



LOS ANGELES CHRISTIAN HEALTH
CENTERS AND SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2018 and 2017

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

INDEPENDENT AUDITORS' REPORT

Board of Directors
Los Angeles Christian Health Centers
and Subsidiary
Los Angeles, California

We have audited the accompanying consolidated financial statements of Los Angeles Christian Health Centers and Subsidiary (LACHC), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Joshua House Health Center (JHHC), a wholly-owned subsidiary, which statements reflect total assets constituting 52% and 0%, respectively, of consolidated total assets at June 30, 2018 and 2017, and total revenues constituting 3% and 0%, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for JHHC, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Board of Directors
Los Angeles Christian Health Centers
and Subsidiary
Los Angeles, California

Auditors' Responsibility, continued

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Los Angeles Christian Health Centers and Subsidiary as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Brea, California
November 9, 2018

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Financial Position

	June 30,	
	2018	2017
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 3,073,039	\$ 2,510,423
Investments	2,032,200	1,005,226
Accounts receivable	545,729	584,478
Grants receivable	324,872	328,574
Federal grants receivable	52,659	175,525
Inventory - medicines	20,136	12,984
Prepaid expenses and deposits	47,267	107,504
Total current assets	6,095,902	4,724,714
Amount held for others	22,003	22,003
Deposits	1,652,888	-
Funds held for long-term purposes	-	2,312,396
Notes receivable - NMTC equity investment US Bank CDC	17,143,272	-
Restricted cash	20,370,011	-
Fixed assets-net of depreciation	5,509,445	1,296,461
Total Assets	\$ 50,793,521	\$ 8,355,574
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 200,942	\$ 130,106
Construction payables	1,621,268	660,637
Accrued expenses and other payables	1,012,579	924,357
Line of credit payable	-	65,000
Total current liabilities	2,834,789	1,780,100
Amounts held for others	22,003	22,003
Notes payable, net	38,323,564	-
	41,180,356	1,802,103
Net assets:		
Unrestricted:		
Undesignated	3,454,984	835,058
Board designated building reserve	2,032,200	3,447,964
	5,487,184	4,283,022
Temporarily restricted	4,125,981	2,270,449
	9,613,165	6,553,471
Total Liabilities and Net Assets	\$ 50,793,521	\$ 8,355,574

See notes to consolidated financial statements

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Activities

	Year Ended June 30,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Federal grants revenue	\$ 5,130,534	\$ -	\$ 5,130,534	\$ 4,407,570	\$ -	\$ 4,407,570
Grant income and contract revenue	264,641	2,297,288	2,561,929	93,410	1,385,271	1,478,681
Patient service revenue	6,295,156	-	6,295,156	5,678,818	-	5,678,818
Managed care revenue	1,948,115	-	1,948,115	1,673,786	-	1,673,786
Contributions	121,341	316,854	438,195	177,510	734,333	911,843
Contributed services	218,251	-	218,251	240,098	-	240,098
Gifts-in-kind - medicine and medical supplies	324,674	-	324,674	423,653	-	423,653
Other income	124,327	-	124,327	15,541	-	15,541
Net assets released from restrictions:						
Satisfaction of donor restrictions	758,610	(758,610)	-	1,004,985	(1,004,985)	-
Total Support, Revenue, and Reclassifications	15,185,649	1,855,532	17,041,181	13,715,371	1,114,619	14,829,990
EXPENSES:						
Program services	11,943,825	-	11,943,825	10,680,692	-	10,680,692
Supporting activities:						
General and administrative	1,484,702	-	1,484,702	1,614,477	-	1,614,477
Fundraising	552,960	-	552,960	539,053	-	539,053
	2,037,662	-	2,037,662	2,153,530	-	2,153,530
Total Expenses	13,981,487	-	13,981,487	12,834,222	-	12,834,222
Change in Net Assets	1,204,162	1,855,532	3,059,694	881,149	1,114,619	1,995,768
Net Assets, Beginning of Year	4,283,022	2,270,449	6,553,471	3,401,873	1,155,830	4,557,703
Net Assets, End of Year	\$ 5,487,184	\$ 4,125,981	\$ 9,613,165	\$ 4,283,022	\$ 2,270,449	\$ 6,553,471

See notes to consolidated financial statements

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Functional Expenses

	Year Ended June 30,							
	2018				2017			
	Program Services	Supporting Activities		Total	Program Services	Supporting Activities		Total
	General and Administrative	Fundraising			General and Administrative	Fundraising		
Salaries and wages	\$ 6,603,669	\$ 890,994	\$ 257,171	\$ 7,751,834	\$ 6,194,767	\$ 828,429	\$ 252,915	\$ 7,276,111
Benefits and payroll taxes	1,241,964	141,134	39,701	1,422,799	1,029,941	129,385	44,318	1,203,644
Professional services	610,368	193,884	159,417	963,669	641,152	310,971	189,082	1,141,205
Medications and medical supplies	859,823	-	-	859,823	595,495	-	-	595,495
Interest Expense	399,639	45	-	399,684	-	-	-	-
Building lease and occupancy costs	505,472	102,123	5,901	613,496	465,757	104,867	6,068	576,692
Gifts-in-kind - medications and supplies	324,674	-	-	324,674	423,653	-	-	423,653
Information technology	273,925	44,589	4,416	322,930	245,380	53,157	3,078	301,615
Gifts-in-kind - professional services	218,250	-	-	218,250	240,097	-	-	240,097
Depreciation and amortization	242,972	-	-	242,972	159,526	68,368	-	227,894
Laboratory testing	153,690	-	-	153,690	182,723	-	-	182,723
Lease, repairs and maintenance	117,791	13,031	810	131,632	117,701	11,309	251	129,261
Conference and seminar expense	48,476	27,275	56,715	132,466	60,782	41,616	17,435	119,833
Insurance expense	77,324	18,700	-	96,024	80,399	20,404	-	100,803
Other expenses	67,487	12,492	6,367	86,346	59,271	15,489	5,671	80,431
Client outreach	40,442	121	-	40,563	56,073	-	-	56,073
Office supplies and expenses	62,136	5,178	4,439	71,753	47,368	5,319	2,625	55,312
Telephone	49,041	4,682	120	53,843	49,138	4,993	-	54,131
Postage and printing	13,147	3,173	15,253	31,573	16,642	9,445	13,736	39,823
Membership dues and subscriptions	33,535	27,281	2,650	63,466	14,827	10,725	3,874	29,426
Total	\$ 11,943,825	\$ 1,484,702	\$ 552,960	\$ 13,981,487	\$ 10,680,692	\$ 1,614,477	\$ 539,053	\$ 12,834,222

See notes to consolidated financial statements

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,059,694	\$ 1,995,768
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	242,973	227,894
Unrealized (gain) loss on investments	(24,449)	1,355
Contributions for long-term building project	(2,266,853)	(1,234,333)
Gift-in-kind medicines received	(324,674)	(423,653)
Gift-in-kind medicines used	324,674	438,686
Net change in:		
Accounts receivable	38,749	(115,766)
Inventory	(7,152)	-
Grants receivable	3,702	(94,862)
Federal grants receivable	122,866	470,996
Prepaid expenses	60,237	(15,391)
Accounts payable	211,974	60,632
Accrued expenses	(52,916)	377,980
Net Cash Provided by Operating Activities	<u>1,388,825</u>	<u>1,689,306</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(1,000,000)	(2,009,106)
Notes receivable - NMTC equity investment US Bank CDC	(17,143,272)	-
Deposits	(1,652,888)	-
Net change in funds held for long-term purposes	(19,060,140)	(61,907)
Fees for acquisition of notes payable	(180,000)	-
Purchases of fixed assets	(3,465,988)	(62,191)
Investment proceeds	1,000,000	-
Net Cash Used in Investing Activities	<u>(41,502,288)</u>	<u>(2,133,204)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable	(1,392,774)	(65,000)
Contributions for long-term building project	2,266,853	1,234,333
Proceeds from note payable	39,802,000	-
Net Cash Provided by Financing Activities	<u>40,676,079</u>	<u>1,169,333</u>
Change in Cash and Cash Equivalents	562,616	725,435
Cash and Cash Equivalents, Beginning of Year	<u>2,510,423</u>	<u>1,784,988</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,073,039</u>	<u>\$ 2,510,423</u>
SUPPLEMENTAL DISCLOSURE:		
Fixed assets acquired through construction payables	<u>\$ 1,621,268</u>	<u>\$ 660,637</u>

See notes to consolidated financial statements

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

1. NATURE OF ORGANIZATION:

Los Angeles Christian Health Centers (LACHC) is a nonprofit corporation incorporated in the State of California. The mission of LACHC is to show God's love by providing quality, comprehensive healthcare services to the homeless and underserved.

LACHC derives the majority of its income from grants from the federal government, as well as public and private foundations. A significant amount also comes from patient service revenue which is primarily received from Medi-Cal and medical services contract revenue.

LACHC is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state laws. However, LACHC is subject to federal income tax on any unrelated business taxable income. In addition LACHC is not classified as a private foundation within the meaning of Section 509(a) of the IRC. Contributions by the public are eligible to be deducted for income tax purposes.

On December 23, 2014, Clinic at 7th & Wall (7th & Wall), a 501 (c) (3) supporting organization, was created with the sole purpose of supporting LACHC, the parent organization. Contributions to 7th & Wall are exempt from federal income taxes under Section 170 (c) (2) of the Internal Revenue Code. 7th & Wall was dissolved in the year ended June 30, 2018.

Joshua House Health Center (JHHC) was formed on October 26, 2017, to perform the charitable functions of and carry out the charitable purposes of LACHC. JHHC is a supporting organization controlled by LACHC, as specified in Section 509(a)(3) of the Internal Revenue Code (the Code). JHHC will purchase, construct and lease to LACHC, an approximately 37,500 square foot community health center located in Los Angeles, California (the Property).

2. PRINCIPLES OF CONSOLIDATION:

The financial statements of JHHC are consolidated into the financial statements of the LACHC (collectively referred to as LACHC) because LACHC controls JHHC through economic interest and by way of annual appointing of the board of directors of JHHC.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of LACHC have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies adopted by LACHC are described below.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of cash on hand and in checking and savings accounts, and a United States Treasury Bill. At June 30, 2018 and 2017, LACHC's cash balances, including restricted cash, exceeded federally insured limits by \$1,519,000 and \$1,718,000, respectively. LACHC does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage. Additionally, at June 30, 2017, LACHC held a United States Treasury Bill as a cash equivalent in the amount of \$1,548,261. Treasury bills are not insured but are backed the full faith and credit of the United States government.

INVESTMENTS

Investments consist primarily of cash and bonds. It is LACHC's policy to record donated investments at fair value on the date of the donation. Realized and unrealized gains and losses are reported with interest and dividends in unrestricted revenue. During the years ended June 30, 2018 and 2017, total investment income was immaterial and included in other income.

ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due for patient fees and are reported net of any anticipated losses due to uncollectible accounts. LACHC's policy for establishing the allowance for doubtful accounts is based on a percentage of total receivables at year-end. The allowance for doubtful accounts receivable is maintained at a level that, in management's judgment, is adequate to absorb probable losses. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for doubtful accounts in the period in which they become known. For years ended June 30, 2018 and 2017, the allowance for doubtful accounts was \$40,800 and \$130,527, respectively. Bad debt expense for the years ended June 30, 2018 and 2017, was \$0.

DEPOSITS

On December 1, 2017, JHHC entered into a purchase and sale agreement to purchase a portion of the land (defined as the Clinic Condominiums) for \$1,652,888 plus a contingent amount pursuant to the construction coordination agreement. The purchase and sale agreement provides for the sale of the land to close upon substantial completion of the improvements. As a result, the purchase was not recognized as of June 30, 2018, and the amount paid of \$1,652,888 has been recorded as a deposit in the consolidated statements of financial position. In addition, on December 20, 2017, the seller and JHHC entered into a ground lease agreement, whereby JHHC will lease the clinic condominiums, with \$1 due at the commencement date, as defined, for a period of 99 years, unless earlier terminated pursuant to the terms of the ground lease agreement. Development and construction commenced in 2017 and is expected to be completed in December 2019. The property is irrevocably dedicated to charitable purposes and no part of the change in net assets or assets of JHHC shall inure to the benefit of any director, officer, or member thereof or to the benefit of any private person.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

FUNDS HELD FOR LONG-TERM PURPOSES

Funds held for long-term purposes consist of cash and cash equivalents and marketable securities. Interest income is included in other income in the accompanying consolidated statements of activities. Interest income and gains and losses are reported as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

RESTRICTED CASH

Restricted cash is made up of fee reserve accounts and a construction disbursement account. In accordance with the loan agreements, LACHC and JHHC are required to establish reserve accounts in a total amount of \$793,129 and \$880,755, respectively, in connection with the loan closings. Funds from these accounts are to be used to pay the loan interest, operating expense reimbursements, the annual asset management fee, and audit and tax accounting fees. As of June 30, 2018, and 2017 the consolidated balance of these reserve accounts was \$1,348,071 and \$0, respectively.

Also in accordance with the loan agreements, JHHC is required to deposit loan proceeds to be used for construction costs into a construction disbursement account. As of June 30, 2018 and 2017, the balance of this account was \$19,021,940 and \$0, respectively.

FIXED ASSETS

It is the policy of LACHC that expenditures of \$5,000 or more for fixed assets are capitalized at cost. Donated items are recorded at fair market value on the date of the gift. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 to 40 years.

ACCRUED EXPENSES

Accrued expenses primarily consist of accrued wages and accrued vacation. For the years ended June 30, 2018 and 2017, accrued wages were \$206,438 and \$190,565, respectively. Accrued vacation for the years ended June 30, 2018 and 2017, was \$442,310 and \$378,684, respectively.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

NET ASSETS

The consolidated financial statements report amounts by class of net assets:

Unrestricted net assets are those currently available at the discretion of the board for use in LACHC's operations and those resources invested in leasehold improvements, equipment, software, and construction in process.

Temporarily restricted net assets are those which are stipulated by donors for specific programs (purpose restriction) or for use in specific periods (time restriction).

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to legal restrictions.

SUPPORT, REVENUE, AND EXPENSES

Contributions and grants are recorded as temporarily restricted if they are received with donor stipulations that limit their use through purpose and/or time restrictions. When donor restrictions expire (i.e., when either the purpose restriction is fulfilled or the time restriction expires), the net assets are reclassified from temporarily restricted to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Unconditional grants awarded by foundations are recorded when notified of the award. Grants receivable consist of grants awarded but not yet received.

For contributions restricted by donors for the acquisition of property or other long-lived assets, the restriction is considered to be met when the property or other long-lived asset is placed in service.

Contributions are recorded when cash or unconditional promises-to-give have been received, or ownership of donated assets is transferred to LACHC. Conditional promises-to-give are recognized as revenue when the conditions upon which they depend are substantially met. LACHC receives gifts-in-kind, which are recorded as support at the estimated fair value on the date of the gift.

Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CHARITY CARE

LACHC provides care to patients who meet certain criteria under its charity care policy without charge or at an amount less than its established rates. Because LACHC does not pursue collection of the amounts determined to qualify as charity care, they are not reported as patient service revenue in the accompanying consolidated statements of activities. The amount of charity care provided during the years ended June 30, 2018 and 2017 was approximately \$2,429,000 and \$2,354,000, respectively.

CONTRIBUTED SERVICES

Donated services that create or enhance non-financial assets or require specialized skills are recorded in the consolidated financial statements at the fair market value of the services provided. Contributed skilled services were received from medical, dental, and mental health providers and the amounts are included in the statements of activities as gifts-in-kind support as well as program expenses.

REVENUE CONCENTRATION

During the year ended June 30, 2018, LACHC recognized grants revenue provided by a governmental agency, which account for over 30% of total support. The implications of this concentration have been recognized by management.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis on the consolidated statements of activities. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program services and supporting activities.

ALLOCATION OF JOINT COSTS

LACHC has adopted the provisions of the Joint Cost topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). This statement requires all costs which contain any fundraising appeal to be allocated to fundraising unless all of the following three tests are met: purpose, audience, and content. Since all three tests were not met, all costs related to fundraising appeals have been allocated to fundraising for the years ended June 30, 2018 and 2017.

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

4. INVESTMENTS:

Investments consist of:

	June 30,	
	2018	2017
Investments details:		
Investments for general purposes	\$ 2,032,200	\$ 1,005,226
Investments designated for building fund (included in funds held for long-term purposes on the statement of financial position)	-	1,002,525
	\$ 2,032,200	\$ 2,007,751
At cost:		
Cash and money market funds	\$ 72,632	\$ 56,939
At fair value:		
Mutual funds:		
Short-term bond funds	1,959,568	1,137,669
Bank loan fund	-	413,263
Inflation-protected bond fund	-	399,880
	\$ 2,032,200	\$ 2,007,751

LACHC's investments consist of shares of mutual funds. The investments are reported at fair value based on quoted prices in active markets for identical assets, which is Level 1 of the fair value hierarchy.

5. GIFTS-IN-KIND AND INVENTORY:

LACHC receives donations of medicine and various other medical supplies for use in the operations of LACHC. These donations of medicine and medical supplies are stated at their fair market values at the date of the gifts and are included in the consolidated statements of activities. At year-end, any remaining donated medicine or medical supplies is consolidated with similarly purchased items and recorded on the consolidated statements of financial position as inventory - medicines.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

6. FIXED ASSETS:

Fixed assets consist of:

	June 30,	
	2018	2017
Equipment and software	\$ 799,511	\$ 765,588
Leasehold improvements	1,089,984	1,051,949
	1,889,495	1,817,537
Less accumulated depreciation and amortization	(1,651,067)	(1,421,713)
	238,428	395,824
Construction in process	5,271,017	900,637
	\$ 5,509,445	\$ 1,296,461

7. NOTES RECEIVABLE - NMTC EQUITY INVESTMENT US BANK CDC:

On December 20, 2017, LACHC and JHHC entered into several New Markets Tax Credit ("NMTC") transactions involving US Bancorp Community Development Corporation (USBCDC). NMTCs are tax credits created by the federal government in 2000 and renewed each year thereafter to help encourage sustained investment in low-income communities. The purpose is to provide investors with a financial incentive (a tax credit) to invest in projects being built in, or businesses operating in, low-income communities. Investors receive a 39% federal tax credit earned over a 7 year period. The NMTC transactions provide a mechanism for LACHC to receive funding to improve or build certain properties, build infrastructure or acquire land in low-income communities. LACHC receives this funding through qualified low income community investment ("QLICI") loans.

LACHC borrowed a total of \$14,400,000 from Capital Impact Partners and Nonprofit Finance Fund, two nonprofit entities, and, in turn, made a leveraged loan to US Bank Community Development Corporation in the amount of \$17,143,272. This note receivable is due December 2051, and bears interest at 1% per year, payable in quarterly payments through December 2024. A principal payment of \$8,000,000 is due December 2024. No payments are due between December 2024 and March 2027. From and after March 1, 2027, principal and interest payments totaling \$58,149 are due quarterly. The remaining principal balance and any accrued interest are due on December 1, 2051.

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

8. NOTES PAYABLE:

Notes payable consist of the following:

	June 30,	
	2018	2017
<p>JHHC Loan A payable to Impact CDE 63 LLC (CIP CDE) (\$3,221,355), NFF New Markets Fund XXXI, LLC (NFF CDE) (\$3,543,490), LADF XVI, LLC (LADF CDE) (\$913,019) and USBCDE SUB-CDE 163, LLC (USB CDE) (\$322,136), totaling \$8,000,000. Notes bear interest at 1.033% per annum and are secured by a mortgage on property. Commencing March 1, 2018 quarterly payment of interest only are due through December 1, 2024 with the remaining balance due then.</p>	\$ 8,000,000	\$ -
<p>JHHC Loan B payable to CIP CDE (\$1,696,745), NFF CDE (\$1,866,420), LADF CDE (\$667,160), and USB CDE (\$169,675), totaling \$4,400,000. Notes bear interest at 1.033% per annum and are secured by a mortgage on the property. Commencing March 1, 2018, quarterly payments of interest only are due through December 1, 2026. Commencing March 1, 2027, quarterly payments of principal and interest shall be due through maturity on December 1, 2051, at which time all outstanding principal and any accrued interest shall be due.</p>	4,400,000	-
<p>JHHC Loan C payable to CIP CDE (\$1,688,900), NFF CDE (\$1,857,790), LADF CDE (\$1,017,693), and USB CDE (\$178,889), totaling \$4,743,272. The notes bear interest at 1.033% per annum. Notes are secured by a mortgage on the property. Commencing March 1, 2018, quarterly payments of interest only are due through December 1, 2026. Commencing March 1, 2027, quarterly payments of principal and interest shall be due through maturity on December 1, 2051, at which time all outstanding principal and any accrued interest shall be due.</p>	4,743,272	-

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

8. NOTES PAYABLE, continued:

JHHC Loan D payable to CIP CDE (\$3,193,000), NFF CDE (\$3,402,300), LADF CDE (\$1,334,128), and USB CDE (\$329,300), totaling \$8,258,728. The notes bear interest at 1.033% per annum. The notes are secured by a mortgage on the property. Commencing March 1, 2018, quarterly payments of interest only are due through December 1, 2026. Commencing March 1, 2027, quarterly payments of principal and interest shall be due through maturity on December 1, 2051, at which time all outstanding principal and any accrued interest shall be due.

8,258,728 -

LACHC NFF Loan A maturing on December 20, 2024. Interest of 5.5% per annum paid in quarterly installments of interest only, commencing March 5, 2018. Commencing March 5, 2020, quarterly installments of principal and interest based on a 25 year loan amortization, with the outstanding balance due at maturity.

6,500,000 -

LACHC NFF Loan B entered into on December 20, 2017 maturing on December 20, 2020. Interest of 5.5% per annum paid in quarterly installments of interest only, commencing March 5, 2018 until December 20, 2020. The outstanding balance is due on maturity.

2,514,500 -

LACHC CIP Loan A, maturing on December 20, 2024. Interest of 5.5% per annum paid in quarterly installments of interest only, commencing March 5, 2018. Commencing March 5, 2020, quarterly installments of principal and interest based on a 25 year loan amortization, with the outstanding balance due at maturity. Secured by first lien on all business assets of LACHC.

3,500,000 -

LACHC CIP Loan B entered into on December 20, 2017 maturing on December 20, 2020. Interest of 6% per annum paid in quarterly installments of interest only, commencing March 5, 2018. Outstanding balance due at maturity. Secured by second lien on possession of all business assets.

1,235,500 -

39,152,000 -

Less unamortized debt issuance costs

(828,436) -

Notes payable, net

\$ 38,323,564 \$ -

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

8. NOTES PAYABLE, continued:

Annual maturities are as follows:

<u>Year Ending June 30,</u>	
2019	\$ -
2020	3,847,417
2021	202,724
2022	213,719
2023	225,313
Thereafter	<u>34,662,827</u>
	<u>\$ 39,152,000</u>

JHHC capitalized \$117,352 of interest costs.

LINE OF CREDIT:

LACHC had a \$250,000 line of credit with a bank secured by equipment and inventory located in Los Angeles, California. Monthly principal and interest payments were due on the first of each month. The rate at June 30, 2017 was 4.75%. The line of credit expired in December 2017 and was not renewed. The balance was \$0 and \$65,000 as of June 30, 2018 and 2017, respectively.

9. LEASES:

LACHC leases the clinic office space and office equipment with total monthly payments of \$33,548, maturing from June 2019 until September 2021. Total lease expense was \$540,574 and \$496,011 for the years ended June 30, 2018 and 2017, respectively.

The future minimum payments are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 498,460
2020	411,903
2021	375,794
2022	262,063
Thereafter	<u>350,927</u>
	<u>\$ 1,899,147</u>

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

10. RELATED PARTY TRANSACTIONS:

The chief financial officer of the Los Angeles Mission (the Mission) currently serves on the LACHC board. During the years ended June 30, 2018 and 2017, LACHC paid the Mission \$109,404 and \$106,212, respectively, for office space lease, and \$15,000 for the Mission's Good Friday Event.

The dental director at LACHC owns a dental practice, which provides services to LACHC. During the years ended June 30, 2018 and 2017, LACHC paid \$56,200 and \$60,700 for these services, respectively.

11. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	June 30,	
	2018	2017
JHHC capital project	\$ 3,832,892	\$ 1,697,644
Health care operating support	68,528	195,528
Health services - general	122,235	192,028
Building clinic capacity	84,405	175,000
Dental services	17,921	5,473
Care coordination	-	4,776
	\$ 4,125,981	\$ 2,270,449

Release of temporarily restricted net assets consist of:

	June 30,	
	2018	2017
Health care operating support	\$ 173,001	\$ 255,779
Health services - general	321,081	206,290
Dental services	37,552	127,435
Care coordination	4,775	78,012
Building clinic capacity	222,201	230,675
Social services	-	56,794
Customer service experience	-	50,000
	\$ 758,610	\$ 1,004,985

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

12. RETIREMENT PLAN:

LACHC sponsors a 403(b) retirement plan (the Plan). All eligible employees have the option to enter the Plan on the first day of the month following their employment date. Contributions to the Plan made by employees are vested immediately. LACHC also allows discretionary employer contributions to the Plan. Employer contributions of \$159,153 and \$152,969 were made during the years ended June 30, 2018 and 2017, respectively.

13. CONDITIONAL PROMISES TO GIVE:

LACHC receives grant income from various donors with conditions in the terms of the grant agreement. Based on the Contributions Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), LACHC revenue cannot be recognized until substantially all of the conditions have been met. As of June 30, 2018 and 2017, LACHC had approximately \$0 and \$606,000, respectively, of conditional promises to give.

On June 26, 2017, LACHC received a notice of funding award (Proposition HHH) from the City of Los Angeles in the amount of \$3.7 million in support of the construction of the clinic building, subject to due diligence and execution of the Service Payback Loan Agreement. The related service payback loan agreement indicates, among others, that this 0% interest loan is for 39 years from the project completion date and is based on the City's determination of the useful life of the project. The service payback period shall commence within 2 months of the project completion and the service payback value is equal to 6-month value of payback for each biannual reporting that LACHC provides continuous services as described in the agreement.

LACHC records the related loan amount based on actual release of the funds from the City of Los Angeles to LACHC. As of June 30, 2018, the City has not released any funds to LACHC. Subsequent to year end, LACHC has received a total of \$2,126,150.

14. COMMITMENTS:

JHHC entered into a guaranteed maximum price construction contract in an amount equal to \$14,060,669 plus approved change orders of \$177,911 as of June 30, 2018. Construction costs of \$1,457,643 and retention of \$160,429 remain payable as of June 30, 2018.

15. SUBSEQUENT EVENTS:

Subsequent events were evaluated through November 9, 2018, which is the date the consolidated financial statements were available to be issued.