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Certified Public Accountants

LIFE STEPS FOUNDATION INC.
(A CALIFORNIA NONPROFIT CORPORATION)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2022

LIFE STEPS FOUNDATION, INC.
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Certified Public Accountants

Zuehls, Legaspi & Company

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Life Steps Foundation, Inc.
Los Angeles, California

Opinion

We have audited the accompanying financial statements of Life Steps Foundation, Inc. (LSF, Inc.), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 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 LSF, Inc.'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LSF, Inc.'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.

Zuehls, Legaspi & Co.

Los Angeles, California
October 30, 2023

LIFE STEPS FOUNDATION, INC
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	5,358,044
Accounts and program receivables, net		201,852
Employee loans		296,589
Investments		4,452,630
Prepaid expense		18,937
TOTAL CURRENT ASSETS		10,328,052
Land, building and equipment, net		5,756,155
Deposits		23,746
Other assets - retirement management annuity		106,828
TOTAL ASSETS	$	16,214,781
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$	136,775
Accrued expenses		460,241
Paycheck Protection Program loan		495,128
Current portion of long-term debt		34,294
Other current liabilities		35,038
TOTAL CURRENT LIABILITIES		1,161,476
Long-term debt, net of current portion		1,434,204
TOTAL LIABILITIES	$	2,595,680
COMMITMENTS		
NET ASSETS		
Without donor restrictions		13,615,884
With donor restrictions		3,217
TOTAL NET ASSETS		13,619,101
TOTAL LIABILITIES AND NET ASSETS	$	16,214,781

The accompanying notes are an integral part of these financial statements.

LIFE STEPS FOUNDATION, INC
STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2022

SUPPORT AND REVENUE	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Contract and grants	$ 5,183,351	$ -	$ 5,183,351
Donations and other support	92,059	-	92,059
Gain on sale of property	1,362,591	-	1,362,591
Interest and dividend income	66,430	-	66,430
Management and operating support fees	651,955	-	651,955
Other income	288,727	-	288,727
Patient services revenues	279,225	-	279,225
Rent	222,445	-	222,445
Unrealized loss on investments	(516,320)	-	(516,320)
	7,630,463	-	7,630,463
Net assets released from restrictions	111,075	(111,075)	-
TOTAL SUPPORT AND REVENUE	7,741,538	(111,075)	7,630,463
EXPENSES			
Program services	5,376,139	-	5,376,139
General and administrative	731,884	-	731,884
Fundraising	114,548	-	114,548
TOTAL EXPENSES	6,222,571	-	6,222,571
CHANGE IN NET ASSETS	1,518,967	(111,075)	1,407,892
NET ASSETS AT BEGINNING OF YEAR	12,096,917	114,292	12,211,209
NET ASSETS AT END OF YEAR	$ 13,615,884	$ 3,217	$ 13,619,101

The accompanying notes are an integral part of these financial statements.

LIFE STEPS FOUNDATION, INC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

OPERATING ACTIVITIES	
Change in net assets	$ 1,407,892
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	349,407
Unrealized loss on investments	516,320
Gain on sale of property	(1,362,591)
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts and program receivables, net	26,543
Employee loans	(296,589)
Intercompany receivable	203,379
Prepaid expenses	(5,954)
Deposits	(9,573)
Other assets - retirement management annuity	(106,828)
Increase (decrease) in:	
Accounts payable	42,451
Accrued expenses	294,724
Other current liabilities	35,038
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,094,219
INVESTING ACTIVITIES	
Proceeds from sale of investments	1,746,226
Proceeds from sale of property, net	1,752,379
Purchase of building improvements	(24,540)
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,474,065
FINANCING ACTIVITIES	
Proceeds from Paycheck Protection Program loan	94,708
Payments on long-term debt	(649,972)
NET CASH USED IN FINANCING ACTIVITIES	(555,264)
CHANGE IN CASH AND CASH EQUIVALENTS	4,013,020
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,345,024
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 5,358,044

The accompanying notes are an integral part of these financial statements.

LIFE STEPS FOUNDATION, INC
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUND-RAISING	TOTAL
Automobile	$ 24,315	$ -	$ -	$ 24,315
Bank fees	-	946	-	946
Consulting and professional fees	204,012	33,211	-	237,223
Contract services	77,385	10,553	-	87,938
Dues and subscriptions	20,425	2,375	950	23,750
Employee benefits	202,335	28,233	4,705	235,273
Equipment	6,556	919	-	7,475
Insurance - group	206,852	29,453	4,136	240,441
Insurance - liability	77,363	10,800	-	88,163
Insurance - worker's compensation	135,814	19,310	2,506	157,630
Interest	95,867	-	-	95,867
Legal and professional fees	23,308	5,827	-	29,135
Marketing	1,658	-	12,159	13,817
Mileage	29,048	2,702	2,027	33,777
Moving and storage	15,860	-	-	15,860
Office supplies	9,644	1,346	224	11,214
Payroll fees	3,346	467	78	3,891
Payroll taxes	250,679	35,695	5,012	291,386
Postage and delivery	10,217	1,426	238	11,880
Program supplies	48,015	-	-	48,015
Recruiting	31,289	4,366	728	36,382
Rent - building	243,495	33,976	5,663	283,134
Rent - equipment	14,868	2,075	346	17,288
Repairs and maintenance	59,246	8,435	1,185	68,866
Salaries and wages	3,128,360	436,515	72,753	3,637,628
Security	3,657	511	-	4,168
Seminars	7,696	-	-	7,696
Taxes licenses and permits	52,142	7,110	-	59,252
Telephone	43,110	6,015	1,003	50,128
Travel	3,464	484	-	3,948
Unemployment compensation	10,617	1,481	247	12,345
Utilities	28,018	5,725	590	34,333
Total expenses before depreciation and amortization	5,068,661	689,955	114,548	5,873,164
Depreciation	307,478	41,929	-	349,407
TOTAL EXPENSES	$ 5,376,139	$ 731,884	$ 114,548	$ 6,222,571

The accompanying notes are an integral part of these financial statements.

NOTE 1: NATURE OF ORGANIZATION

Life Steps Foundation, Inc. (LSF, Inc.), established in 1983, is a not-for-profit organization that provides in-home, community-based services to mentally, physically or developmentally disabled families, single parents, minorities, seniors and other high-risk populations challenged by substance abuse, premature birth, child abuse or neglect, and social or economic deprivation. The 65+ member staff serves an average of 150 consumers per month through 6 programs. LSF, Inc. receives funding primarily through state and municipal contracts.

Merger of Affiliated Nonprofits

During the year ended June 30, 2009, LSF, Inc.'s organizational structure was changed in accordance with its Self-Sufficiency Plan. Under the new structure, LSF, Inc.'s operations were segmented among five independent businesses or affiliates. As of June 30, 2017, five affiliates have been incorporated as independent businesses of which two are inactive. The active affiliates are Life Steps Foundation SoCal Adult Services (SoCal), Life Steps Foundation Children & Family Services (CAFS) and Life Steps Foundation Family and Adult Care Exchange Services (FACES), dba Life Steps Foundation Central California Adult Services. The inactive affiliates are Life Steps Foundation Aging and Health Management Services and Life Steps Foundation Integrated Aging Model. These inactive affiliates closed their doors in July 2018. Under the said plan, the affiliates become business owners by giving them more autonomy and providing them the opportunity to operate as independent entities.

On September 1,2021 upon approval of the board of directors, LSF, Inc acquired the LSF Family and Adult Care Exchange Services (LSF FACES), tax ID 26-2906416. LSF FACES' assets and liabilities at the time of acquisition were as follows:

		August 31, 2021
Cash	$	199,101
Accounts receivable		156,870
Deposits		1,904
Total assets		357,875
Accounts payable		398
Payroll tax payable & other		11,996
Accrued expenses		73,834
Intercompany payments to LSF, Inc.		147,053
Total liabilities	$	233,281

On March 1, 2022, upon approval of the board of directors, LSF, Inc acquired the LSF SoCal Adult Services (LSF SoCal), tax ID 26-2906354 along with the LSF Children and Family Services (LSF CAFS), tax ID 26-2906416.

NOTE 1: NATURE OF ORGANIZATION (continued)

LSF SoCal's assets and liabilities at the time of acquisition were as follows:

		February 28, 2022
Cash	$	1,556,412
Accounts receivable		397,610
Deposits		5,831
Total assets		1,959,853
Accounts payable		65,898
Payroll tax payable & other		22,219
Accrued expenses		206,732
PPP loan		94,708
Total liabilities	$	389,557

LSF CAFS' assets and liabilities at the time of acquisition were as follows:

		February 28, 2022
Cash	$	397,681
Accounts receivable		420,892
Investments		1,989,077
Deposits		1,839
Total assets		2,809,489
Accounts payable		8,490
Payroll tax payable & other		5,595
Accrued expenses		60,135
Total liabilities	$	74,220

All three entities were California nonprofit public benefit corporations. These acquisitions were made to streamline all operations since all companies were run by the same CEO and there was considerable overlap in personnel, operating, occupancy and other costs. This also allowed the utilization of one accounting system that operates with one database software. LS CAFS board of directors became LSF, Inc board of directors while LS FACES and LS SoCal had the same board of directors and CEO as LSF, Inc.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The accompanying financial statements of LSF, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

b. Classification and Reporting of Funds

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958). Under the main provisions of this update, net assets and changes in net assets are presented only for two classes: net assets with donor restrictions and net assets without restrictions, rather than the three classes: unrestricted, temporarily restricted and permanently restricted.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FASB ASC 958-205-45 requires LSF Inc. to report all of its expenses in the assets without donor restrictions (unrestricted), regardless of the source of the funds for the expenditures. A transfer of expenses from the assets without donor restrictions (unrestricted) to the assets with donor restrictions (restricted) will be reported, if applicable, to match the restricted revenue with the restricted expenses. As of June 30, 2022, the amount of net assets with donor restrictions was $3,217.

c. Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments with an original maturity of 90 days or less, provided these financial instruments are not subject to LSF, Inc. investment policy. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

d. Unconditional Promises to Give

Unconditional promises to give are recorded at their net realizable value. Unconditional promises to give due in one year or more are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

e. Revenue Recognition

Contributions - In accordance with ASC 958-605-50, revenues from contributions are recognized pursuant to the terms specified by the donor. Contributions are recognized at the earlier of the date receipt of funds or the date of a formal, unconditional pledge from known donors.

Unconditional promises to give cash and other assets to LSF, Inc. are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is actually received. Gifts received with donor stipulations that limit the use of the donated assets are reported as support with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished by LSF, Inc., net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Contracts and Grants - Revenue from cost-reimbursable grants and contracts is recorded to the extent of expenses incurred applicable to the grant or contract. Any difference between expenses incurred and the total funds received (not to exceed the grant of contract maximum) is recorded as receivable or an advance whichever is applicable. Revenue from other grants is recognized on an accrual basis as earned according to the provisions of the grant.

Patient Service Revenue - Patient service revenue is recognized during the period in which LSF, Inc. is obligated to provide services and is reported at its estimated net realizable amount. LSF, Inc. provides patient services to patients covered by the Medi-Cal program. Billings for services under this program are included in patient service revenues, net of estimated retroactive adjustments for differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Donated Materials, Equipment and Services

Materials and Equipment. Donations of materials and equipment are recorded as support at their estimated fair value on the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated materials and equipment to a specific purpose. Materials and equipment donated with explicit restrictions regarding their use are reported as restricted support.

Services. Under ASC 958-605-50, donated services are recognized if the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. LSF, Inc. receives various donated services from volunteers and service professionals. In the event LSF, Inc. does receive such in-kind contributions, estimated amounts would be reflected in the accompanying financial statements for donated services if an objective basis was available to measure the value of the service.

f. Functional Allocation of Expenses

The cost of providing LSF, Inc.'s programs and other activities is summarized on a functional basis in the statements of activities and statements of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited on the basis of periodic time or usage studies. The expenses that are allocated include (but are not limited to) salaries and wages, benefits, payroll taxes and professional services.

Accordingly, certain costs have been allocated to program services, management and general or fundraising services. The functional classifications are defined as follows:

- Program service expenses consist of costs that are either directly or indirectly allocable to its stated mission and program.

- Support services — general and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of LSF, Inc.

- Fundraising expenses are expensed as incurred, even though they may result in contributions received in future years. LSF, Inc. generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Fees for Operational Support

LSF, Inc., as the umbrella organization, provides certain supplies and services and the guidelines, criteria and standards to all affiliated operations, while the affiliates operate independently using core services from the following support units:

- Training, Clinical and Quality Management (TCQM);
- Accounting;
- Information Technology;
- Human Resources; and
- Development

In exchange, the affiliates pay a fee of fourteen to seventeen percent (14% to 17%) of gross revenue unless circumstances arise which may necessitate LSF, Inc. to reduce this percentage.

i. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, LSF, Inc.'s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances; however, the actual results could differ from those estimates. Significant estimates made by management include, but are not limited to, the adequacy of the allowance for losses on uncollectible contracts receivable and the recoverability of long-lived assets through future operations.

j. Income Tax Status

LSF, Inc. is a nonprofit corporation exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Such revenues are derived primarily from governmental grants, contracts and contributions and are not subject to federal or state income taxes. The entity does not pay any material excise taxes nor does it earn any unrelated business income. Therefore, no provision for taxes has been made.

GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the entity in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. LSF, Inc. is subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after the tax returns are filed.

NOTE 3: ACCOUNTS AND PROGRAM RECEIVABLE, NET

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for uncollectible accounts at June 30, 2022 was $10,000.

The total accounts and program receivable, net as of June 30, 2022, was $201,852.

NOTE 4: INVESTMENTS

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

Assets and liabilities are measured at fair value using a three-level fair value hierarchy that ranks the quality and reliability of the information used to measure fair value.

The three levels of inputs used to measure fair value are as follows:

> Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.
>
> Level 2 — Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.
>
> Level 3 — Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency, are classified as Level 3.

LSF, Inc.'s financial instruments include primarily cash and cash equivalents, receivables, accounts payable and accrued expenses. The entity uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which it is practical to estimate such value:

> Cash and cash equivalents — The carrying amount approximates fair value because of the short maturity of those instruments.
>
> Receivable — The carrying amount of accounts receivable approximates fair value because of their short-term nature and historical collectability.
>
> Accounts payable and accrued expenses — The carrying amount of accounts payable and accrued expenses approximates fair value because of the short-term nature of the obligations

NOTE 4: INVESTMENTS (continued)

Marketable Securities

LSF, Inc. accounts for investments in marketable securities under ASC 958-320. In accordance with ASC 958-320, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with realized and unrealized gains and losses included in the statement of activities.

Investment income at June 30, 2022 was comprised of the following:

		Amount
Interest and dividend income	$	66,430
Unrealized loss on investments		(516,320)
Total	$	(449,890)

LSF, Inc. uses appropriate valuation techniques based on the available inputs to measure the fair value of their investments. When available, the entity measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

LSF, Inc.'s investments measured at fair value on a recurring basis are summarized below:

		Total		Level 1		Level 2		Level 3
Money Market	$	198,755	$	198,755	$	-	$	-
Equities and ETF’s		2,054,896		2,054,896		-		-
Bonds		99,555		361,183		-		-
Mutual Funds		2,086,301		2,086,301		-		-
Other		13,123		13,123		-		-
	$	4,452,630	$	4,452,630	$	-	$	-

The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

NOTE 5: LAND, BUILDING AND EQUIPMENT, NET

Land, building and equipment at June 30, 2022 consisted of the following:

		Cost
Land	$	927,104
Building		5,583,464
Leasehold improvements		107,955
Vehicles		1,213,570
Equipment		48,249
		7,880,342
Less: accumulated depreciation		(2,124,187)
Land, building and equipment, net	$	5,756,155

Depreciation expense of property and equipment for the year ended June 30, 2022 was $349,407.

NOTE 6: PREPAID EXPENSES

Prepaid expenses consist of amounts paid in advance for items that had not yet occurred as of the end of the year period. The amount of prepaid expenses at June 30, 2022 was $18,937.

NOTE 7: SECURITY DEPOSIT

LSF, Inc. paid security deposits totaling $23,746 which are held by the lessors of the office premises. The security deposits will be refunded to LSF, Inc. upon expiration of the lease.

NOTE 8: OTHER ASSETS – RETIREMENT MANAGEMENT ANNUITY

LSF, Inc. invested $100,000 in an annuity in which the some of the proceeds were given to a former CEO on an annual basis.

The amount of the annuity as of June 30, 2022 was $106,828.

NOTE 9: ACCRUED EXPENSES

Accrued expense account pertains to accrued payroll and accrued vacation occurred but not paid as of June 30, 2022. The total accrued expense amount as of June 30, 2022 was $460,241.

NOTE 10: LONG-TERM DEBT

On December 15, 2020, LSF, Inc. entered into a mortgage loan agreement with New Omni Bank. Interest was at a rate of 5.00%. Final payment is due January 10, 2026. This debt is collateralized by the real property located at 14035 Francisquito Avenue, Baldwin Park, California.

The mortgage balance as of June 30, 2022 was $1,468,498 with $34,294 due within the next 12 months.

Future annual minimum payments are as follows:

June 30, 2023	$	106,824
June 30, 2024		106,824
June 30, 2025		106,824
January 10, 2026		1,402,155
		1,722,627
Less: interest		(254,129)
	$	1,468,498

NOTE 11: COMMITMENTS AND CONTINGENCIES

Operating Leases

LSF, Inc. is a party to two long-term non-cancelable operating lease agreements for its facilities with approximate monthly payments ranging from $4,000 to $8,500.

Office Lease: Airport Spectrum LAX

In 2016, LSF, Inc. entered into a 65-month lease agreement to rent premises with Airport Spectrum LAX, LLC for real property and improvements located at 5757 W. Century Blvd., Los Angeles, California with a base lease rate of $4,797 per month. On November 9, 2021, LSF, Inc. extended their lease term for another 5 years. This lease term expires on January 31, 2027

Future annual minimum lease payments are as follows:

June 30, 2023	$	67,563
June 30, 2024		69,590
June 30, 2025		71,677
June 30, 2026		73,828
January 31, 2027		43,810
	$	326,468

Office Lease: Operating Engineers Local 3 Federal Credit Union

In 2004, LSF, Inc. entered into a 65-month lease agreement to rent premises with Operating Engineers Local 3 Federal Credit Union for real property and improvements located at 828 Mahler Rd., Burlingame, California with a base lease rate of $8,334 per month. This lease was amended on May 13, 2011 and extended to June 30, 2018. A 6th amendment was signed on March 10, 2021 that extends the lease to June 30, 2024 with a monthly base rent of $10,721 each month for the twelve month period beginning July 1, 2021 through June 30, 2022. Rent increase will be at a rate of 2% each year thereafter.

Future annual minimum lease payments are as follows:

June 30, 2023	$	131,231
June 30, 2024		133,854
	$	265,085

Total office rent expense for the year ended June 30, 2022 was $283,134.

NOTE 12: ADVERTISING

Advertising costs are expensed as incurred. There were no advertising costs incurred for the year ended June 30, 2022.

NOTE 13: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30:

	2022	2021
Land and building restricted for affordable housing for program participants in Culver City, California through March, 2025, net of accumulated depreciation of $350,605 and $337,739 at June 30, 2022 and 2021, respectively.	$ 3,217	$ 63,038
Land and building restricted for affordable housing for program participants in Culver City, California through March, 2025, net of accumulated depreciation of $172,521 and $167,816 at June 30, 2022 and 2021, respectively.	-	51,254
Totals	$ 3,217	$ 114,292

NOTE 14: CONCENTRATION OF RISKS

Financial instruments, which potentially subject LSF, Inc. to concentrations of credit risk, consist of cash, investment and contracts receivable. Cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. At June 30, 2022, LSF, Inc. had an uninsured cash bank balance of $5,074,597.

LSF, Inc. derives approximately 46% of its revenues from the state government, directly and indirectly. While each state program individually may not pose a threat of a severe impact, the group concentration on the state government as a whole might reasonably make LSF, Inc. vulnerable to financial risk in the event such state funding is materially decreased.

Government Grants

LSF, Inc. has received local, state, and federal funds for specific purposes that are subject to review and audit by the contracting agencies. Although such audits could generate expenditure disallowances under terms of the grants and contracts, it is believed that any required reimbursements will not be material.

All of such grant agreements to which LSF, Inc. currently is a party are for fixed terms and expire on an annual basis. There can be no assurances that LSF, Inc. will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on LSF, Inc.'s financial position and results of operations. Historically, LSF, Inc. has successfully obtained all the grants it believed necessary to conduct its business.

Medi-Cal and Medicare

LSF, Inc. has elected to participate in the Medi-Cal reimbursement program. Although there were no Medi-Cal revenues for 2022 or 2021, LSF, Inc. continues to participate in the Medi-Cal program. Laws and regulations governing the Medi-Cal program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term

NOTE 15: RELATED PARTY TRANSACTIONS

As disclosed in Note 1, LSF, Inc. provided common management to its affiliates. LSF, Inc. received a percentage of its affiliates' monthly gross revenue in exchange for the supplies and services it provided. There were no related party transactions for the year ended June 30, 2022.

NOTE 16: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$	5,358,044
Accounts and program receivable		201,852
Employee loans		296,589
Investments		4,452,630
Total	$	10,309,115

NOTE 17: COVID-19 EFFECT

In March 2020, the state of California went into lockdown due to the COVID-19 pandemic. LSF, Inc. experienced limitations in employee resources resulting from travel restrictions and lockdowns. As a result, LSF, Inc.'s operations and financial results have been slightly impacted. LSF, Inc. is continuously monitoring the impact on the results of operations and financial performance of the pandemic, which are uncertain at this time and cannot be reasonably estimated.

LSF, Inc.'s financial standing remained intact since all grant agreements were approved and funded for the year ended June 30, 2022. Due to the flexible nature of its operation, remote operations continued.

NOTE 18: RECENT ACCOUNTING PRONOUNCEMENTS

ASU 2016-02

For lessees, any leases that are over 12 months in duration will need to be presented on the entity's statement of financial position as a right-to-use asset and corresponding liability for the obligation to pay rent. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional renewal periods if the lessee is reasonably certain to exercise an option to extend the lease. The present value should be calculated using the discount rate implicit in the lease (if determinable) or the lessee's incremental borrowing rate. The asset will be depreciated, and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. As of this report date, ASU 206-02 will be effective for fiscal years beginning after December 15, 2021. Early adoption is allowed.

NOTE 19: SUBSEQUENT EVENT

In accordance with ASC 855, subsequent events through October 30, 2023, the date of these financial statements were evaluated.

On August 5, 2022, the Paycheck Protection Program loan of $400,420 was forgiven.

There were no other material subsequent events that required recognition or additional disclosure in these financial statements.