



**LOS ANGELES CHRISTIAN
HEALTH CENTERS AND
SUBSIDIARY**

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2022 and 2021

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

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Los Angeles Christian Health Centers and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Los Angeles Christian Health Centers and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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 48% and 52%, respectively, of consolidated total assets as of June 30, 2022 and 2021, and total revenues constituting 1.2% and 1.4%, 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.

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Los Angeles Christian Health Centers and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Los Angeles Christian Health Centers and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Woodland Hills, California
December 8, 2022

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Consolidated Statements of Financial Position

	June 30,	
	2022	2021
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 824,515	\$ 1,342,934
Restricted cash	109,645	109,645
Investments	1,689,891	2,351,581
Accounts receivable–net	1,174,934	786,814
Grants receivable	602,415	1,152,205
Prepaid expenses and other assets	193,581	190,598
	4,594,981	5,933,777
Employee retention credit receivable	1,971,856	-
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	2,355,282	2,437,828
Long-term investments	2,142,660	2,423,239
Fixed assets–net	25,967,223	26,611,707
	4,594,981	5,933,777
Total Assets	\$ 55,828,162	\$ 56,202,711
LIABILITIES AND NET ASSETS:		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 287,774	\$ 341,922
Medi-Cal liability	333,583	209,000
Construction payable	1,886,135	1,599,580
Accrued expenses and other liabilities	1,436,617	1,471,926
Notes payable, current portion	383,612	308,591
	4,327,721	3,931,019
Developer fee payable	1,000,000	1,000,000
Notes payable–net	36,490,926	36,801,675
Total liabilities	41,818,647	41,732,694
Net assets:		
Without donor restrictions	12,927,312	12,596,973
With donor restrictions	1,082,203	1,873,044
Total net assets	14,009,515	14,470,017
Total Liabilities and Net Assets	\$ 55,828,162	\$ 56,202,711

See notes to consolidated financial statements

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Activities

	Year Ended June 30,					
	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Federal grants revenue	\$ 7,274,004	\$ -	\$ 7,274,004	\$ 7,153,580	\$ 416,320	\$ 7,569,900
Patient service revenue	8,975,747	-	8,975,747	6,291,255	-	6,291,255
Grant revenue	45,636	675,922	721,558	-	1,365,091	1,365,091
Employee retention credit	1,971,856	-	1,971,856	-	-	-
Contract revenue	1,545,386	-	1,545,386	1,078,742	-	1,078,742
Pharmacy revenue	1,011,894	-	1,011,894	1,231,858	-	1,231,858
Contributions	414,191	-	414,191	605,026	-	605,026
Other income	47,290	-	47,290	871,310	-	871,310
Net assets released from restrictions:						
Satisfaction of donor restrictions	1,466,763	(1,466,763)	-	5,995,019	(5,995,019)	-
Total Support, Revenue, and Reclassifications	22,752,767	(790,841)	21,961,926	23,226,790	(4,213,608)	19,013,182
EXPENSES:						
Program services	19,094,142	-	19,094,142	14,243,368	-	14,243,368
Supporting activities:						
General and administrative	2,860,190	-	2,860,190	2,767,537	-	2,767,537
Fundraising	468,096	-	468,096	492,776	-	492,776
	3,328,286	-	3,328,286	3,260,313	-	3,260,313
Total Expenses	22,422,428	-	22,422,428	17,503,681	-	17,503,681
Change in Net Assets	330,339	(790,841)	(460,502)	5,723,109	(4,213,608)	1,509,501
Net Assets, Beginning of Year	12,596,973	1,873,044	14,470,017	6,873,864	6,086,652	12,960,516
Net Assets, End of Year	<u>\$ 12,927,312</u>	<u>\$ 1,082,203</u>	<u>\$ 14,009,515</u>	<u>\$ 12,596,973</u>	<u>\$ 1,873,044</u>	<u>\$ 14,470,017</u>

See notes to consolidated financial statements

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Functional Expenses

	Year Ended June 30,								
	2022				2021				
	Program Services	Supporting Activities: General and Administrative		Fundraising	Total	Program Services	Supporting Activities: General and Administrative		Fundraising
Salaries and wages	\$ 10,067,772	\$ 1,217,247	\$ 231,524	\$ 11,516,543	\$ 8,754,009	\$ 1,318,375	\$ 269,019	\$ 10,341,403	
Benefits and payroll taxes	1,530,508	337,879	41,505	1,909,892	1,329,933	266,435	46,241	1,642,609	
Professional services	905,182	655,179	113,867	1,674,228	661,788	238,675	115,690	1,016,153	
Building lease and occupancy costs	1,015,220	89,948	15,509	1,120,677	982,768	399,042	9,812	1,391,622	
Depreciation and amortization	1,279,179	67,415	9,574	1,356,168	310,117	28,825	7,900	346,842	
Medications and medical supplies	1,208,549	-	-	1,208,549	833,245	-	-	833,245	
Other expenses	697,827	330,875	2,896	1,031,598	240,094	343,313	10,421	593,828	
Interest expense	793,119	-	-	793,119	32,827	-	-	32,827	
Information technology	620,259	54,160	5,629	680,048	429,433	72,263	5,846	507,542	
Office supplies and expenses	267,182	33,930	25,626	326,738	208,410	30,219	25,968	264,597	
Laboratory testing	313,046	-	-	313,046	260,370	-	-	260,370	
Lease, repairs and maintenance	195,223	12,568	7,884	215,675	84,243	28,230	342	112,815	
Insurance expense	120,633	46,186	-	166,819	79,666	28,088	-	107,754	
Conference and seminar expense	80,443	14,803	14,082	109,328	36,465	14,072	1,537	52,074	
Total	\$ 19,094,142	\$ 2,860,190	\$ 468,096	\$ 22,422,428	\$ 14,243,368	\$ 2,767,537	\$ 492,776	\$ 17,503,681	

See notes to consolidated financial statements

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (460,502)	\$ 1,509,501
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,356,168	346,842
Realized and unrealized (gain) loss on investments	447,516	(364,945)
Noncash revenue recognition of Paycheck Protection Program loan forgiveness	-	(416,320)
Noncash revenue recognition of notes payable forgiveness	(47,436)	-
Contributions for long-term building project	-	(179,315)
Change in operating assets and liabilities:		
Accounts receivable-net	(388,120)	310,352
Grants receivable	549,790	(99,355)
Prepaid expenses and other assets	(2,983)	443,450
Employee retention credit receivable	(1,971,856)	-
Accounts payable	(54,148)	126,898
Accrued expenses and other liabilities	(35,309)	185,261
Medi-Cal liability	124,583	(391,000)
Net Cash Provided (Used) by Operating Activities	(482,297)	1,471,369
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(104,000)	(2,607,324)
Purchases of fixed assets	(367,975)	(5,844,570)
Proceeds from sale of investments	598,753	3,565,935
Developer fee payable	-	1,000,000
Net Cash Provided (Used) by Investing Activities	126,778	(3,885,959)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions for long-term building project	-	179,315
Principal payments on notes payable	(245,446)	(282,979)
Net Cash Used by Financing Activities	(245,446)	(103,664)
Change in Cash, Cash Equivalents, and Restricted Cash	(600,965)	(2,518,254)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	3,890,407	6,408,661
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 3,289,442	\$ 3,890,407

(continued)

See notes to consolidated financial statements

**LOS ANGELES CHRISTIAN HEALTH CENTERS
AND SUBSIDIARY**

Consolidated Statements of Cash Flows
(continued)

	Year Ended June 30,	
	2022	2021
SUMMARY OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH:		
Cash and cash equivalents	\$ 824,515	\$ 1,342,934
Current restricted cash	109,645	109,645
Noncurrent restricted cash	2,355,282	2,437,828
	\$ 3,289,442	\$ 3,890,407
SUPPLEMENTAL DISCLOSURES AND NON-CASH TRANSACTION:		
Fixed assets acquired through construction payables	\$ 286,555	\$ 1,599,580
Developer fee payable	\$ -	\$ 1,000,000
Cash paid for interest	\$ 762,771	\$ 533,426
Paycheck Protection Program loan forgiveness	\$ -	\$ 416,320
Notes payable loan forgiveness	\$ 47,436	\$ -

See notes to consolidated financial statements

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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, and 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 has constructed and leases to LACHC, an approximately 25,000 square foot community health center located in Los Angeles, California (the Property). The Property was placed into service during year ended June 30, 2021.

2. 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.

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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of cash on hand, checking and savings accounts, and highly liquid debt instruments with original maturities of three months or less. As of June 30, 2022 and 2021, LACHC's cash balances, including restricted cash, exceeded federally insured limits by approximately \$2,456,000 and \$3,053,000, respectively.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS

Investments consist primarily of cash, certificates of deposit, common stock, treasury bills, and mutual funds. 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 revenue without donor restrictions. During the years ended June 30, 2022 and 2021, total investment income (loss) net of expenses, of approximately \$(346,000) and \$406,000, respectively, is reported in other income on the consolidated statements of activities.

ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due for patient fees and contract revenues and are reported net of any anticipated losses due to uncollectible accounts. LACHC's policy for establishing the allowance for doubtful patient fee accounts is based on a percentage of total receivables at year-end. Any allowance for doubtful contract revenues is established on a contract by contract basis. 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, 2022 and 2021, the allowance for doubtful accounts was approximately \$41,000 for both years. Bad debt expense for the years ended June 30, 2022 and 2021, was approximately \$215,000 and \$155,000, respectively.

EMPLOYEE RETENTION CREDIT RECEIVABLE

Laws and regulations concerning government programs, including the Employee Retention Credit (ERC) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act are complex and subject to varying interpretation. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge LACHC's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon LACHC. Management expects the ERC to be received between twelve and eighteen months from June 30, 2022.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

DEPOSITS

On December 1, 2017, JHHC entered into a purchase and sale agreement to purchase a portion of 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 discussed in Note 12, JHHC and the general contractor were in a legal dispute during which time the general contractor placed a lien on the property which delayed the closing of the land purchase. As a result, the land did not close as of June 30, 2022, and the amount 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 was completed and placed in service in June 2021.

RESTRICTED CASH

Restricted cash is made up of fee reserve accounts and a construction disbursement account. In accordance with the loan agreements, LACHC was 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. Current restricted cash will be used to pay interest and other operating expenses of JHHC. As of June 30, 2022 and 2021, the consolidated balance of these reserve accounts was approximately \$787,000 and \$712,000, respectively.

Also in accordance with the loan agreements, LACHC was required to deposit loan proceeds to be used for construction costs into a construction disbursement account. As of June 30, 2022 and 2021, the balance of this account was approximately \$1,678,000 and \$1,835,000, 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 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.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consists of the following:

	June 30,	
	2022	2021
Accrued vacation	\$ 813,732	\$ 775,988
Accrued wages and taxes	256,196	549,673
Other	366,689	146,265
	<u>\$ 1,436,617</u>	<u>\$ 1,471,926</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 and amounts that are board designated for specific purposes.

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 general use unless specifically restricted by the donor.

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 unconditional 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.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUE, AND EXPENSES, continued

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. Due to immateriality, these gifts are reported within contributions on the consolidated statements of activities.

Patient service and pharmacy revenue are recognized as the performance obligations are met, which is at the point in time when the service is provided or pharmaceuticals are sold. Payments are required at the time of service or sale but are often collected through third party providers subsequent to the patient service being provided. Amounts for services provided but not yet collected are included within accounts receivable. Accounts receivable related to patient services revenue and pharmacy revenue totaled approximately \$601,000 as of June 30, 2022 and 2021.

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, 2022 and 2021, was approximately \$2,882,000 and \$2,580,000, respectively.

REVENUE CONCENTRATION

During the years ended June 30, 2022 and 2021, LACHC recognized grants revenue provided by a governmental agency, which accounts for approximately 42% and 40%, respectively, of total support and revenue. 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 and 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, service or supporting activity.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ALLOCATION OF JOINT COSTS

LACHC has adopted the provisions of the Joint Cost topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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, 2022 and 2021.

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.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS:

The following table reflects LACHC's consolidated financial assets as of June 30, 2022 and 2021, 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,	
	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 824,515	\$ 1,342,934
Investments	1,689,891	2,351,581
Accounts receivable—net	1,174,934	786,814
Grants receivable	602,415	1,152,205
Employee retention credit receivable	1,971,856	-
Notes receivable—NMTC equity investment US Bank CDC	17,143,272	17,143,272
Restricted cash	2,464,927	2,547,473
Long-term investments	2,142,660	2,423,239
Financial assets, at year-end	28,014,470	27,747,518
Less those unavailable for general expenditure within one year, due to:		
Employee retention credit receivable collectible beyond one year	(1,971,856)	-
Note receivable collectible beyond one year	(17,143,272)	(17,143,272)
Cash restricted by third parties for construction and loan interest fees	(2,464,927)	(2,547,473)
Net assets with donor restrictions not available for general expenditure within one year	(24,661)	(86,000)
Board designated reserves for future operations	(215,299)	(243,492)
Board designated reserves for future building needs	(1,927,361)	(2,179,747)
Financial assets available to meet cash needs for general expenditures within one year	\$ 4,267,094	\$ 5,547,534

As part of liquidity management, LACHC maintains restricted cash which is utilized to pay for certain expenses as they become due. Management anticipates the restricted development cash will be sufficient to fund final JHHC construction costs and operating shortfalls, if any. 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, 2022 and 2021

4. MEDI-CAL LIABILITY:

As of June 30, 2022 and 2021, \$333,583 and \$209,000, respectively, is accrued related to Medi-Cal medical, dental services, and mental health rendered. LACHC estimated these funds are likely to be repaid. The estimated amount was recorded as a reduction in revenue in the consolidated statements of activities for the years ended June 30, 2022 and 2021, and as Medi-Cal liability in the consolidated statements of financial position as of June 30, 2022 and 2021.

5. INVESTMENTS:

Investments consist of:

	June 30,	
	2022	2021
At cost:		
Cash and cash equivalents	\$ 50,834	\$ 43,970
Certificates of deposit	434,598	738,293
At fair value:		
Treasury bills	767,001	1,199,889
Common stock	79,665	962,673
Mutual funds:		
Fixed income funds	1,250,999	845,000
Equity	1,249,454	984,995
	\$ 3,832,551	\$ 4,774,820
Current investments	\$ 1,689,891	\$ 2,351,581
Long-term investments	2,142,660	2,423,239
	\$ 3,832,551	\$ 4,774,820

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. Long-term investments are board reserved funds for future projects.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

6. FIXED ASSETS–NET:

Fixed assets–net consist of:

	June 30,	
	2022	2021
Building and improvements	\$ 23,367,092	\$ 22,923,188
Furniture and fixtures	903,370	903,370
Equipment and software	1,077,512	568,269
Leasehold improvements	3,278,283	3,691,737
	28,626,257	28,086,564
Less accumulated depreciation and amortization	(2,773,872)	(1,474,857)
	25,852,385	26,611,707
Construction in process	114,838	-
	\$ 25,967,223	\$ 26,611,707

7. 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, 2022 and 2021

8. NOTES PAYABLE–NET:

Notes payable–net consist of the following:

	June 30,	
	2022	2021
<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 payments 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, 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	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	4,743,272
<p>Balance carried forward</p>	17,143,272	17,143,272

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

8. NOTES PAYABLE–NET, continued:

Notes payable–net consist of the following, continued:

	June 30,	
	2022	2021
Balance carried forward	\$ 17,143,272	\$ 17,143,272
 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	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, 2019. The note is secured by all business assets and properties of LACHC. Commencing March 5, 2020, quarterly installments of approximately \$125,000, 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.	5,773,963	5,950,078
 LACHC CIP Loan A, maturing on December 20, 2024. Interest of 5.0% 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.	3,033,105	3,102,437
Balance carried forward	34,209,068	34,454,515

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

8. NOTES PAYABLE–NET, continued:

Notes payable–net consist of the following, continued:

	June 30,	
	2022	2021
Balance carried forward	\$ 34,209,068	\$ 34,454,515
 LACHC loan from the City of Los Angeles for the construction of JHHC. 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%. As of June 30, 2022, \$47,436 cumulatively has been forgiven.	 3,265,289	 3,312,725
	37,474,357	37,767,240
Less unamortized debt issuance costs	(599,819)	(656,974)
Less current portion	(383,612)	(308,591)
	\$ 36,490,926	\$ 36,801,675

Annual maturities are as follows:

<u>Year Ending June 30,</u>	
2023	\$ 383,612
2024	399,291
2025	16,308,781
2026	94,872
2027	194,252
Thereafter	20,093,549
	\$ 37,474,357

LACHC incurred and capitalized approximately \$0 and \$469,000 of interest costs, net of interest income related to the UBCDC note receivables during the years ended June 30, 2022 and 2021, respectively. Interest income received from the UBCDC note receivables was approximately \$171,000 for each of the years ended June 30, 2022 and 2021.

LOAN COVENANTS

In conjunction with the notes payable, LACHC is required to comply with certain financial and reporting covenants. As of June 30, 2022, LACHC was in compliance with, or had received waivers for, all loan covenants.

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

9. LEASES:

LACHC leases the clinics' office spaces and office equipment with total monthly payments of approximately \$48,500, maturing from July 2022 until December 2026. Total lease expense was \$756,671 and \$667,338, for the years ended June 30, 2022 and 2021, respectively.

The future minimum payments are as follows:

<u>Year Ending June 30,</u>	
2023	\$ 581,536
2024	363,257
2025	305,100
2026	302,371
2027	<u>178,097</u>
	<u>\$ 1,730,361</u>

10. NET ASSETS:

Net assets without donor restrictions consist of:

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Undesignated	\$ 10,784,652	\$ 10,173,734
Board designated reserves for future operations	215,299	243,492
Board designated reserves for future building needs	<u>1,927,361</u>	<u>2,179,747</u>
	<u>\$ 12,927,312</u>	<u>\$ 12,596,973</u>

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

	<u>June 30,</u>			<u>June 30,</u>
	<u>2021</u>	<u>Contributions</u>	<u>Releases</u>	<u>2022</u>
JHHC capital project	\$ 86,000	\$ 1,800	\$ (63,139)	\$ 24,661
Building clinic capacity	644,105	170,000	(461,516)	352,589
Health services - general	584,111	379,122	(707,915)	255,318
COVID-19 vaccination services	308,828	-	(110,123)	198,705
Dental services	<u>250,000</u>	<u>125,000</u>	<u>(124,070)</u>	<u>250,930</u>
	<u>\$ 1,873,044</u>	<u>\$ 675,922</u>	<u>\$ (1,466,763)</u>	<u>\$ 1,082,203</u>

LOS ANGELES CHRISTIAN HEALTH CENTERS AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

10. NET ASSETS, continued:

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

	June 30, 2020	Contributions	Releases	June 30, 2021
JHHC capital project	\$ 4,463,919	\$ 179,315	\$ (4,557,234)	\$ 86,000
Building clinic capacity	606,784	177,000	(139,679)	644,105
Health services - general	460,704	409,813	(286,406)	584,111
COVID-19 testing and services	305,245	17,500	(322,745)	-
COVID-19 vaccination services	-	331,463	(22,635)	308,828
Paycheck Protection Program Grant	-	416,320	(416,320)	-
Health care support	250,000	-	(250,000)	-
Dental services	-	250,000	-	250,000
	\$ 6,086,652	\$ 1,781,411	\$ (5,995,019)	\$ 1,873,044

11. 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 \$241,000 and \$205,000, were made during the years ended June 30, 2022 and 2021, respectively.

12. COMMITMENTS:

JHHC entered into a guaranteed maximum price construction contract in an amount equal to \$14,060,669 plus approved change orders of \$1,815,831, as of June 30, 2021. During the year-end June 30, 2022, the general contractor of the project filed a claim against JHHC for disputed change orders. The parties reached a settlement on September 7, 2022 under which the lien of the project will be released and the amount of change orders approved is \$373,588 plus retention of \$1,447,436. Construction costs of approximately \$440,000 and retention of \$1,447,000, are reported as construction payable as of June 30, 2022. The construction project and the contract commitment was substantially completed as of June 30, 2022.

13. SUBSEQUENT EVENTS:

Subsequent events were evaluated through December 8, 2022, which is the date the consolidated financial statements were available to be issued.