



**LOS ANGELES CHRISTIAN
HEALTH CENTERS AND
SUBSIDIARY**

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2020 and 2019

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	8

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, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, 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 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 did not audit the financial statements of Joshua House Health Center, a wholly-owned subsidiary, which statements reflect total assets constituting 53% and 52%, respectively, of consolidated total assets as of June 30, 2020 and 2019, and total revenues constituting 0.001% and 3%, 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 Joshua House Health Center, 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 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.

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, 2020 and 2019, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Tarzana, California
November 30, 2020

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Financial Position

	June 30,	
	2020	2019
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 3,782,631	\$ 2,882,098
Restricted cash	67,155	66,905
Investments	2,013,235	2,109,445
Accounts receivable–net	1,097,166	644,372
Grants receivable	1,052,850	542,568
Prepaid expenses and other assets	634,048	134,272
	8,647,085	6,379,660
Deposits	1,652,888	1,652,888
Notes receivable–NMTC equity investment US Bank CDC	17,143,272	17,143,272
Restricted cash, net of current amount	5,914,126	11,429,509
Fixed assets–net	22,347,091	15,437,897
	8,647,085	6,379,660
Total Assets	\$ 55,704,462	\$ 52,043,226
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 215,024	\$ 199,450
Medi-Cal liability	600,000	-
Construction payables	2,889,846	2,546,437
Accrued expenses and other liabilities	1,286,665	1,109,801
Notes payable, current portion	250,160	97,417
	5,241,695	3,953,105
Notes payable–net	37,502,251	37,622,222
	42,743,946	41,575,327
Net assets:		
Without donor restrictions	6,873,864	6,069,162
With donor restrictions	6,086,652	4,398,737
	12,960,516	10,467,899
Total Liabilities and Net Assets	\$ 55,704,462	\$ 52,043,226

See notes to consolidated financial statements

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Activities

	Year Ended June 30,					
	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Patient service revenue	\$ 6,802,895	\$ -	\$ 6,802,895	\$ 6,513,430	\$ -	\$ 6,513,430
Federal grants revenue	4,956,854	1,630,680	6,587,534	4,998,052	-	4,998,052
Pharmacy revenue	987,470	-	987,470	1,287,232	-	1,287,232
Grant and contract revenue	946,145	2,673,879	3,620,024	448,388	736,119	1,184,507
Contributions	405,516	-	405,516	307,810	-	307,810
Other income	403,300	-	403,300	170,453	-	170,453
Adjustment of previously recognized Medi-Cal fees	(600,000)	-	(600,000)	-	-	-
Net assets released from restrictions:						
Satisfaction of donor restrictions	2,616,644	(2,616,644)	-	463,363	(463,363)	-
Total Support, Revenue, and Reclassifications	16,518,824	1,687,915	18,206,739	14,188,728	272,756	14,461,484
EXPENSES:						
Program services	13,038,388	-	13,038,388	11,722,887	-	11,722,887
Supporting activities:						
General and administrative	2,263,510	-	2,263,510	1,777,765	-	1,777,765
Fundraising	412,224	-	412,224	414,828	-	414,828
	2,675,734	-	2,675,734	2,192,593	-	2,192,593
Total Expenses	15,714,122	-	15,714,122	13,915,480	-	13,915,480
Change in Net Assets	804,702	1,687,915	2,492,617	273,248	272,756	546,004
Net Assets, Beginning of Year	6,069,162	4,398,737	10,467,899	5,795,914	4,125,981	9,921,895
Net Assets, End of Year	\$ 6,873,864	\$ 6,086,652	\$ 12,960,516	\$ 6,069,162	\$ 4,398,737	\$ 10,467,899

See notes to consolidated financial statements

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Functional Expenses

	Year Ended June 30,								
	2020				2019				
	Program Services	Supporting Activities: General and Administrative		Fundraising	Total	Program Services	Supporting Activities: General and Administrative		Fundraising
Salaries and wages	\$ 8,170,878	\$ 1,062,815	\$ 256,847	\$ 9,490,540	\$ 7,238,183	\$ 1,049,667	\$ 280,882	\$ 8,568,732	
Benefits and payroll taxes	1,253,384	164,193	38,525	1,456,102	1,201,626	176,664	47,769	1,426,059	
Building lease and occupancy costs	765,779	236,323	18,514	1,020,616	651,245	93,887	17,772	762,904	
Professional services	508,888	350,738	62,774	922,400	495,627	212,032	14,096	721,755	
Medications and medical supplies	793,299	-	-	793,299	779,487	-	-	779,487	
Other expenses	251,806	284,599	14,403	550,808	164,258	121,514	10,697	296,469	
Information technology	332,271	73,749	5,630	411,650	277,543	45,625	4,224	327,392	
Depreciation and amortization	205,718	3,689	-	209,407	168,710	5,543	-	174,253	
Office supplies and expenses	166,955	22,444	4,447	193,846	130,822	19,437	33,455	183,714	
Laboratory testing	185,885	-	-	185,885	173,070	-	-	173,070	
Lease, repairs and maintenance	112,193	16,383	1,712	130,288	128,025	10,304	310	138,639	
Conference and seminar expense	85,082	25,157	9,372	119,611	68,111	22,307	5,623	96,041	
Contributed services - professional	102,359	-	-	102,359	102,773	-	-	102,773	
Gifts-in-kind - medications and supplies	34,880	-	-	34,880	67,671	-	-	67,671	
Insurance expense	69,011	23,420	-	92,431	75,736	20,785	-	96,521	
Total	\$ 13,038,388	\$ 2,263,510	\$ 412,224	\$ 15,714,122	\$ 11,722,887	\$ 1,777,765	\$ 414,828	\$ 13,915,480	

See notes to consolidated financial statements

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,492,617	\$ 546,004
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	209,407	174,253
Net loss (gain) on investments	96,210	(77,245)
Noncash revenue recognition of Paycheck Protection Program loan forgiveness	(1,630,680)	-
Contributions for long-term building project	(631,027)	-
Change in operating assets and liabilities:		
Accounts receivable-net	(452,794)	(98,643)
Grants receivable	(510,282)	(217,696)
Federal grants receivable	-	52,659
Prepaid expenses and other assets	(499,776)	(44,866)
Accounts payable	15,574	(1,492)
Medi-Cal liability	600,000	-
Accrued expenses and other liabilities	176,864	75,219
Net Cash Provided (Used) by Operating Activities	<u>(133,887)</u>	<u>408,193</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	<u>(6,718,038)</u>	<u>(8,811,652)</u>
Net Cash Used by Investing Activities	<u>(6,718,038)</u>	<u>(8,811,652)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions for long-term building project	631,027	-
Principal payments on notes payable	(440,702)	(3,973,804)
Proceeds from notes payable	-	3,312,725
Proceeds from Paycheck Protection Program loan	2,047,000	-
Net Cash Provided (Used) by Financing Activities	<u>2,237,325</u>	<u>(661,079)</u>
Change in Cash, Cash Equivalents, and Restricted Cash	(4,614,600)	(9,064,538)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>14,378,512</u>	<u>23,443,050</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 9,763,912</u>	<u>\$ 14,378,512</u>

(continued)

See notes to consolidated financial statements

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Cash Flows
(continued)

	Year Ended June 30,	
	2020	2019
SUMMARY OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH:		
Cash and cash equivalents	\$ 3,782,631	\$ 2,882,098
Restricted cash	5,981,281	11,496,414
	<u>\$ 9,763,912</u>	<u>\$ 14,378,512</u>
SUPPLEMENTAL DISCLOSURES AND NON-CASH TRANSACTION:		
Fixed assets acquired through construction payables	<u>\$ 2,889,846</u>	<u>\$ 2,546,437</u>
Cash paid for interest	<u>\$ 524,795</u>	<u>\$ 581,651</u>

See notes to consolidated financial statements

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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

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 from the public are eligible to be deducted for income tax purposes.

Joshua House Health Center (JHHC) was formed in October 2017, to carry out the charitable purposes of LACHC. JHHC is a supporting organization controlled by LACHC as specified in Section 509(a)(3) of the IRC. JHHC has purchased land, and will construct and lease to LACHC, an approximately 25,000 square foot community health center located in Los Angeles, California (the Property). The Property was under construction at June 30, 2020.

2. PRINCIPLES OF CONSOLIDATION:

The financial statements of JHHC are consolidated into the financial statements of LACHC (collectively referred to as LACHC) because LACHC has an economic interest in JHHC and has the ability to appoint the board of directors of JHHC. All material intercompany transactions have been eliminated in consolidation.

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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of cash on hand, checking and savings accounts, and highly liquid debt instruments with an original maturity of three months or less. As of June 30, 2020 and 2019, LACHC's cash balances, including restricted cash, exceeded federally insured limits by approximately \$5,736,000 and \$13,339,000, respectively.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS

Investments consist primarily of cash, common stock, treasury bills, mutual funds, and a real estate investment trust. 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, 2020 and 2019, total investment income was immaterial and included in other income net of investment expenses.

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, 2020 and 2019, the allowance for doubtful accounts was approximately \$41,000 for both years. Bad debt expense for the years ended June 30, 2020 and 2019, was approximately \$182,000 and \$95,000, respectively.

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, 2020, and the amount paid of \$1,652,888 has been recorded as a deposit in the consolidated statements of financial position. In addition, in December 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 November 2020.

RESTRICTED CASH

Restricted cash is made up of fee reserve accounts and a construction disbursement account. In accordance with the loan agreements, LACHC is required to establish reserve accounts in a total amount of \$1,673,884 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, 2020 and 2019, the consolidated balance of these reserve accounts was approximately \$616,000 and \$1,090,000, respectively.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RESTRICTED CASH, continued

Also in accordance with the loan agreements, LACHC is required to deposit loan proceeds to be used for construction costs into a construction disbursement account. As of June 30, 2020 and 2019, the balance of this account was approximately \$5,308,000 and \$10,406,000, respectively.

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 three to forty years.

ACCRUED EXPENSES AND OTHER

Accrued expenses and other consists of the following:

	June 30,	
	2020	2019
Accrued vacation	\$ 659,362	\$ 540,771
Accrued wages and taxes	457,253	365,377
Other	170,050	203,653
	<u>\$ 1,286,665</u>	<u>\$ 1,109,801</u>

NET ASSETS

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

Net assets without donor restrictions are those currently available at the discretion of the board for use in LACHC's operations.

Net assets with donor restrictions 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.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUE, AND EXPENSES

Contributions and grants are recorded as with donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions 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.

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, 2020 and 2019, was approximately \$2,318,000 and \$2,513,000, 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 value of the services provided. Contributed skilled services were received from medical, dental, and mental health providers and the amounts are included in the consolidated statements of activities as contributions as well as program expenses.

REVENUE CONCENTRATION

During the years ended June 30, 2020 and 2019, LACHC recognized grants revenue provided by a governmental agency, which accounts for approximately 27% and 34%, respectively, of total support and revenue. The implications of this concentration have been recognized by management.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 and consolidated functional expenses. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program services and supporting activities. Depreciation and other facility expenses are allocated based on square footage use of facility space. Employee expenses are allocated based on estimated time spent on each program or supporting activity.

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, 2020 and 2019.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. LACHC adopted the provisions of this new standard during the year ended June 30, 2020. The new standard clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or exchange transaction. Adoption of this standard had an immaterial effect on change in net assets and net assets in total.

In 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows - Restricted Cash*. LACHC adopted the provisions of this new standard during the year ended June 30, 2020. The standard was retrospectively applied to the year ended June 30, 2019. There were material changes to the Statement of Cash Flows, which now includes changes in Restricted Cash and a summary of Cash, Cash Equivalents, and Restricted Cash. Adoption of this new standard had no effect on change in net assets or net assets in total for the years ending June 30, 2020 and 2019.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS:

The following table reflects LACHC's consolidated financial assets as of June 30, 2020 and 2019 reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, or because the governing board has set aside the funds for specific contingency reserves and projects. These board designations could be drawn upon if the board approves that action.

	June 30,	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 3,782,631	\$ 2,882,098
Investments	2,013,235	2,109,445
Accounts receivable–net	1,097,166	644,372
Grants receivable	1,052,850	542,568
Notes receivable–NMTC equity investment US Bank CDC	17,143,272	17,143,272
Restricted cash	5,981,281	11,496,414
Financial assets, at year-end	31,070,435	34,818,169
Less those unavailable for general expenditure within one year, due to:		
Note receivable collectible beyond one year	(17,143,272)	(17,143,272)
Cash restricted by third parties for construction	(5,981,281)	(11,496,414)
Net assets with donor restrictions not available for general expenditure within one year	(4,463,919)	(3,832,892)
Board designated reserves for future operations	(200,000)	(200,000)
Board designated reserves for future building needs	(1,813,255)	(2,109,445)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,468,708	\$ 36,146

As part of liquidity management, LACHC maintains restricted cash which is utilized to pay for certain annual expenses as they become due. Financial assets available to be used within one year reflected above include the portion of financial assets available for 2021 expenses. Management anticipates the restricted development cash will be sufficient to fund the construction of the JHHC property, however, LACHC will fund construction and operating shortfalls, as needed to ensure that funding requirements are met over the next year. If necessary, the board of directors can release board designated reserves to meet general expenditure requirements.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

5. MEDI-CAL LIABILITY:

Subsequent to the year ended June 30, 2020, the California State Department of Healthcare Services (DHCS) found that LACHC's office at 1619 E. 4th Street is not within the scope of services allowed by the Health Resources and Services Administration for the 1625 E. 4th Street location. As a result, DHCS is requiring all Medi-Cal claims related to mental health services rendered at 1619 E. 4th Street to be refunded. The estimated amount for repayment of \$600,000 has been recorded as a reduction in revenue in the statements of activities for the year ended June 30, 2020, and as Medi-Cal liability in the statements of financial position as of June 30, 2020.

6. INVESTMENTS:

Investments consist of:

	June 30,	
	2020	2019
At cost:		
Cash and cash equivalents	\$ 112,834	\$ 69,207
At fair value:		
Treasury bills	94,518	346,294
Stock	496,796	355,538
Mutual funds:		
Fixed income funds	924,647	983,402
Equity	337,565	284,766
Real estate investment trust	46,875	70,238
	\$ 2,013,235	\$ 2,109,445

All investments reported at fair value are based on quoted prices in active markets for identical assets, which is Level 1 of the fair value hierarchy, with the exception of treasury bills. Treasury bills are reported based on pricing inputs other than quoted prices in active markets, which is Level 2 of the fair value hierarchy.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

7. FIXED ASSETS–NET:

Fixed assets–net consist of:

	June 30,	
	2020	2019
Equipment and software	\$ 952,238	\$ 899,645
Leasehold improvements	1,619,968	1,446,593
	2,572,206	2,346,238
Less accumulated depreciation and amortization	(1,983,299)	(1,799,606)
	588,907	546,632
Construction in process	21,758,184	14,891,265
	\$ 22,347,091	\$ 15,437,897

8. NOTES RECEIVABLE–NMTC EQUITY INVESTMENT US BANK CDC:

In December 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, 2020 and 2019

9. NOTES PAYABLE–NET:

Notes payable–net consist of the following:

	June 30,	
	2020	2019
<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, 2019, quarterly payment of interest only are due through December 1, 2024, with the remaining balance due then.</p>	\$ 8,000,000	\$ 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, 2019, 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	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, 2019, 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	4,743,272

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

9. NOTES PAYABLE–NET, continued:

Notes payable–net consist of the following, continued:

	June 30,	
	2020	2019
<p>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, 2019, 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>	8,258,728	8,258,728
<p>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, 2019. The note is secured by all business assets and properties of LACHC. Commencing March 5, 2020, quarterly installments of approximately \$124,500, which includes principal and interest based on a 25-year loan amortization, with the outstanding balance due at maturity.</p>	6,118,736	6,423,445
<p>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, 2019. Commencing March 5, 2020, quarterly installments of approximately \$61,500, which includes 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.</p>	3,216,758	3,352,751
<p>LACHC loan from the City of Los Angeles for the construction of JHHC (\$3,700,000 total is available to be drawn). No repayment is necessary if stated requirements are met for use and operation of the JHHC facility on a biannual basis. Loan will be forgiven in 78 equal amounts over the 39 year project. If requirements are not met, unforgiven loan amounts are required to be repaid plus interest from the date of advances at 3.07%.</p>	3,312,725	3,312,725

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

9. NOTES PAYABLE–NET, continued:

Notes payable–net consist of the following, continued:

	June 30,	
	2020	2019
LACHC Paycheck Protection Program loan of \$2,047,000 through the Coronavirus Aid, Relief, and Economic Security Act. The loan accrues interest at 1.00% per annum and matures two years from the date it was funded. This loan may be forgiven up to the full amount if requirements set by the Small Business Administration are met. As of June 30, 2020, approximately \$1,631,000 of the loan qualified for forgiveness and was recognized as revenue in the year ended June 30, 2020.	416,320	-
	38,466,539	38,490,921
Less unamortized debt issuance costs	(714,128)	(771,282)
Less current portion	(250,160)	(97,417)
	\$ 37,502,251	\$ 37,622,222

Annual maturities are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 250,160
2022	724,911
2023	320,185
2024	332,410
2025	16,551,072
Thereafter	20,287,801
	\$ 38,466,539

LACHC incurred and capitalized approximately \$787,000 and \$683,000, of interest costs, net of interest income related to the UBCDC note receivables during the years ended June 30, 2020 and 2019, respectively. Interest income received from the UBCDC note receivables was approximately \$171,000 for each of the years ended June 30, 2020 and 2019.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

10. LEASES:

LACHC leases the clinics' office spaces and office equipment with total monthly payments of approximately \$46,000, maturing from November 2020 until December 2026. Total lease expense was \$631,502 and \$508,605, for the years ended June 30, 2020 and 2019, respectively.

The future minimum payments are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 533,629
2022	497,847
2023	507,441
2024	399,407
2025	302,425
Thereafter	<u>428,815</u>
	<u><u>\$ 2,669,564</u></u>

11. RELATED PARTY TRANSACTIONS:

The dental director at LACHC owns a dental practice, which provides services to LACHC. During the years ended June 30, 2020 and 2019, LACHC paid approximately \$53,000 and \$54,000, for these services, respectively.

12. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions activity for the year consists of:

	June 30, 2019	Contributions	Releases	June 30, 2020
JHHC capital project	\$ 3,832,892	\$ 631,027	\$ -	\$ 4,463,919
Building clinic capacity	204,228	813,000	(410,444)	606,784
Health services - general	264,866	462,352	(266,514)	460,704
COVID-19 testing and services	-	517,500	(212,255)	305,245
Paycheck Protection Program Grant	-	1,630,680	(1,630,680)	-
Health care support	-	250,000	-	250,000
Dental services	96,751	-	(96,751)	-
	<u>\$ 4,398,737</u>	<u>\$ 4,304,559</u>	<u>\$ (2,616,644)</u>	<u>\$ 6,086,652</u>

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

12. NET ASSETS WITH DONOR RESTRICTIONS, continued:

Net assets with donor restrictions activity for the year consists of:

	June 30, 2018	Contributions	Releases	June 30, 2019
JHHC capital project	\$ 3,832,892	\$ -	\$ -	\$ 3,832,892
Building clinic capacity	84,405	235,000	(115,177)	204,228
Health services - general	122,235	677,774	(535,143)	264,866
COVID-19 testing and services	-	-	-	-
Health care support	68,528	-	(68,528)	-
Dental services	17,921	125,000	(46,170)	96,751
	\$ 4,125,981	\$ 1,037,774	\$ (765,018)	\$ 4,398,737

13. 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 approximately \$194,000 and \$182,000 were made during the years ended June 30, 2020 and 2019, respectively.

14. COMMITMENTS:

LACHC, through its JHHC subsidiary, is in the process of building a clinic in downtown Los Angeles, which is part of a joint venture with Skid Row Housing Trust. Pre-construction activities began during the year ended June 30, 2017. The total estimated project cost, including construction, land acquisition and other soft costs is approximately \$26,819,000. LACHC expects to complete the project through capital contributions, external financing, and building fund investments.

JHHC entered into a guaranteed maximum price construction contract in an amount equal to \$14,060,669 plus approved change orders of approximately \$1,502,000, as of June 30, 2020. Construction costs of approximately \$563,000 and retention of \$1,325,000 remain payable as of June 30, 2020.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

15. RISKS AND UNCERTANTIES:

LACHC's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on LACHC's financial position, operations, and cash flows. Possible effects may include, but are not limited to, disruption to LACHC's revenue, absenteeism in the workforce, and a decline in value of assets held by LACHC including inventories, property and equipment, and marketable securities. The financial impact, if any, cannot be estimated at this time.

16. CONTINGENCY DISCLOSURE:

An amount of up to approximately \$500,000, for dental services rendered, is being questioned by DHCS, in addition to the mental health services as disclosed in Note 5. However, the likelihood that any amount may actually be required to be repaid cannot be reasonably estimated as of the date these financial statements were available to be issued. Therefore, no liability for the dental services amount has been recorded as of June 30, 2020.

17. SUBSEQUENT EVENTS:

Subsequent events were evaluated through November 30, 2020, which is the date the consolidated financial statements were available to be issued.