acknowledging that the questioned costs identified by the Office of Inspector General (OIG) were in fact allowable. No monetary recoveries were requested regarding the findings in the OIG report. The audit is considered closed.

NOTE 14 - INVESTMENT IN MHN ACO, LLC

The Organization invested in MHN ACO, LLC (the "LLC") during the year ended June 30, 2014. Under the terms of the operating agreement, the Organization acquired 40 membership units with its initial capital contribution of \$200,000. The LLC was created to arrange for the provision of health care services and supplies and coordinate the delivery of health care services among members in an accountable manner with the goal of better care for individuals, better health for populations, and lower costs. Members of the LLC are subject to an operating agreement which places limits on the transfer, sale and pledging of units, including the right to first refusal by the LLC and other members in the event a member wishes to sell or dispose of their units. Withdrawal from the LLC requires written notice provided at least 90 days prior to withdrawal date.

As of June 30, 2014, the investment is accounted for under the equity method, which is equal to the amount of capital contributed. As the LLC was incorporated on May 5, 2014, summary level financial statements are not yet available. The LLC is shown as "Investments" within the Consolidated Statements of Financial Position.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
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NOTE 15 - SUBSEQUENT EVENTS

Management evaluated subsequent events through November 6, 2014, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to November 6, 2014 that provided additional evidence about conditions that existed at June 30, 2014, have been recognized in the consolidated financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2014.

This information is an integral part of the accompanying consolidated financial statements.

SUPPLEMENTARY INFORMATION

**LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2014**

ASSETS	Lawndale Christian Health Center	Lawndale Christian Supporting Corporation	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 6,648,312	\$ 574,173	\$ -	\$ 7,222,485
Receivables:				
Patients accounts, less allowance of \$609,649	1,958,291	-	-	1,958,291
Grants	665,323	-	-	665,323
Other	155,212	-	-	155,212
Prepaid expenses	17,989	-	-	17,989
Inventories	<u>224,296</u>	<u>-</u>	<u>-</u>	<u>224,296</u>
Total current assets	9,669,423	574,173	-	10,243,596
NONCURRENT ASSETS				
Investments	19,279,879	3,322,542	-	22,602,421
Other receivable	-	982,617	-	982,617
Notes receivable	-	16,149,829	-	16,149,829
Property and equipment, net	<u>30,475,652</u>	<u>-</u>	<u>-</u>	<u>30,475,652</u>
TOTAL ASSETS	<u>\$ 59,424,954</u>	<u>\$ 21,029,161</u>	<u>\$ -</u>	<u>\$ 80,454,115</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current maturities of capital lease obligation	\$ 79,042	\$ -	\$ -	\$ 79,042
Accounts payable	1,291,487	-	-	1,291,487
Accrued expenses:				
Salaries and related expenses	1,965,846	-	-	1,965,846
Contracted medical services	<u>454,645</u>	<u>-</u>	<u>-</u>	<u>454,645</u>
Total current liabilities	<u>3,791,020</u>	<u>-</u>	<u>-</u>	<u>3,791,020</u>
LONG-TERM LIABILITIES				
Long-term debt	23,819,970	-	-	23,819,970
Capital lease obligation, less current maturities	<u>28,963</u>	<u>-</u>	<u>-</u>	<u>28,963</u>
Total long-term liabilities	<u>23,848,933</u>	<u>-</u>	<u>-</u>	<u>23,848,933</u>
Total liabilities	<u>27,639,953</u>	<u>-</u>	<u>-</u>	<u>27,639,953</u>
NET ASSETS				
Unrestricted	31,761,112	21,029,161	-	52,790,273
Temporarily restricted	<u>23,889</u>	<u>-</u>	<u>-</u>	<u>23,889</u>
TOTAL NET ASSETS	<u>31,785,001</u>	<u>21,029,161</u>	<u>-</u>	<u>52,814,162</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 59,424,954</u>	<u>\$ 21,029,161</u>	<u>\$ -</u>	<u>\$ 80,454,115</u>

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2013**

ASSETS	Lawndale Christian Health Center	Lawndale Christian Supporting Corporation	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 8,283,891	\$ 407,700	\$ -	\$ 8,691,591
Receivables:				
Patients accounts, less allowance of \$240,626	1,084,080	-	-	1,084,080
Grants	813,376	-	-	813,376
Other	418,451	-	-	418,451
Inventories	<u>284,090</u>	<u>-</u>	<u>-</u>	<u>284,090</u>
Total current assets	10,883,888	407,700	-	11,291,588
NONCURRENT ASSETS				
Investments	13,740,799	-	-	13,740,799
Other receivable	-	684,424	-	684,424
Notes receivable	-	16,149,829	-	16,149,829
Property and equipment, net	<u>31,182,741</u>	<u>-</u>	<u>-</u>	<u>31,182,741</u>
TOTAL ASSETS	<u>\$ 55,807,428</u>	<u>\$ 17,241,953</u>	<u>\$ -</u>	<u>\$ 73,049,381</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current maturities of capital lease obligation	\$ 64,422	\$ -	\$ -	\$ 64,422
Accounts payable	1,099,309	-	-	1,099,309
Accrued expenses:				
Salaries and related expenses	1,863,088	-	-	1,863,088
Contracted medical services	<u>725,657</u>	<u>-</u>	<u>-</u>	<u>725,657</u>
Total current liabilities	<u>3,752,476</u>	<u>-</u>	<u>-</u>	<u>3,752,476</u>
LONG-TERM LIABILITIES				
Long-term debt	23,819,970	-	-	23,819,970
Capital lease obligation, less current maturities	<u>113,822</u>	<u>-</u>	<u>-</u>	<u>113,822</u>
Total long-term liabilities	<u>23,933,792</u>	<u>-</u>	<u>-</u>	<u>23,933,792</u>
Total liabilities	27,686,268	-	-	27,686,268
UNRESTRICTED NET ASSETS	<u>28,121,160</u>	<u>17,241,953</u>	<u>-</u>	<u>45,363,113</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 55,807,428</u>	<u>\$ 17,241,953</u>	<u>\$ -</u>	<u>\$ 73,049,381</u>

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN
UNRESTRICTED NET ASSETS
Year Ended June 30, 2014**

	<u>Lawndale Christian Health Center</u>	<u>Lawndale Christian Supporting Corporation</u>	<u>Eliminations</u>	<u>Total</u>
CHANGES IN UNRESTRICTED NET ASSETS				
Revenue:				
Support and revenue:				
Grants	\$ 8,142,816	\$ -	\$ -	\$ 8,142,816
Contributions	1,455,081	3,060,787	-	4,515,868
Patient revenue:				
Patient fees, net	14,667,872	-	-	14,667,872
Provision for uncollectible accounts	(67,387)	-	-	(67,387)
Capitation revenue	14,451,705	-	-	14,451,705
Other	2,012,148	-	-	2,012,148
Net assets released from restrictions used for operations	<u>57,424</u>	<u>-</u>	<u>-</u>	<u>57,424</u>
Total revenue	<u>40,719,659</u>	<u>3,060,787</u>	<u>-</u>	<u>43,780,446</u>
Expenses:				
Program services:				
Medical services	27,338,240	-	-	27,338,240
Health support services	<u>5,509,403</u>	<u>-</u>	<u>-</u>	<u>5,509,403</u>
	32,847,643	-	-	32,847,643
Supporting services:				
Management and general	<u>5,917,356</u>	<u>26</u>	<u>-</u>	<u>5,917,382</u>
Total expenses	<u>38,764,999</u>	<u>26</u>	<u>-</u>	<u>38,765,025</u>
OPERATING GAIN	<u>1,954,660</u>	<u>3,060,761</u>	<u>-</u>	<u>5,015,421</u>
OTHER REVENUE				
Interest income	-	459,692	-	459,692
Dividends	<u>249,376</u>	<u>52,997</u>	<u>-</u>	<u>302,373</u>
Total other revenue	<u>249,376</u>	<u>512,689</u>	<u>-</u>	<u>762,065</u>
SURPLUS OF REVENUE OVER EXPENSES	<u>2,204,036</u>	<u>3,573,450</u>	<u>-</u>	<u>5,777,486</u>
OTHER CHANGES IN UNRESTRICTED NET ASSETS				
Net change in unrealized gains on investments	1,089,703	213,758	-	1,303,461
Grants for capital additions	346,213	-	-	346,213
Temporarily restricted net assets released for capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other changes in unrestricted net assets	<u>1,435,916</u>	<u>213,758</u>	<u>-</u>	<u>1,649,674</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 3,639,952</u>	<u>\$ 3,787,208</u>	<u>\$ -</u>	<u>\$ 7,427,160</u>

**LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN
UNRESTRICTED NET ASSETS
Year Ended June 30, 2013**

	<u>Lawndale Christian Health Center</u>	<u>Lawndale Christian Supporting Corporation</u>	<u>Eliminations</u>	<u>Total</u>
CHANGES IN UNRESTRICTED NET ASSETS				
Revenue:				
Support and revenue:				
Grants	\$ 7,202,621	\$ -	\$ -	\$ 7,202,621
Contributions	2,338,194	-	-	2,338,194
Patient revenue:				
Patient fees, net	10,576,585	-	-	10,576,585
Provision for uncollectible accounts	(93,542)	-	-	(93,542)
Capitation revenue	14,868,134	-	-	14,868,134
Other	1,348,083	-	-	1,348,083
Net assets released from restrictions used for operations	<u>78,187</u>	<u>-</u>	<u>-</u>	<u>78,187</u>
Total revenue	<u>36,318,262</u>	<u>-</u>	<u>-</u>	<u>36,318,262</u>
Expenses:				
Program services:				
Medical services	26,922,912	-	-	26,922,912
Health support services	<u>5,144,569</u>	<u>-</u>	<u>-</u>	<u>5,144,569</u>
	32,067,481	-	-	32,067,481
Supporting services:				
Management and general	<u>5,361,980</u>	<u>-</u>	<u>-</u>	<u>5,361,980</u>
Total expenses	<u>37,429,461</u>	<u>-</u>	<u>-</u>	<u>37,429,461</u>
OPERATING LOSS	<u>(1,111,199)</u>	<u>-</u>	<u>-</u>	<u>(1,111,199)</u>
OTHER REVENUE				
Interest income	-	459,692	-	459,692
Dividends	<u>285,236</u>	<u>-</u>	<u>-</u>	<u>285,236</u>
Total other revenue	<u>285,236</u>	<u>459,692</u>	<u>-</u>	<u>744,928</u>
SURPLUS (DEFICIT) OF REVENUE OVER EXPENSES	<u>(825,963)</u>	<u>459,692</u>	<u>-</u>	<u>(366,271)</u>
OTHER CHANGES IN UNRESTRICTED NET ASSETS				
Net change in unrealized gains on investments	355,637	-	-	355,637
Grants for capital additions	153,787	-	-	153,787
Temporarily restricted net assets released for capital projects	<u>45,800</u>	<u>-</u>	<u>-</u>	<u>45,800</u>
Total other changes in unrestricted net assets	<u>555,224</u>	<u>-</u>	<u>-</u>	<u>555,224</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ (270,739)</u>	<u>\$ 459,692</u>	<u>\$ -</u>	<u>\$ 188,953</u>

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2014**

	<u>Lawndale Christian Health Center</u>	<u>Lawndale Christian Supporting Corporation</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED NET ASSETS				
Surplus of revenue over expenses	\$ 2,204,036	\$ 3,573,450	\$ -	\$ 5,777,486
Net change in unrealized gains on investments	1,089,703	213,758	-	1,303,461
Grants for capital additions	346,213		-	346,213
Temporarily restricted net assets released for capital projects	-	-	-	-
	<u>3,639,952</u>	<u>3,787,208</u>	<u>-</u>	<u>7,427,160</u>
Increase in unrestricted net assets				
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	81,313	-	-	81,313
Net assets released from restrictions	<u>(57,424)</u>	<u>-</u>	<u>-</u>	<u>(57,424)</u>
	<u>23,889</u>	<u>-</u>	<u>-</u>	<u>23,889</u>
Change in temporarily restricted net assets				
CHANGE IN NET ASSETS	3,663,841	3,787,208	-	7,451,049
NET ASSETS, BEGINNING OF YEAR	<u>28,121,160</u>	<u>17,241,953</u>	<u>-</u>	<u>45,363,113</u>
NET ASSETS, END OF YEAR	<u>\$ 31,785,001</u>	<u>\$ 21,029,161</u>	<u>\$ -</u>	<u>\$ 52,814,162</u>

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2013**

	<u>Lawndale Christian Health Center</u>	<u>Lawndale Christian Supporting Corporation</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED NET ASSETS				
Surplus (deficit) of revenue over expenses	\$ (825,963)	\$ 459,692	\$ -	\$ (366,271)
Net change in unrealized gains on investments	355,637	-	-	355,637
Grants for capital additions	153,787	-	-	153,787
Temporarily restricted net assets released for capital projects	<u>45,800</u>	<u>-</u>	<u>-</u>	<u>45,800</u>
Increase (decrease) in unrestricted net assets	<u>(270,739)</u>	<u>459,692</u>	<u>-</u>	<u>188,953</u>
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	123,987	-	-	123,987
Net assets released from restrictions	<u>(123,987)</u>	<u>-</u>	<u>-</u>	<u>(123,987)</u>
Change in temporarily restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(270,739)	459,692	-	188,953
NET ASSETS, BEGINNING OF YEAR	<u>28,391,899</u>	<u>16,782,261</u>	<u>-</u>	<u>45,174,160</u>
NET ASSETS, END OF YEAR	<u>\$ 28,121,160</u>	<u>\$ 17,241,953</u>	<u>\$ -</u>	<u>\$ 45,363,113</u>

**LAWNDALE CHRISTIAN HEALTH CENTER
AND AFFILIATE
Chicago, Illinois**

**SINGLE AUDIT REPORTS
June 30, 2014**



CliftonLarsonAllen

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lawndale Christian Health Center and Affiliate
Chicago, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lawndale Christian Health Center and Affiliate (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2014, 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, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 6, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Oak Brook, Illinois
November 6, 2014



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Lawndale Christian Health Center and Affiliate
Chicago, Illinois

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of 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, 2014.

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

We have audited the consolidated financial statements of the Organization as of and for the year ended June 30, 2014, and have issued our report thereon dated November 6, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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

Board of Directors
Lawndale Christian Health Center and Affiliate

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 SEFA is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oak Brook, Illinois
November 6, 2014

**LAWDALE CHRISTIAN HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Contract Number	Federal Expenditures
U.S. Department of Health and Human Services			
Consolidated Health Centers	93.224	N/A	\$ 1,840,586
Affordable Care Act (ACA) Grants for New and Expanded Services under Health Center Programs:	93.527	N/A	<u>2,998,016</u>
Total Health Centers Cluster			<u>4,838,602</u> *
Affordable Care Act - Capital Development Grants	93.526	N/A	<u>346,213</u> *
Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	<u>347,478</u>
Passed-through Chicago Department of Public Health HIV Emergency Relief Project Grants - Title I	93.914	PO 23780	194,203
HIV Emergency Relief Project Grants	93.914	PO 23780	23,477
HIV Emergency Relief Project Grants	93.914	PO 23780	<u>28,480</u>
			<u>246,160</u>
Passed-through Access Family Health Centers Healthy Start Initiative	93.926	n/a	<u>162,243</u>
Passed-through Illinois Department of Human Services Maternal and Child Health Services Block Grant	93.994	4FCSSU03164	<u>240,000</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 6,180,696</u>

* Program was tested as a major program.

This schedule should be read only in connection with the accompanying
note to schedule of expenditures of federal awards.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

NOTE 1 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (the "SEFA") summarizes the awards expended by Lawndale Christian Health Center and Affiliate (the "Organization") that were received directly or indirectly from the federal government for the year ended June 30, 2014, and is presented on the accrual basis of accounting. Expenditures are recognized at the time the liabilities are incurred. The information in the SEFA is presented in accordance with the requirements of OMB A-133, *Audits of States, Local Governments and Non-Profit Organization*. Therefore, some amounts in this may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE 2 - SUBRECIPIENTS

The Organization has no subrecipients of federal awards as defined in OMB Circular A-133.

NOTE 3 - OTHER MATTERS

Amount of non-cash assistance -	None
Amount of insurance -	None
Amount of loans -	None
Amount of loan guarantees -	None

This information is an integral part of the accompanying schedule.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
Year Ended June 30, 2014**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
- Noncompliance material to consolidated financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major programs:

Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ yes X no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.224 and 93.527	Consolidated Health Centers Cluster
93.526	Affordable Care Act (ACA) Grants for Capital Development in Health Centers

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

Auditee qualified as low-risk auditee? X yes _____ no

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
Year Ended June 30, 2014**

Section II - Consolidated Financial Statement Findings

None.

Section III - Federal Award Findings, Responses, and Questioned Costs

None.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014**

Section IV - Prior Year Findings and Questioned Costs

Finding 2013-01 - Grant Revenue Cut-off

Condition:

During the year ended June 30, 2013, it was noted that the Organization recorded \$318,772 of grant revenue that related to expenditures made during the prior fiscal year and that should have been recorded during the year ended June 30, 2012.

Management's Response:

Management agreed with the above finding and modified its review procedure to eliminate the deficiency that contributed to this finding.

Current Status:

Corrected.

Finding 2013-02 - Reporting

Condition:

The grant agreement required the grantee to submit a certificate of final design within 270 days of award issue date. The certificate of final design was submitted 272 days after the award issue date.

Management's Response:

Management agreed with the above finding and brought it to the attention of the responsible personnel in fiscal year 2014.

Current Status:

Corrected.

Finding 2013-03 - Reporting

Condition:

The grant agreement required that the grantee complete and submit quarterly progress reports on the first day of each month following the end of each quarter. The quarterly progress reports for the third quarter of fiscal year 2013 were not submitted until three days after the due date.

Management's Response:

Management agreed with the above finding and brought it to the attention of the responsible personnel in fiscal year 2014.

Current Status:

Corrected.