

**LAWNDALE CHRISTIAN HEALTH CENTER
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2019 AND 2018



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**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lawndale Christian Health Center and Affiliates (the Organization) which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of the Affiliates were not audited in accordance with *Government Auditing Standards*.

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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lawndale Christian Health Center and Affiliates as of June 30, 2019 and 2018, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

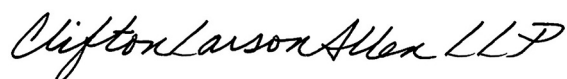
As discussed in Note 1 to the consolidated financial statements, in 2019, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new accounting standard changes the presentation of various classifications and disclosures within the consolidated financial statements. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position, consolidating statements of operations, and consolidating statements of changes in net assets are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual entities, 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 consolidating 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 consolidating information is fairly stated in all material respects in relation to the 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 January 28, 2020 on our consideration of the Lawndale Christian Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Lawndale Christian Health Center's 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 Lawndale Christian Health Center's internal control over financial reporting and compliance. The financial statements of the Affiliates were not subject to our testing of internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.



CliftonLarsonAllen LLP

Oak Brook, Illinois
January 28, 2020

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 12,263,092	\$ 8,822,919
Cash and Cash Equivalents - Restricted	505,513	5,937,183
Receivables:		
Patients Accounts, Net	2,112,364	2,208,169
Grants	1,236,400	1,229,725
Other	290,201	299,404
Prepaid Expenses	342,768	281,767
Inventories	81,644	184,055
Investments, Current Portion	789,260	524,729
Total Current Assets	17,621,242	19,487,951
NONCURRENT ASSETS		
Investments, Net of Current Portion	19,390,628	17,677,346
Investment in MHN ACO, LLC	2,458,007	2,077,355
Notes Receivable	9,492,873	9,478,974
Property and Equipment, Net	42,655,554	36,593,235
Total Noncurrent Assets	73,997,062	65,826,910
 Total Assets	 \$ 91,618,304	 \$ 85,314,861

See accompanying Notes to Consolidated Financial Statements.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2019 AND 2018

LIABILITIES AND NET ASSETS	2019	2018
CURRENT LIABILITIES		
Accounts Payable	\$ 1,853,672	\$ 1,203,271
Accrued Expenses:		
Salaries and Related Expenses	3,350,352	2,908,531
Contracted Medical Services	119,142	370,530
Total Current Liabilities	5,323,166	4,482,332
LONG-TERM LIABILITIES		
Long-Term Debt	13,380,000	13,380,000
Less: Unamortized Debt Issuance Costs	(552,143)	(513,692)
Long-Term Debt, Net	12,827,857	12,866,308
 Total Liabilities	 18,151,023	 17,348,640
NET ASSETS		
Without Donor Restrictions	73,446,680	67,954,806
With Donor Restrictions	20,601	11,415
Total Net Assets	73,467,281	67,966,221
 Total Liabilities and Net Assets	 \$ 91,618,304	 \$ 85,314,861

See accompanying Notes to Consolidated Financial Statements.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue:		
Support and Revenue:		
Grants	\$ 12,008,656	\$ 10,218,412
Contributions	548,975	540,857
Patient Revenue:		
Patient Fees	22,122,176	19,657,207
Provision for Uncollectible Accounts	(157,062)	(213,380)
Care Coordination Revenue	1,620,296	1,508,543
Capitation Revenue	7,403,530	9,021,553
Pharmacy Revenue	3,892,487	4,030,480
Other	2,355,148	2,492,514
Net Assets Released from Donor Restrictions Used for Operations	14,899	1,983,414
Total Revenue	49,809,105	49,239,600
Expenses:		
Program Services:		
Medical Services	32,415,793	32,501,807
Health Support Services	8,493,243	8,156,875
Total Program Services	40,909,036	40,658,682
Supporting Services:		
Management and General	5,983,457	5,668,792
Total Expenses	46,892,493	46,327,474
OPERATING GAIN	2,916,612	2,912,126
OTHER REVENUE		
Interest Income	106,390	209,829
Dividends	390,238	363,598
Gain on Defeasance of Debt	-	5,600,935
Income from Investment in MHN ACO, LLC	380,652	192,831
Total Other Revenue	877,280	6,367,193
SURPLUS OF REVENUE OVER EXPENSES	\$ 3,793,892	\$ 9,279,319

See accompanying Notes to Consolidated Financial Statements.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Surplus of Revenue over Expenses	\$ 3,793,892	\$ 9,279,319
Capital Grant	1,000,000	-
Unrealized Gains on Investments	697,982	214,458
Increase in Net Assets Without Donor Restrictions	5,491,874	9,493,777
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	-	270,342
Grants	24,085	1,530,449
Net Assets Released from Donor Restrictions	(14,899)	(1,983,414)
Increase (Decrease) in Net Assets With Donor Restrictions	9,186	(182,623)
CHANGE IN NET ASSETS	5,501,060	9,311,154
Net Assets - Beginning of Year	67,966,221	58,655,067
NET ASSETS - END OF YEAR	\$ 73,467,281	\$ 67,966,221

See accompanying Notes to Consolidated Financial Statements.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

EXPENSES	Program Services			Management and General	Total Functional Expenses
	Medical Services	Health Support Services	Total		
Wages and Salaries	\$ 17,186,844	\$ 5,326,349	\$ 22,513,193	\$ 3,265,326	\$ 25,778,519
Payroll Taxes	1,254,739	388,854	1,643,593	238,388	1,881,981
Employee Benefits	1,642,885	509,144	2,152,029	312,132	2,464,161
Retirement Plan Expense	404,967	125,503	530,470	76,940	607,410
Total Salaries and Related Expenses	20,489,435	6,349,850	26,839,285	3,892,786	30,732,071
Contracted Medical Services	1,578,726	-	1,578,726	-	1,578,726
Maintenance and Repairs	542,128	318,031	860,159	121,855	982,014
Lab	283,101	445	283,546	-	283,546
Information Systems	1,022,601	116,523	1,139,124	67,642	1,206,766
Communications	192,303	21,913	214,216	12,720	226,936
Legal and Accounting	63,900	-	63,900	100,847	164,747
Other Contracted Services	176,684	103,945	280,629	86,907	367,536
Total Contracted Expenses	3,859,443	560,857	4,420,300	389,971	4,810,271
Office Supplies and Equipment	197,055	64,038	261,093	289,014	550,107
Medical Supplies	885,388	52,413	937,801	48,915	986,716
Optometry Supplies	83,864	-	83,864	-	83,864
Dental Supplies	115,625	-	115,625	-	115,625
Pharmacy	3,822,202	-	3,822,202	-	3,822,202
X-Ray	534	-	534	-	534
Cafe Direct Expenses	4,049	457,413	461,462	-	461,462
Fitness Vending and Merchandise	-	8,261	8,261	-	8,261
Total Supplies Expenses	5,108,717	582,125	5,690,842	337,929	6,028,771
Occupancy	250,176	82,132	332,308	49,500	381,808
Reproduction, Books, and Media	64,742	5,159	69,901	32,209	102,110
Postage	26,243	2,990	29,233	1,736	30,969
Recruitment	12,325	3,092	15,417	4,359	19,776
Staff and Board Functions	51,941	39,596	91,537	85,022	176,559
Fees and Dues	173,120	134,070	307,190	571,318	878,508
Travel	3,272	9,197	12,469	16,870	29,339
Training	114,620	20,393	135,013	64,454	199,467
Utilities	500,621	100,242	600,863	60,415	661,278
Insurance	157,982	31,634	189,616	19,065	208,681
Patient Services	32,456	251,910	284,366	24,708	309,074
Depreciation and Amortization	1,563,269	313,829	1,877,098	189,140	2,066,238
Service Charges	-	-	-	5,005	5,005
Interest Expense	-	-	-	135,664	135,664
Contribution Expense	-	-	-	100,000	100,000
Other	7,431	6,167	13,598	3,306	16,904
Total Other Expenses	2,958,198	1,000,411	3,958,609	1,362,771	5,321,380
Total Functional Expenses	\$ 32,415,793	\$ 8,493,243	\$ 40,909,036	\$ 5,983,457	\$ 46,892,493

See accompanying Notes to Consolidated Financial Statements.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program Services			Management and General	Total Functional Expenses
	Medical Services	Health Support Services	Total		
EXPENSES					
Wages and Salaries	\$ 16,318,903	\$ 5,247,053	\$ 21,565,956	\$ 3,079,778	\$ 24,645,734
Payroll Taxes	1,198,088	385,224	1,583,312	226,109	1,809,421
Employee Benefits	1,266,871	407,339	1,674,210	239,089	1,913,299
Retirement Plan Expense	394,351	126,797	521,148	74,424	595,572
Total Salaries and Related Expenses	<u>19,178,213</u>	<u>6,166,413</u>	<u>25,344,626</u>	<u>3,619,400</u>	<u>28,964,026</u>
Contracted Medical Services	3,347,822	-	3,347,822	-	3,347,822
Maintenance and Repairs	497,251	291,704	788,955	111,768	900,723
Lab	240,361	470	240,831	-	240,831
Information Systems	985,213	105,617	1,090,830	59,918	1,150,748
Communications	179,817	19,277	199,094	10,936	210,030
Legal and Accounting	-	-	-	115,026	115,026
Other Contracted Services	247,124	106,895	354,019	64,489	418,508
Total Contracted Expenses	<u>5,497,588</u>	<u>523,963</u>	<u>6,021,551</u>	<u>362,137</u>	<u>6,383,688</u>
Office Supplies and Equipment	148,603	50,392	198,995	274,737	473,732
Medical Supplies	827,721	56,723	884,444	35,296	919,740
Optometry Supplies	85,056	-	85,056	-	85,056
Dental Supplies	204,558	-	204,558	-	204,558
Pharmacy	3,821,933	-	3,821,933	-	3,821,933
X-Ray	4,428	-	4,428	-	4,428
Cafe Direct Expenses	-	437,011	437,011	-	437,011
Fitness Vending and Merchandise	7,872	-	7,872	-	7,872
Total Supplies Expense	<u>5,100,171</u>	<u>544,126</u>	<u>5,644,297</u>	<u>310,033</u>	<u>5,954,330</u>
Occupancy	287,947	81,462	369,409	47,333	416,742
Reproduction, Books, and Media	52,818	14,250	67,068	14,155	81,223
Postage	17,766	1,905	19,671	1,081	20,752
Recruitment	5,811	79	5,890	4,757	10,647
Staff and Board Functions	48,301	53,763	102,064	76,882	178,946
Fees and Dues	169,400	121,116	290,516	449,159	739,675
Travel	6,819	6,620	13,439	22,349	35,788
Training	125,843	14,000	139,843	94,365	234,208
Utilities	462,521	92,816	555,337	53,929	609,266
Insurance	90,044	18,069	108,113	10,499	118,612
Patient Services	19,752	223,867	243,619	10,497	254,116
Depreciation and Amortization	1,414,694	283,891	1,698,585	164,951	1,863,536
Service Charges	-	-	-	30,849	30,849
Interest Expense	24,119	-	24,119	282,406	306,525
Contribution Expense	-	-	-	50,000	50,000
Other	-	10,535	10,535	64,010	74,545
Total Other Expenses	<u>2,725,835</u>	<u>922,373</u>	<u>3,648,208</u>	<u>1,377,222</u>	<u>5,025,430</u>
Total Functional Expenses	<u>\$ 32,501,807</u>	<u>\$ 8,156,875</u>	<u>\$ 40,658,682</u>	<u>\$ 5,668,792</u>	<u>\$ 46,327,474</u>

See accompanying Notes to Consolidated Financial Statements.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 5,501,060	\$ 9,311,154
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,066,238	1,863,536
Provisions for Uncollectible Accounts	157,062	213,380
Unrealized Gains on Investments, Net	(697,982)	(214,458)
Gain on Defeasance of Debt	-	(5,600,935)
Income of Investment in MHN ACO, LLC	(380,652)	(192,831)
(Increase) Decrease in Assets:		
Receivables	(58,729)	605,008
Inventories	102,411	1,488
Prepaid Expenses	(61,001)	39,134
Increase (Decrease) in Liabilities:		
Accounts Payable	650,401	(165,411)
Accrued Expenses	190,433	(426,551)
Net Cash Provided by Operating Activities	7,469,241	5,433,514
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds (Purchases) of Investments	(1,279,831)	6,842,502
Purchases of Property and Equipment	(8,111,271)	(8,027,129)
Issuance of Notes Receivable	(13,899)	(9,152,100)
Net Cash Used by Investing Activities	(9,405,001)	(10,336,727)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on long-term debt	-	13,380,000
Payments of Deferred Financing Costs	(55,737)	(513,692)
Net Cash Provided (Used) by Financing Activities	(55,737)	12,866,308
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,991,497)	7,963,095
Cash and Cash Equivalents - Beginning of Year	14,760,102	6,797,007
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 12,768,605	\$ 14,760,102
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest	\$ 135,664	\$ 306,525
Fixed Asset Additions Included in Accounts Payable	\$ 41,545	\$ 43,988

See accompanying Notes to Consolidated Financial Statements.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lawndale Christian Health Center (LCHC) is an Illinois nonprofit corporation that operates five clinics. LCHC is a federally qualified health center (FQHC) which 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 nonprofit corporation that was incorporated on December 10, 2010. LCSC was formed to support the charitable activities of LCHC and the Lawndale Community Church. LCSC is controlled by LCHC through a majority voting interest in the board of directors (board) of LCSC.

A majority of the board LCSC is comprised of board members and senior management of LCHC. As such, LCSC is considered to be controlled by LCHC. LCSC served as the leverage lender for LCHC's New Markets Tax Credit (NMTC) transaction further described in Note 7.

LCHC Properties, LLC (LLC) is an Illinois nonprofit corporation that was incorporated on September 13, 2017. LLC was created to acquire title to, construct/rehabilitate existing buildings, and lease said facilities obtained under the New Markets Tax Credit (NMTC) transaction entered into during the fiscal year ended June 30, 2018. LLC serves as the leverage lender for this transaction. See Note 7. LLC is controlled by its sole member, LCHC.

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; maintain competent legal services for the proper administration of LCHC; and manage the financial and budgetary responsibilities of LCHC.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of LCHC, LCSC and LLC (collectively referred to as the Organization). All significant inter-entity transactions have been eliminated in consolidation.

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

These consolidated financial statements have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of balances and transactions into two classes of net assets: net assets without donor restrictions or net assets with donor restrictions, as required by the Financial Accounting Standards Board (FASB) in its Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*.

Accordingly, net assets and changes therein are classified as follows:

Net Assets Without Donor Restrictions – Those resources available for use in general operations, not subject to donor (or certain grantor) restrictions and which the board of directors (board) has discretionary control.

Net Assets With Donor Restrictions – Those resources subject to donor-imposed restrictions that will be satisfied by actions of the Organizations or through the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained by the Organization in perpetuity. Generally, the donors of these assets permit the Organizations to use all or part of the income earned on related investments for program purposes. As of June 30, 2019 and 2018, the Organization had no net assets with perpetual donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Revenues that are restricted by the donor are reported as an increase in net assets without donor restrictions, if the restriction expires in the reporting period in which the revenue is recognized. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Surplus of Revenue over Expenses

The consolidated statements of operations and changes in net assets include a surplus of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from the surplus of revenue over expenses, consistent with industry practice, include 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), transfers of assets among affiliated nonprofit entities for other than goods or services 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.

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. The allowance for uncollectible accounts, fee adjustments, and discounts at June 30, 2019 and 2018 was \$2,425,992 and \$3,188,774, respectively.

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.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019 and 2018 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 the change in net assets without donor restrictions unless the income or loss is restricted by donor or law.

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 "nonprofit" 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.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019 and 2018 is reported net of stop-loss insurance recoveries of \$78,185 and \$168,467, respectively.

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 16% and 13% of total revenue for the years ended June 30, 2019 and 2018, 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 \$-0- and \$98,582 during the years ended June 30, 2019 and 2018, respectively, that is reported in "Pharmacy" expense in the accompanying consolidated statements of functional expenses.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 administrating agencies.

Total contractual adjustments and fees discounts to patient and third-party payors were approximately \$39,862,000 and \$42,504,000 the years ended June 30, 2019 and 2018, respectively. 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 represented 12% and 13%, of total patient fees, net, for the years ended June 30, 2019 and 2018, respectively. Patient fees, net received from Medicaid represented 56% and 53%, respectively, of total patient fees, net, for the years ended June 30, 2019 and 2018.

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 as they are unable to arrive at an estimate to record the settlement amounts. Settlements recorded during the years ended June 30, 2019 and 2018 were \$1,513,729 and \$1,474,072, respectively, and are included in "Capitation Revenue" in the consolidated statements of operations and changes in net assets without donor restrictions. No provision has been made for unknown settlements as the amounts cannot be reasonably estimated.

Care Coordination Revenue

The Organization has entered into care coordination agreements with various managed care organizations (MCO). Under the terms of these agreements, the Organizations receives compensation on a per member per month basis and recognizes the revenue during the month in which the payment relates.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pharmacy Revenue

The 340B drug-pricing program requires drug manufacturers to provide outpatient drugs to eligible health care organizations at significantly reduced prices. The 340B drug pricing enables participating entities to stretch scarce federal resources, reaching more eligible patients and providing more comprehensive services. Revenues and related pharmacy expenses recorded by the Organization from the 340B drug-pricing program are reflected on the consolidated statements of operations and changes in net assets without donor restrictions and consolidated statements of functional expenses, respectively.

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, 2019 and 2018.

The consolidated financial statements reflect the recognition of the fair rental value of donated office space (see Note 9).

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 net assets without donor restrictions. Accordingly, certain costs have been allocated among programs and supported services benefited by reasonable ratios determined by management.

Charity Care Policy

The Organization is a nonprofit health care provider established to meet the health care needs of its community. The Organization has a policy of providing 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.

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 \$306,000 and \$504,475 of Medicaid EHR incentives, reported in "Grants" revenue in the accompanying consolidated statements of operations and changes in net assets without donor restrictions during the years ended June 30, 2019 and 2018, 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.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash

Restricted reserve accounts relate to reserves restricted to the seven-year compliance period relating to the new market tax credit transaction. See Note 7 for additional information on the new NMTC program.

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 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.

As a single member limited liability company, LLC is considered to be a disregarded entity for federal and state tax purposes. As a result of this, no federal or state income taxes are paid by the LLC.

Notes Receivable

Notes receivables are evaluated for collectability based on payment history of the borrowers and their current financial condition. Provisions for losses on notes receivable are determined on the basis of loss experience, the estimated underlying value of collateral, and current economic conditions. No provision for loss was considered necessary by management at June 30, 2019 and 2018, as all borrowers are paying in accordance to terms or meeting covenant requirements.

Adoption of New Accounting Standard – ASU 2016-14

In 2019, the Organization adopted Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the consolidated financial statements and notes to the consolidated financial statements about a nonprofit entity's liquidity and financial performance. Main provisions include presentation of two classes of net assets versus the previously required three; the requirement to present a statement of functional expenses and disclosure information about liquidity and availability of resources.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods.

The standard will be effective for the Organization for annual periods beginning after December 15, 2018.

Clarifying Scope and the Accounting Guidance for Contributions

In June 2018, the FASB issued amended guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This amended guidance distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in Subtopic 958-605, *Not-for-Profit Entities—Revenue Recognition*, should be followed. For exchange transactions, Topic 606, Revenue from Contracts with Customers, should be followed. In addition, once a transaction is deemed to be a contribution, this amended guidance assists in determining whether a contribution is conditional or unconditional, and if unconditional, whether the transaction is donor-restricted for a limited purpose or timing. The guidance should be applied on a modified prospective basis. As a resource recipient, the guidance will be effective for the Organization for annual periods beginning after December 15, 2018. Early adoption is permitted.

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standard. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Organization's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2020. Early adoption is permitted.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liquidity and Availability

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization consider all expenditures related to its ongoing programmatic activities as well as the conduct of services undertaken to support those activities to be general expenditures. To help manage unanticipated liquidity needs, the Organization can also draw on long-term investments without donor restrictions, which totaled \$19,390,628 as of June 30, 2019.

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and Cash Equivalents	\$ 12,263,092
Receivables:	
Patients Accounts, Net	2,112,364
Grants	1,236,400
Other	290,201
Investments, Current Portion	789,260
Less:	
Net Assets with Donor Restrictions	<u>(20,601)</u>
Total Financial Assets Available for Use Within One Year	<u><u>\$ 16,670,716</u></u>

NOTE 2 CONCENTRATIONS OF CREDIT RISK

The Organization grants credit without collateral to its patients, most of who 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:

	<u>2019</u>	<u>2018</u>
Medicare	11 %	7 %
Medicaid	66	61
Other Third-Party Payors and Patients	24	32
Total	<u>101 %</u>	<u>100 %</u>

Financial instruments that potentially subject the Organization to a concentration of credit risk consist of cash deposits. The Organization maintains bank accounts at several local banks that are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, cash balances may exceed federally insured limits; however, the Organization has not experienced any losses in such accounts and limits the exposure to credit risk by maintaining its cash and cash equivalents in highly reputable institutions.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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, 2019 and 2018 was approximately \$4,301,372 and \$4,190,709, respectively.

NOTE 4 NOTES RECEIVABLE

In October 2017, LCSC 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 additional information on the new NMTC program.

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

<u>Description</u>	<u>2019</u>	<u>2018</u>
NMTC Lawndale Investment Fund, LLC, interest accruing at 1.0% fixed rate payable annually, through compliance period (December 2023), an additional payment of interest only of \$75,251 on the 7th anniversary date (2024), principal and interest payments of \$621,836 due annually starting in January 2025 through maturity date of November 10, 2040.	\$ 9,152,100	\$ 9,152,100
La Villita Community Church, interest accruing at 2% per year. The unpaid principal and accrued interest shall be payable in monthly installments beginning February 15, 2015 and continuing until January 15, 2045, at which time the remaining unpaid principal and interest shall be due in full. The note is secured by real estate.	165,773	151,874
Lawndale Christian Development Corporation (LCDC), interest accruing at 5.00% per annum. Principal and interest payments beginning January 1, 2015. Note expired on February 28, 2015 and is due on demand.	<u>175,000</u>	<u>175,000</u>
Total	<u>\$ 9,492,873</u>	<u>\$ 9,478,974</u>

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 NOTES RECEIVABLE (CONTINUED)

The first seven years of the NMTC Lawndale Investment Fund, LLC note receivable is 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 Fund. If the other investors do not exercise their put options, LCSC has the ability to call the ownership in the interest in the funds for fair market value. It is anticipated that the NMTC investors will put their option and LCSC will own the fund 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. See Note 7 for additional information related to the new NMTC transaction.

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, 2019 and 2018, 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:

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 INVESTMENTS AND FAIR VALUE (CONTINUED)

Fair Value Measurements (Continued)

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.

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:

	June 30, 2019			
	Fair Value Measurements Using			
	Total	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Mutual Funds:				
Money Market Fund	\$ 789,260	\$ 789,260	\$ -	\$ -
Short-Term Bond Index Fund	1,301,688	1,301,688	-	-
Short-Term Treasury Fund	1,034,595	1,034,595	-	-
Bond Index Fund	3,945,989	3,945,989	-	-
Total Stock Index Fund	3,834,512	3,834,512	-	-
Value Stock Index Fund	1,917,153	1,917,153	-	-
International Stock Index Fund	841,102	841,102	-	-
Domestic equities	1,064,079	1,064,079	-	-
Certificates of Deposit	5,451,510	5,451,510	-	-
Total Investments at Fair Value	<u>\$ 20,179,888</u>	<u>\$ 20,179,888</u>	<u>\$ -</u>	<u>\$ -</u>
	June 30, 2018			
	Fair Value Measurements Using			
	Total	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Mutual Funds:				
Money Market Fund	\$ 524,729	\$ 524,729	\$ -	\$ -
Short-Term Bond Index Fund	3,244,293	3,244,293	-	-
Short-Term Treasury Fund	4,427,411	4,427,411	-	-
Bond Index Fund	4,450,620	4,450,620	-	-
Total Stock Index Fund	2,922,008	2,922,008	-	-
Value Stock Index Fund	1,744,853	1,744,853	-	-
International Stock Index Fund	888,161	888,161	-	-
Total Investments at Fair Value	<u>\$ 18,202,075</u>	<u>\$ 18,202,075</u>	<u>\$ -</u>	<u>\$ -</u>

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 INVESTMENTS AND FAIR VALUE (CONTINUED)

Fair Value Measurements (Continued)

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, 2019 and 2018, 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.

There are also pledged investments in Short-Term Bond Index and Short-Term Treasury under contract with Harmony HMO in order to maintain the Organization's monthly capitation payment received. The investments previously served as collateral for quarterly fees collectable during the seven-year compliance period for the existing new market tax credit transaction. See debt forgiveness agreement terminating this in Note 7.

NOTE 6 PROPERTY AND EQUIPMENT

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

	2019	2018
Land	\$ 2,280,100	\$ 2,204,280
Buildings and Improvements	46,064,966	37,956,763
Furniture and Equipment	10,689,135	9,111,646
Construction in Progress	6,132,005	7,760,937
Subtotal	<u>65,166,206</u>	<u>57,033,626</u>
Accumulated Depreciation and Amortization	<u>(22,510,652)</u>	<u>(20,440,391)</u>
Property and Equipment, Net	<u>\$ 42,655,554</u>	<u>\$ 36,593,235</u>

NOTE 7 LONG-TERM DEBT

In May 2011, LCHC 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 obtained financing from two separate CDEs to fund the construction of its new facility at 3748 West Ogden Avenue in Chicago, Illinois.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 7 LONG-TERM DEBT (CONTINUED)

Under Internal Revenue Service (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.

On May 8, 2018, LCHC and LCSC executed a Debt Forgiveness Agreement with Stonehenge Community Development XLVII, LLC (the Fund), to terminate the federal NMTC transaction. In conjunction with the agreement, the NMTC investors exercised a put option requiring LCSC to acquire all membership interests in the Fund, resulting in LCSC becoming the sole member of the fund. Furthermore, in connection with the Debt Forgiveness Agreement there was a defeasance of the \$23,719,439 of debt related to this transaction as well as the cancellation of the related \$16,149,829 note receivable resulting in a gain on defeasance of debt of approximately \$5,600,000. Following the forgiveness of the debt and note receivable, the Fund was dissolved as of May 8, 2018.

In October 2017, the LLC obtained additional financing in an arrangement structured under the NMTC program. The Organization obtained financing from three separate CDEs to fund construction projects at 3555 West Ogden Avenue, 3745 W Ogden Avenue, and 3910 W Ogden Avenue all in Chicago, Illinois.

LCSC serves as the leveraged lender for this transaction providing \$9,152,000 in funding to an NMTC investment fund. In order to meet IRS guidelines for the NMTC program, the Organization needed to create a separate legal entity to serve as the Qualified Active Low Income Community Business (QALICB) which will receive the proceeds from the transaction. This entity is called LCHC Properties, LLC and will own the properties where the construction projects are located. It is a wholly owned subsidiary of LCHC and a disregarded entity for tax purposes.

LCHC Properties, LLC received \$13,380,000 in borrowings (the Debt) under this NMTC transaction. The related notes payable will mature in November 2047 and bear interest rate of 1.1933% per annum. Interest only payments will be made during the seven-year compliance period.

The Debt is collateralized by the land and real property for each of the facilities being constructed. The Debt contains certain covenants and requires certain measures of financial performance as long as the Debt is outstanding.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 7 LONG-TERM DEBT (CONTINUED)

The composition of debt is as follows at June 30:

	<u>2019</u>	<u>2018</u>
NMTC CNI QLICI A	\$ 4,167,600	\$ 4,167,600
NMTC CNI QLICI B	1,832,400	1,832,400
NMTC CNMC QLICI A	996,900	996,900
NMTC CNMC QLICI B	503,100	503,100
NMTC CDF QLICI A	3,987,600	3,987,600
NMTC CDR QLICI B	1,892,400	1,892,400
Total	<u>\$ 13,380,000</u>	<u>\$ 13,380,000</u>

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ -
2021	-
2022	-
2023	-
2024	-
Thereafter	13,380,000
Total	<u>\$ 13,380,000</u>

Debt is collateralized by land and real property at 3555 West Ogden Avenue, 3745 W Ogden Avenue, and 3910 W Ogden Avenue all in Chicago, Illinois. Debt for the existing new market transaction resulting in the debt forgiveness as noted above was previously collateralized by land and real property at the facility constructed at 3748 West Ogden Avenue, Chicago, Illinois. The long-term debt contains certain covenants and requires certain measures of financial performance as long as the debt is outstanding. The Organization was in compliance with these covenants as of June 30, 2019 and 2018.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as to purpose are as follows:

	June 30, 2018 Balance	Support and Revenues	Satisfaction of Restriction	June 30, 2019 Balance
Patient	\$ 4,727	\$ 21,085	\$ (14,356)	\$ 11,456
Young Doctors Club	6,688	3,000	(543)	9,145
	<u>\$ 11,415</u>	<u>\$ 24,085</u>	<u>\$ (14,899)</u>	<u>\$ 20,601</u>

	June 30, 2017 Balance	Support and Revenues	Satisfaction of Restriction	June 30, 2018 Balance
Patient	\$ 10,755	\$ 1,900	\$ (7,928)	\$ 4,727
Lawndale 5K	21,629	55,297	(76,926)	-
Young Doctors Club	3,654	3,908	(874)	6,688
Farm on Ogden (Capital)	158,000	1,258,449	(1,416,449)	
	<u>\$ 194,038</u>	<u>\$ 1,319,554</u>	<u>\$ (1,502,177)</u>	<u>\$ 11,415</u>

NOTE 9 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 December 31, 2035 and provides for annual payments of \$189,567. The space sharing agreement also requires the Organization to pay insurance and utilities along with general repairs and maintenance.

The Organization is obligated under a lease agreement with Homan Square Community Center Foundation. The lease agreement is through December 31, 2031 and provides for annual rental payments of \$78,770 through December 31, 2017 with a 3% increase each year beginning January 1, 2018. 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 another lease agreement with Homan Square Community Center Foundation relating to a dental facility. This lease agreement started January 1, 2017 and goes through December 31, 2031 and provides for annual rental payments of \$9,190 through December 31, 2017 with a 3% increase each year beginning January 1, 2018. The lease agreement also requires the Organization to pay its pro rate 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, 2019 and 2018, was approximately \$76,000, which was recognized as both revenue and expense in the consolidated statements of operations and changes in net assets without donor restrictions.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 LEASE/SPACE SHARING COMMITMENTS (CONTINUED)

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 quarterly payments of \$750.

The Organization is obligated under a lease agreement with Breakthrough Urban Ministries. The lease agreement is through February 17, 2035 and provides for annual rental payments of \$27,130. 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.

Minimum future lease payments under the above agreements having remaining terms in excess of one year as of June 30, 2019, for each of the next five years and thereafter, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 350,655
2021	354,584
2022	358,630
2023	362,798
Thereafter	<u>3,345,330</u>
Total	<u><u>\$ 4,771,997</u></u>

Total rental expense incurred for the years ended June 30, 2019 and 2018 was \$541,808 and \$534,742 respectively.

NOTE 10 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 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 \$607,410 and \$595,572 for the years ended June 30, 2019 and 2018, respectively.

NOTE 11 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 qualified FQHCs. 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.

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 12 COMMITMENTS AND CONTINGENCIES

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 \$2,285,435 and \$1,717,796 for the years ended June 30, 2019 and 2018, 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.

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 had three significant construction projects underway as of June 30, 2019 and 2018. In 2017, the Organization began construction on a food hub and training facility offering a hydroponics farming system to support year-round plant production and training to the surrounding community and construction of its medical clinic on the West Side of Chicago. In 2016, the Organization began construction on a 78-space parking lot. Construction for the project started in 2016 is in progress. The Organization is providing its own general contracting services to complete both projects. As of June 30, 2019 and 2018, approximately \$6,130,000 and \$6,096,000 had been completed on the respective projects and was recorded in construction in progress. Construction costs relating to these projects are primarily funded via the long-term debt described in Note 7 and \$1,000,000 in federal grant funds.

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 13 INVESTMENT IN MHN ACO, LLC

LCHC has invested in MHN ACO, LLC (the MHN). Under the terms of the operating agreement, LCHC acquired 40 membership units with its initial capital contribution of \$200,000. MHN 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 MHN are subject to an operating agreement which places limits on the transfer, sale and pledging of units, including the right to first refusal by MHN and other members in the event a member wishes to sell or dispose of their units. Withdrawal from MHN requires written notice provided at least 90 days prior to withdrawal date.

LCHC's 11.11% interest in the MHN is accounted for using the equity method. Under the equity method, the investment is carried at cost and adjusted for the LCHC's proportionate share of income and losses of the MHN. MHN is shown as Investments within the consolidated statements of financial position.

The following table summarizes the MHN's financial information as of December 31, 2018 (the most recent date available):

Total Assets	\$ 39,241,494
Total Liabilities	<u>17,119,424</u>
Equity	<u><u>\$ 22,122,070</u></u>
Total Revenue	\$ 31,589,444
Total Expenses	<u>28,163,577</u>
Net Income	<u><u>\$ 3,425,867</u></u>

LCHC's participation in the MHN allows for shared savings. LCHC may earn a shared savings fee upon meeting a targeted medical loss ratio for enrollees based on 12 months of claims experience and a six-month run-out period. Shared savings fees allocated to members are recognized as received. For the years ended June 30, 2019 and 2018, approximately \$-0- and \$160,000, respectively, is reflected in the consolidated statements of operations and changes in net assets without donor restrictions.

NOTE 14 SUBSEQUENT EVENTS

Management evaluated subsequent events through January 28, 2020, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2019, but prior to January 28, 2020, that provided additional evidence about conditions that existed at June 30, 2019, have been recognized in the consolidated financial statements for the year ended June 30, 2019. Events or transactions that provided evidence about conditions that did not exist at June 30, 2019, 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, 2019.

LAWDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	Lawndale Christian Health Center	Lawndale Christian Supporting Corporation	LCHC Properties, LLC	Eliminations	Total
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 11,585,707	\$ 637,430	\$ 39,955	\$ -	\$ 12,263,092
Cash and Cash Equivalents - Restricted	-	-	505,513	-	505,513
Receivables:					
Patients Accounts, Less Allowance of \$2,425,992	2,112,364	-	-	-	2,112,364
Grants	1,236,400	-	-	-	1,236,400
Other	290,201	-	80,000	(80,000)	290,201
Prepaid Expenses	342,768	-	-	-	342,768
Inventories	81,644	-	-	-	81,644
Investments, Current Portion	789,260	-	-	-	789,260
Total Current Assets	<u>16,438,344</u>	<u>637,430</u>	<u>625,468</u>	<u>(80,000)</u>	<u>17,621,242</u>
NONCURRENT ASSETS					
Investments, Net of Current Portion	16,424,243	2,966,385	-	-	\$ 19,390,628
Investment in MHN ACO, LLC	2,458,007	-	-	-	2,458,007
Notes Receivable	-	9,492,873	-	-	9,492,873
Property and Equipment, Net	26,746,548	-	15,909,006	-	42,655,554
Total Noncurrent Assets	<u>45,628,798</u>	<u>12,459,258</u>	<u>15,909,006</u>	<u>-</u>	<u>73,997,062</u>
 Total Assets	 <u>\$ 62,067,142</u>	 <u>\$ 13,096,688</u>	 <u>\$ 16,534,474</u>	 <u>\$ (80,000)</u>	 <u>\$ 91,618,304</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable	\$ 1,593,327	\$ 1,721	338,624	\$ (80,000)	\$ 1,853,672
Accrued Expenses:					
Salaries and Related Expenses	3,350,352	-	-	-	3,350,352
Contracted Medical Services	119,142	-	-	-	119,142
Total Current Liabilities	<u>5,062,821</u>	<u>1,721</u>	<u>338,624</u>	<u>(80,000)</u>	<u>5,323,166</u>
LONG-TERM LIABILITIES					
Long-Term Debt	-	-	13,380,000	-	13,380,000
Less: Unamortized Debt Issuance Costs	-	-	(552,143)	-	(552,143)
Long-Term Debt, Net	<u>-</u>	<u>-</u>	<u>12,827,857</u>	<u>-</u>	<u>12,827,857</u>
 Total Liabilities	 5,062,821	 1,721	 13,166,481	 (80,000)	 18,151,023
NET ASSETS					
Without Donor Restrictions	56,983,720	13,094,967	3,367,993	-	73,446,680
With Donor Restrictions	20,601	-	-	-	20,601
Total Net Assets	<u>57,004,321</u>	<u>13,094,967</u>	<u>3,367,993</u>	<u>-</u>	<u>73,467,281</u>
 Total Liabilities and Net Assets	 <u>\$ 62,067,142</u>	 <u>\$ 13,096,688</u>	 <u>\$ 16,534,474</u>	 <u>\$ (80,000)</u>	 <u>\$ 91,618,304</u>

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

	Lawndale Christian Health Center	Lawndale Christian Supporting Corporation	LCHC Properties, LLC	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 8,288,685	\$ 484,313	\$ 49,921	\$ -	\$ 8,822,919
Cash and Cash Equivalents - Restricted	-	-	5,937,183	-	5,937,183
Receivables:					
Patients Accounts, Less Allowance of \$3,188,774	2,208,169	-	-	-	2,208,169
Grants	1,229,725	-	-	-	1,229,725
Other	231,404	-	68,000	-	299,404
Prepaid Expenses	281,767	-	-	-	281,767
Inventories	184,055	-	-	-	184,055
Investments, Current Portion	524,729	-	-	-	524,729
Total Current Assets	<u>12,948,534</u>	<u>484,313</u>	<u>6,055,104</u>	<u>-</u>	<u>19,487,951</u>
NONCURRENT ASSETS					
Investments, Net of Current Portion	14,714,936	2,962,410	-	-	17,677,346
Investment in MHN LLC	2,077,355	-	-	-	2,077,355
Notes Receivable	-	9,478,974	-	-	9,478,974
Property and Equipment, Net	27,977,884	-	8,615,351	-	36,593,235
Total Noncurrent Assets	<u>44,770,175</u>	<u>12,441,384</u>	<u>8,615,351</u>	<u>-</u>	<u>65,826,910</u>
Total Assets	<u>\$ 57,718,709</u>	<u>\$ 12,925,697</u>	<u>\$ 14,670,455</u>	<u>\$ -</u>	<u>\$ 85,314,861</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable	\$ 1,201,995	\$ 1,276	\$ -	\$ -	\$ 1,203,271
Accrued Expenses:					
Salaries and Related Expenses	2,908,531	-	-	-	2,908,531
Contracted Medical Services	370,530	-	-	-	370,530
Total Current Liabilities	<u>4,481,056</u>	<u>1,276</u>	<u>-</u>	<u>-</u>	<u>4,482,332</u>
LONG-TERM LIABILITIES					
Long-Term Debt	-	-	13,380,000	-	13,380,000
Less: Unamortized Debt Issuance Costs	-	-	(513,692)	-	(513,692)
Long-Term debt, Net	<u>-</u>	<u>-</u>	<u>12,866,308</u>	<u>-</u>	<u>12,866,308</u>
Total Liabilities	4,481,056	1,276	12,866,308	-	17,348,640
NET ASSETS					
Without Donor Restrictions	53,226,238	12,924,421	1,804,147	-	67,954,806
With Donor Restrictions	11,415	-	-	-	11,415
Total Net Assets	<u>53,237,653</u>	<u>12,924,421</u>	<u>1,804,147</u>	<u>-</u>	<u>67,966,221</u>
Total Liabilities and Net Assets	<u>\$ 57,718,709</u>	<u>\$ 12,925,697</u>	<u>\$ 14,670,455</u>	<u>\$ -</u>	<u>\$ 85,314,861</u>

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Lawndale Christian Health Center	Lawndale Christian Supporting Corporation	LCHC Properties, LLC	Eliminations	Total
Revenue:					
Support and Revenue:					
Grants	\$ 12,008,656	\$ -	\$ -	\$ -	\$ 12,008,656
Contributions	523,926	25,049	-	-	548,975
Patient Revenue:					
Patient Fees, Net	22,122,176	-	-	-	22,122,176
Provision for Uncollectible Accounts	(157,062)	-	-	-	(157,062)
Care Coordination Revenue	1,620,296	-	-	-	1,620,296
Capitation Revenue	7,403,530	-	-	-	7,403,530
Pharmacy Revenue	3,892,487	-	-	-	3,892,487
Other	2,355,148	-	160,000	(160,000)	2,355,148
Net Assets Released from Donor Restrictions Used for Operations	14,899	-	-	-	14,899
Total Revenue	<u>49,784,056</u>	<u>25,049</u>	<u>160,000</u>	<u>(160,000)</u>	<u>49,809,105</u>
Expenses:					
Program Services:					
Medical Services	32,415,793	-	-	-	32,415,793
Health Support Services	8,493,243	-	-	-	8,493,243
Total Program Services	<u>40,909,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,909,036</u>
Supporting Services:					
Management and General	5,611,670	100,000	431,787	(160,000)	5,983,457
Total Expenses	<u>46,520,706</u>	<u>100,000</u>	<u>431,787</u>	<u>(160,000)</u>	<u>46,892,493</u>
OPERATING GAIN (LOSS)	3,263,350	(74,951)	(271,787)	-	2,916,612
OTHER REVENUE					
Interest Income	-	91,521	14,869	-	106,390
Dividends	317,558	72,680	-	-	390,238
Income from Investment in MHN ACO, LLC	380,652	-	-	-	380,652
Total Other Revenue	<u>698,210</u>	<u>164,201</u>	<u>14,869</u>	<u>-</u>	<u>877,280</u>
SURPLUS (DEFICIT) OF REVENUE OVER EXPENSES	<u>\$ 3,961,560</u>	<u>\$ 89,250</u>	<u>\$ (256,918)</u>	<u>\$ -</u>	<u>\$ 3,793,892</u>

LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

	Christian Health Center	Christian Supporting Corporation	LCHC Properties, LLC	Eliminations	Total
Revenue:					
Support and Revenue:					
Grants	\$ 10,218,412	\$ -	\$ -	\$ -	\$ 10,218,412
Contributions	540,857	-	-	-	540,857
Patient Revenue:					
Patient Fees, Net	19,657,207	-	-	-	19,657,207
Provision for Uncollectible Accounts	(213,380)	-	-	-	(213,380)
Care Coordination Revenue	1,508,543	-	-	-	1,508,543
Capitation Revenue	9,021,553	-	-	-	9,021,553
Pharmacy Revenue	4,030,480	-	-	-	4,030,480
Other	2,489,204	-	121,310	(118,000)	2,492,514
Net Assets Released from Donor					
Restrictions Used for Operations	1,983,414	-	-	-	1,983,414
Total Revenue	<u>49,236,290</u>	<u>-</u>	<u>121,310</u>	<u>(118,000)</u>	<u>49,239,600</u>
Expenses:					
Program Services:					
Medical Services	32,501,807	-	-	-	32,501,807
Health Support Services	<u>8,156,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,156,875</u>
Total Program Services	40,658,682	-	-	-	40,658,682
Supporting Services:					
Management and General	<u>5,694,667</u>	<u>53,052</u>	<u>39,073</u>	<u>(118,000)</u>	<u>5,668,792</u>
Total Expenses	<u>46,353,349</u>	<u>53,052</u>	<u>39,073</u>	<u>(118,000)</u>	<u>46,327,474</u>
OPERATING GAIN (LOSS)	2,882,941	(53,052)	82,237	-	2,912,126
OTHER REVENUE					
Interest Income	-	169,272	40,557	-	209,829
Dividends	299,063	64,535	-	-	363,598
Gain on Defeasance of Debt		5,600,935	-	-	5,600,935
Income from Investment in MHN ACO, LLC	192,831	-	-	-	192,831
Total Other Revenue	<u>491,894</u>	<u>5,834,742</u>	<u>40,557</u>	<u>-</u>	<u>6,367,193</u>
SURPLUS OF REVENUE OVER EXPENSES	<u>\$ 3,374,835</u>	<u>\$ 5,781,690</u>	<u>\$ 122,794</u>	<u>\$ -</u>	<u>\$ 9,279,319</u>

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2019
(SEE INDEPENDENT AUDITORS' REPORT)**

	Lawndale Christian Health Center	Lawndale Christian Supporting Corporation	LCHC Properties, LLC	Eliminations	Total
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Surplus (Deficit) of Revenue over Expenses	\$ 3,961,560	\$ 89,250	\$ (256,918)	\$ -	\$ 3,793,892
Capital Grant	1,000,000	-	-	-	1,000,000
Unrealized Gains on Investments	616,686	81,296	-	-	697,982
Transfer of Net Assets (to) from Affiliates	<u>(1,820,764)</u>	<u>-</u>	<u>1,820,764</u>	<u>-</u>	<u>-</u>
Increase in Net Assets Without Donor Restrictions	3,757,482	170,546	1,563,846	-	5,491,874
NET ASSETS WITH DONOR RESTRICTIONS					
Contributions	-	-	-	-	-
Grants	24,085	-	-	-	24,085
Net Assets Released from Donor Restrictions	<u>(14,899)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,899)</u>
Increase in Net Assets with Donor Restrictions	9,186	-	-	-	9,186
CHANGE IN NET ASSETS	3,766,668	170,546	1,563,846	-	5,501,060
Net Assets - Beginning of Year	<u>53,237,653</u>	<u>12,924,421</u>	<u>1,804,147</u>	<u>-</u>	<u>67,966,221</u>
NET ASSETS - END OF YEAR	<u>\$ 57,004,321</u>	<u>\$ 13,094,967</u>	<u>\$ 3,367,993</u>	<u>\$ -</u>	<u>\$ 73,467,281</u>

**LAWNDALE CHRISTIAN HEALTH CENTER AND AFFILIATES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

	Lawndale Christian Health Center	Lawndale Christian Supporting Corporation	LCHC Properties, LLC	Eliminations	Total
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Surplus of Revenue over Expenses	\$ 3,374,835	\$ 5,781,690	\$ 122,794	\$ -	\$ 9,279,319
Unrealized Gains on Investments	82,695	131,763	-	-	214,458
Transfer of Net Assets (to) from Affiliates	23,719,439	(23,719,439)	-	-	-
Transfer of Net Assets (to) from Affiliates	(1,681,353)	-	1,681,353	-	-
Transfer of Net Assets (to) from Affiliates	(9,156,100)	9,156,100	-	-	-
Increase in Net Assets Without Donor Restrictions	16,339,516	(8,649,886)	1,804,147	-	9,493,777
NET ASSETS WITH DONOR RESTRICTIONS					
Contributions	270,342	-	-	-	270,342
Grants	1,530,449	-	-	-	1,530,449
Net Assets Released from Donor Restrictions	(1,983,414)	-	-	-	(1,983,414)
Decrease in Net Assets With Donor Restrictions	(182,623)	-	-	-	(182,623)
CHANGE IN NET ASSETS	16,156,893	(8,649,886)	1,804,147	-	9,311,154
Net Assets - Beginning of Year	37,080,760	21,574,307	-	-	58,655,067
NET ASSETS - END OF YEAR	<u>\$ 53,237,653</u>	<u>\$ 12,924,421</u>	<u>\$ 1,804,147</u>	<u>\$ -</u>	<u>\$ 67,966,221</u>

**LAWNDALE CHRISTIAN HEALTH CENTER
AND AFFILIATES**

SINGLE AUDIT REPORTS

YEAR ENDED JUNE 30, 2019



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

Board of Directors
Lawndale Christian Health Center and Affiliates
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 consolidated financial statements of Lawndale Christian Health Center and Affiliates (the Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of operations, 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 January 28, 2020.

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.

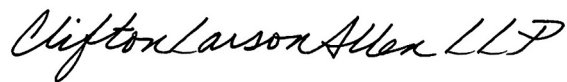
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



CliftonLarsonAllen LLP

Oak Brook, Illinois
January 28, 2020



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Lawndale Christian Health Center
Chicago, Illinois

Report on Compliance for Each Major Federal Program

We have audited Lawndale Christian Health Center's (the Center) compliance with the types of compliance requirements described in the Office of Management and Budget (*OMB*) *Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2019. The Center'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Center'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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Lawndale Christian Health Center 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, 2019.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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.

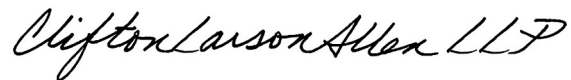
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Lawndale Christian Health Center and Affiliates as of and for the year ended June 30, 2019, and have issued our report thereon dated January 28, 2020, which expressed an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards (SEFA) is presented for purposes of additional analysis as required by the Uniform Guidance 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.

Board of Directors
Lawndale Christian Health Center

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



CliftonLarsonAllen LLP

Oak Brook, Illinois
January 28, 2020

**LAWNDALE CHRISTIAN HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
Health Center Program:				
Community Health Centers Grant	93.224	N/A	\$ -	\$ 2,404,096
Passed-Through Heartland Health Outreach, Inc. Healthcare for the Homeless Program	93.224	H80CS00111	-	411,330
Affordable Care Act (ACA) Grants for New and Expanded Services Under Health Center Programs:	93.527	N/A	-	<u>5,842,752</u>
Total Health Centers Program Cluster			-	8,658,178 *
Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	319,631
Health Infrastructure Investment Program	93.526	N/A	-	<u>1,000,000 *</u>
Total U.S. Department of Health and Human Services			-	9,977,809
Passed-Through Chicago Department of Public Health				
HIV Emergency Relief Project Grants	93.914	PO 32163	-	200,014
HIV Emergency Relief Project Grants	93.914	PO 30964	-	<u>95,200</u>
Total for CFDA 93.914			-	295,214
Passed-Through Access Community Health Network Healthy Start Initiative	93.926	H49MC00098	-	196,994
Passed-Through the Public Health Institute of Metropolitan Chicago Maternal and Child Health Services Title V Block Grant	93.994	B04MC25339	-	205,548
Passed-Through Rush University Medical Center Geriatrics Workforce Enhancement Program	93.969	4U1QHP287150302	-	25,000
Passed-Through the University of Chicago HIV Prevention Activities Program	93.940	U62PS003644	-	<u>50,000</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ -</u>	<u>\$ 10,750,565</u>

* Program was tested as a major program.

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**LAWNDALE CHRISTIAN HEALTH CENTER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of the Center under programs of the federal government for the year ended June 30, 2019. The information in this SEFA is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). As the SEFA presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Center has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 OTHER MATTERS

Amount of Noncash Assistance -	None
Amount of Insurance -	None
Amount of Loans -	None
Amount of Loan Guarantees -	None
Subrecipients -	None

**LAWNDALE CHRISTIAN HEALTH CENTER
SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

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? _____ 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? _____ 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 2 CFR 200.516(a)? _____ yes X no

Identification of Major Federal Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.224 and 93.527	Health Center Program Cluster
93.526	Health Infrastructure Investment Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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

**LAWNDALE CHRISTIAN HEALTH CENTER
SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

Section II - Consolidated Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

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

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

