

HEART OF LOS ANGELES YOUTH, INC.
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2025



Gurseley | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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Independent Auditor's Report

To the Board of Directors
Heart of Los Angeles Youth, Inc., and Subsidiary
Los Angeles, California

Opinion

We have audited the consolidated financial statements of Heart of Los Angeles Youth, Inc. and Subsidiary (the Organization), which comprise the consolidated statement of financial position as of June 30, 2025, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2025, and the consolidated 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 (GAAS). 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 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 the Organization's ability to continue as a going concern for one year after the date that the consolidated 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 consolidated 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 GAAS 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 GAAS, 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 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 the Organization'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 the Organization'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.

Gursey | Schneider LLP

February 27, 2026
Los Angeles, California

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Consolidated Statement of Financial Position
June 30, 2025

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	1,731,975
Investments, at fair value		4,099,656
Contributions receivable, current portion, net		934,764
Government contract receivable		193,669
Prepaid expenses and other assets		129,641
Total Current Assets		7,089,705

OTHER ASSETS

Contributions receivable, long-term portion, net		1,006,842
Leaseholders' prepaid right to facilities		979,823
Property and equipment, net		16,711,595
Operating leases, right-of-use assets		607,907
Leveraged loan receivables		3,678,480
Total Other Assets		22,984,647
TOTAL ASSETS	\$	30,074,352

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	289,639
Accrued payroll and related liabilities		406,938
Operating lease liabilities, current portion		183,542
Total Current Liabilities		880,119

OTHER LIABILITIES

Long-term debt		5,400,000
Operating lease liabilities, net of current portion		460,523
City of Los Angeles gift payable		61,310
Total Other Liabilities		5,921,833
TOTAL LIABILITIES		6,801,952

NET ASSETS

Without donor restrictions		16,620,247
With donor restrictions		6,652,153
TOTAL NET ASSETS		23,272,400
TOTAL LIABILITIES AND NET ASSETS	\$	30,074,352

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Contributions and grants	\$ 3,698,375	\$ 2,264,668	\$ 5,963,043
In-kind goods and services	373,973	33,754	407,727
Government contract revenue	285,312	-	285,312
Investment income, net	257,186	132,051	389,237
Interest on long-term receivable	59,756	-	59,756
Other income	11,750	-	11,750
	<u>4,686,352</u>	<u>2,430,473</u>	<u>7,116,825</u>
SUBTOTAL	4,686,352	2,430,473	7,116,825
Released from restriction	<u>4,969,523</u>	<u>(4,969,523)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>9,655,875</u>	<u>(2,539,050)</u>	<u>7,116,825</u>
EXPENSES			
Program services	8,336,332	-	8,336,332
Support services	1,413,473	-	1,413,473
Fundraising	843,307	-	843,307
	<u>10,593,112</u>	<u>-</u>	<u>10,593,112</u>
TOTAL EXPENSES	<u>10,593,112</u>	<u>-</u>	<u>10,593,112</u>
OTHER INCOME			
Gain on loan forgiveness	<u>4,668,549</u>	<u>-</u>	<u>4,668,549</u>
CHANGE IN NET ASSETS	3,731,312	(2,539,050)	1,192,262
NET ASSETS - Beginning of Year	<u>12,888,935</u>	<u>9,191,203</u>	<u>22,080,138</u>
NET ASSETS - End of Year	<u>\$ 16,620,247</u>	<u>\$ 6,652,153</u>	<u>\$ 23,272,400</u>

See Accompanying Notes to Consolidated Financial Statements

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2025

	Program Services					Support Services	Fundraising	Total Expenses
	Family Services	Arts Programs	Athletic Programs	Education Programs	Total Programs			
PERSONNEL EXPENSES								
Salaries and wages	\$ 384,442	\$ 2,289,927	\$ 272,375	\$ 1,360,055	\$ 4,306,799	\$ 322,253	\$ 619,821	\$ 5,248,873
Payroll taxes	28,437	171,930	20,301	101,096	321,764	43,680	45,051	410,495
Employee benefits	38,631	104,251	21,027	101,536	265,445	213,363	35,713	514,521
Total Personnel Expenses	451,510	2,566,108	313,703	1,562,687	4,894,008	579,296	700,585	6,173,889
OTHER EXPENSES								
Auto	769	2,551	769	2,378	6,467	-	-	6,467
Bank charges and other fees	-	-	-	-	-	8,890	-	8,890
Depreciation	28,445	290,805	2,166	115,757	437,173	23,341	11,350	471,864
Dues and subscriptions	-	-	-	-	-	9,374	90	9,464
Education and training	75	75	-	1,553	1,703	29,437	-	31,140
Equipment and supplies	70,925	253,765	94,698	76,063	495,451	3,173	16,103	514,727
Fieldtrips	342	30,915	30,547	44,739	106,543	87	270	106,900
In-kind goods and services	7,088	50,170	5,030	199,085	261,373	165,590	3,436	430,399
Insurance	5,808	64,637	26,494	35,007	131,946	4,210	3,144	139,300
Interest	7,957	81,352	606	32,383	122,298	6,271	3,175	131,744
Office expenses	104	1,284	407	73	1,868	28,453	2,288	32,609
Outside services	17,045	191,795	81,523	73,273	363,636	111,486	63,904	539,026
Parking	4,471	42,775	14,188	21,354	82,788	2,383	1,782	86,953
Postage, printing, and publications	-	-	-	-	-	740	321	1,061
Professional fees	4,199	37,700	8,515	19,621	70,035	316,459	13,870	400,364
Rent	3,283	155,618	23,476	21,916	204,293	21,353	2,254	227,900
Repairs and maintenance	3,694	44,291	24,322	25,462	97,769	20,144	14,874	132,787
Scholarships	-	-	-	987,200	987,200	-	-	987,200
Taxes and licenses	-	-	-	10	10	5,363	-	5,373
Telephone and internet	612	1,815	80	521	3,028	28,796	2,527	34,351
Travel	3	9,119	394	6,156	15,672	46,859	2,013	64,544
Utilities	2,440	27,352	10,464	12,815	53,071	1,768	1,321	56,160
Total Other Expenses	157,260	1,286,019	323,679	1,675,366	3,442,324	834,177	142,722	4,419,223
TOTAL EXPENSES	\$ 608,770	\$ 3,852,127	\$ 637,382	\$ 3,238,053	\$ 8,336,332	\$ 1,413,473	\$ 843,307	\$ 10,593,112

See Accompanying Notes to Consolidated Financial Statements

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2025

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (decrease) in net assets	\$ 1,192,262
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	471,864
Non-cash cost adjustment for operating leases	(1,879)
Realized and unrealized (gains) on investments, net	(221,499)
Amortization of leaseholder's prepaid rights to facilities	51,556
Gain on loan forgiveness	(4,668,549)
Decrease (increase) in assets:	
Contributions receivable, net	1,627,052
Government contract receivable	25,371
Prepaid expenses and other assets	(28,527)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	71,485
Accrued payroll and related liabilities	89,435
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,391,429)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(66,000)
Proceeds from investment sales	7,024,999
Purchases of investments	<u>(7,311,794)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(352,795)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on long-term debt	<u>(29,500)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,773,724)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>3,505,699</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 1,731,975</u>
<u>CASH PAID DURING THE YEAR FOR:</u>	
Interest paid	<u>\$ 121,196</u>

See Accompanying Notes to Consolidated Financial Statements

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2025

NOTE 1 - ORGANIZATION

Heart of Los Angeles Youth, Inc. (“Heart of LA” or the “Organization”) is a California nonprofit public benefit corporation, founded in 1989 and incorporated in 1992. Heart of LA helps young people, ages 6 - 24, living in Los Angeles overcome barriers through exceptional, free, integrated programs and personalized guidance in a trusted, nurturing environment. Heart of LA was founded in 1989 by Mitchel Moore, who saw the plight of youth living in and around the Rampart District and wanted to offer them opportunities for extended learning and a place to go after school. He started playing basketball with a handful of students in a dilapidated gym in the basement of a local church, and now, Heart of LA has grown to serve 2400 youth, along with their families, each year through innovative and transformational after-school programs and myriad wraparound services, serving 4,700 community members in total.

Heart of LA has intensive core academic programs, including the *Smart Start Elementary Education Program*, *Bridges Middle and High School Education Program*, and *College and Career Success Program*, which begin by investing in youth as young as elementary school and support them on their educational journey through middle school, high school, college, and career. Heart of LA also has many enrichment offerings that provide students with a plethora of engaging and innovative opportunities that include a dynamic music (Music Studios) and youth orchestra program (YOLA at Heart of LA), premier sports leagues and clinics that serve 1,000 youth each year, an intensive and sophisticated visual arts department that offers 100+ free art classes annually, as well as leadership and Science, Technology, Engineering, Arts and Math (STEAM) classes, myriad wraparound and counseling services, healthy cooking classes, comprehensive alumni support, scholarships, and parent and family resources.

Heart of LA operates Monday through Saturday year-round, and all programs are free - an essential feature for the area’s economically struggling families.

The majority of Heart of LA’s programs operate on its central campus, a four-building, 32,000 square-foot community campus in the Rampart District and Westlake area of Los Angeles that includes multiple classrooms, a synthetic turf soccer field, a full gymnasium and indoor athletic facility, several academic and art libraries, an art studio and gallery, music, and orchestra rooms, three computer labs and a science, technology, and digital media center. In June 2021, Heart of LA expanded its campus and opened a new Arts Recreation Center, located in Lafayette Park, which significantly expanded Heart of LA’s physical footprint in the neighborhood, and allowed Heart of LA to increase strategic partnerships, especially its partnership with LA City’s Recreation and Parks, grow the scope of its programs and significantly increase its overall impact on this community and its residents.

After 30+ years of service in the Lafayette Park community, Heart of LA took its expertise in empowering youth to achieve their self-defined versions of success to a new community. In 2022, Heart of LA expanded its programming to South Central Los Angeles, where it is now providing after-school classes in Visual Arts and STEAM in partnership with Augustus F. Hawkins Nature Park to over 100 students annually, along with programming that has served over 1,000 students in LAUSD elementary and middle schools in the Dorsey/Crenshaw neighborhoods over the past three years.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2025

NOTE 1 - ORGANIZATION - (CONTINUED)

Heart of LA has recognized the invaluable role that strong and deliberate partnerships play in the success of its programs and meeting Heart of LA's overall mission, as well as the need to expand the educational village for low-income youth and leverage local resources. Organizationally, Heart of LA has strategically sought out and developed hundreds of community partnerships, including the City of Los Angeles Department of Recreation and Parks; Los Angeles Philharmonic Association; UCLA CityLab ; Los Angeles County Museum of Art (LACMA); The Huntington Library, Art Museum and Botanical Gardens; Los Angeles Unified School District; Los Angeles Public Library; dozens of colleges and universities; 80+ local feeder public schools, community-based organizations, parents, local police departments and local businesses. Heart of LA is also largely supported by a committed group of over 850 volunteers who serve selflessly as mentors, tutors, advocates, teachers, and advisers, as well as resolute Board members who provide the organization with the leadership, resources, depth, and innovation that make Heart of LA so unique in its field.

Heart of LA has demonstrated the long-term impact of its programs and services through various outcomes. Over the last decade, Heart of LA has graduated 804 seniors from high school, boasting an accumulative high school graduation rate of 100% and a high-school-to-college matriculation rate of 100% for the Class of 2025. Since 2009, Heart of LA has awarded more than \$8.2 million in college scholarships to Heart of LA youth and has welcomed dozens of alumni back to Heart of LA as staff, board members, teachers, artists, musicians, coaches, volunteers, and mentors.

In September 2017, to expand the quality and quantity of services provided to the community, Heart of LA entered a partnership with the City of Los Angeles to construct a new Arts and Recreation Center ("Center") (See Note 9), adjacent to its present facilities in Lafayette Park.

Financing for this facility was provided in part through a New Markets Tax Credit ("NMTC") transaction, which required Heart of LA to establish a related California not-for-profit corporate subsidiary, HOLA Community Partners ("HCP"). HCP is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and applicable state law. HCP is a supporting organization of Heart of LA and is controlled by Heart of LA as specified in Section 509(a)(3) of the IRC. HCP holds title to the Center building. Throughout the remainder of these notes, the term "Heart of LA" or the "Organization" will refer to both Heart of LA and HCP unless otherwise indicated.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Basis of Presentation - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred. The consolidated financial statements include the accounts of Heart of LA and HOLA-CP. Any significant intercompany balances and transactions have been eliminated in consolidation.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2025

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Use of Estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash held in money market and checking accounts which are insured up to the federal limit by the Federal Deposit Insurance Corporation. Cash and cash equivalents have maturities at date of purchase of three months or less.

Investments - Investments are stated at fair value with unrealized gains and losses on investments resulting from fair value fluctuations recorded in the consolidated statement of activities in the period that such fluctuations occur. Investment income is shown as increases in unrestricted net assets unless such income has an imposed restriction. Purchases and sales of investments are recorded on the trade date. Dividend income is recorded based on the recorded date. Interest income is recorded as earned on an accrual basis. Bond premiums and discounts are amortized to the first call date using a method that approximates the effective interest method. Realized gains and losses are recorded upon disposition of securities. Investment income and realized and unrealized gains and losses are recognized as unrestricted net assets unless their use is temporarily or permanently restricted by donors to a specified purpose or future period.

Net Asset Accounting - To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Heart of LA are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by the net asset class as follows:

- **Without Donor Restrictions** - Net assets are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by the actions of the board of directors or may otherwise be limited by contractual agreements with outside parties.
- **With Donor Restrictions** - Net assets that are subject to donor-imposed restrictions that limit the use of their contributions. Donor restrictions may result in *temporarily restricted net assets*, where the use of contributions is limited by donor-imposed stipulations that either expire by the passage of time or when used for specified purposes. Donor restrictions may also result in *permanently restricted net assets*, where the donor stipulates those resources are to be maintained permanently but permits Heart of LA to expend all the income (or other economic benefits) derived from the donated assets.

Contributions - Contributions, including unconditional promises to give, are recorded in the period made. All contributions are available for unrestricted use, unless specifically restricted by the donor. Conditional promises to give are recognized when the condition on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their undiscounted carrying value. Unconditional promises to give due in the subsequent years are discounted at the treasury yield curve rates of comparable duration. An estimate for uncollectible contributions is recorded against contributions. Heart of LA has determined that an allowance against contributions receivable of \$0 is required as of June 30, 2025.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2025

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Government Contract Revenue - Heart of LA entered into multiple contractual agreements to provide academic enrichment and college readiness after-school programming for grades 6 - 12 students, and to assist youth or adults with obtaining or improving employment, or securing income support (i.e., completing job training, obtaining health care, childcare, right to work or public benefits). These fees are accounted for as exchange transactions following the guidance of FASB Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). ASC 606 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contracts, which includes (1) identifying the contracts or agreement with a customer, (2) identifying performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied. Heart of LA recognizes the revenue as the programming services are performed. Services are provided and amounts are billed monthly. The Organization follows the current expected credit loss ("CECL") methodology as per ASU 2016-13, Financial Instruments – Credit Losses (Topic 326). All government contract receivable balances on June 30, 2025, are expected to be collected and therefore, no valuation allowance for credit losses was deemed necessary.

Scholarships - Heart of LA awards renewable scholarships for up to five years if the scholar fulfills all scholarship renewal requirements each year. Scholarship recipients may receive up to their unmet financial need in scholarships per year. Students are required to provide a status report semi-annually and meet certain academic performance and other criteria to maintain scholarship eligibility. Scholars must re-apply to receive subsequent year awards after their initial award. The Scholarship budget is subject to availability of funds received. All scholarships are awarded and paid out in two installments during the fiscal year after a student meets continuing eligibility requirements. Therefore, no commitments are made for future years, and no scholarship liability is accrued as of June 30, 2025.

Donated In-Kind Goods and Services - Donations of goods are recorded as contributions at their estimated fair value at the date of donation. Contributed services are recognized if the services received (a) increase or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional Allocations of Expenses - The costs of providing Heart of LA's programs and supporting services have been summarized on a functional basis in the statement of activities. Costs related to program and support services are charged directly to the functional category. Indirect costs not directly chargeable to a functional category have been allocated. Management allocates salaries and related employee benefits to functional categories based on approximation of labor hours spent between program and supporting services and allocates facilities and overhead costs based on approximate square footage of facilities usage. Management believes labor hours and space utilization is the most representative allocation for indirect costs.

Income Taxes - Heart of LA (including HOLA-CP) is a public charity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for federal and state income taxes in the accompanying consolidated financial statements.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2025

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Heart of LA may be subject to unrelated business income tax for income from operating activities not related to their exempt purpose. Unrelated business income is taxed based on the applicable statutory federal and state income tax rates for for-profit organizations. Management does not anticipate any income being subject to unrelated business income tax during the current year.

Heart of LA's accounting policy is to provide liabilities for uncertain tax positions (including penalties and interest) when a tax position would not be considered "more likely than not" to be upheld by a tax authority examination. Management is not aware of any violation of its tax status (being exempt from income taxes), nor any exposure to unrelated business income tax. Heart of LA's federal income tax and informational returns for tax years 2022 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, Heart of LA's most significant jurisdiction, remain subject to examination by the California Franchise Tax Board for years 2021 and subsequent.

Property and Equipment - Acquisition of property and equipment more than \$5,000 is capitalized at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed over the estimated useful lives of the assets ranging from 5 to 39 years, using the straight-line method.

Impairment of Long-Lived Assets - Accounting for the impairment or disposal of long-lived assets, such as property and equipment, requires that such assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value, less costs to sell and are no longer depreciated. The Organization did not record charges related to any long-lived asset impairment.

Concentrations of Risk - Financial instruments which potentially subject Heart of LA to concentrations of credit risk consist of cash and cash equivalents, investments, and contributions receivable. Heart of LA maintains cash balances at various high-quality financial institutions, where the Federal Deposit Insurance Corporation (FDIC) insure accounts up to \$250,000. At times, in the normal course of business, such cash and cash equivalent balances are more than the FDIC insurance limits. Management regularly reviews the financial stability of its cash depositories and deems the risk of loss due to these concentrations to be minimal.

Investments are subject to certain risks such as market fluctuation and changes in interest rates, which could result in losses in the event of adverse economic circumstances. Heart of LA attempts to limit its credit risks associated with its investments through diversification and choosing investments that are traded in the active market. Management of Heart of LA has assessed the credit risk associated with the investments held at June 30, 2025 and has determined that an allowance for potential losses due to credit risk in the investment portfolio is not necessary.

Unconditional Promises to Give and Contributions - For the year ended June 30, 2025, there was one donor who contributed 14% of the Organization's revenues, and grants from three donors made up approximately 74% of the Organization's receivables.

HEART OF LOS ANGELES YOUTH, INC. AND SUBSIDIARY
(A California Nonprofit Public Benefit Corporation)
Notes to Consolidated Financial Statements
June 30, 2025

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Leases — Under FASB ASU 2016-02, “Leases” (Topic 842), Heart of LA determines if an arrangement contains a lease at inception. Right-of-use (“ROU”) assets represent Heart of LA’s right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Lease assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Lease charges for common area maintenance, parking, and utilities vary with use and are accounted for as non-lease components. Heart of LA uses its estimated incremental borrowing rate (estimated to be 4% to 6% for the different leases) as the rate implicit in the lease as the implicit rate is not readily available.

Heart of LA’s lease term for the purposes of the computation of the present value of minimum lease payments may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. Heart of LA accounts for the lease and non-lease components separately.

Subsequent Events - Subsequent events have been evaluated through February 27, 2026, the date the financial statements were available to be issued.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The following table summarizes the Organization’s financial assets as of June 30, 2025:

Cash and cash equivalents	\$	1,731,975
Investments, at fair value		4,099,656
Contributions receivable, net		1,941,606
Government contracts receivable		<u>193,669</u>
 Subtotal		 7,966,906
 Less assets unavailable for general expenditures within one year:		
Restricted by donors with purpose or time, net of short-term receivables		(4,649,389)
Endowment net assets		<u>(1,068,000)</u>
	 \$	 <u>2,249,517</u>

Financial assets available to meet cash needs for general expenditures within one year represent funding for ongoing operational requirements and program expenditures in fiscal year 2026.

Heart of LA has an investment policy authorized by the board of directors that provides guidance and oversight for the management of cash and cash equivalents. The policy provides that Heart of LA maintain an adequate level of cash to meet on-going operational and liquidity requirements. Heart of LA’s goal is to maintain financial assets to meet 90 days of operating expenses (approximately \$2.6 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts.

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NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Heart of LA accounts for the fair value of its marketable securities in accordance with FASB ASC Topic 820, "Fair Value Measurements." ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Heart of LA utilized market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the evaluation technique. These inputs can be readily observable, market corroborated, or generally unobservable. Heart of LA classifies fair value balances based on the observability of those inputs. ASC Topic 820 established a fair value hierarchy that prioritizes the inputs used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy defined by ASC Topic 820 are as follows:

- Level 1: Observable input such as quoted prices for identical instruments in active markets.
- Level 2: Inputs other than quoted prices in active markets that are observable either directly or indirectly through corroboration with observable market data.
- Level 3: Unobservable inputs in which there is little or no market data, which would require Heart of LA to develop its own assumptions.

The assets or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. ASC Topic 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. These methods are used on a consistent basis and Heart of LA has not made changes in the valuation techniques used.

As of June 30, 2025, the Foundation's investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Equity mutual funds	\$ 1,324,615	\$ 1,535,587
Fixed income securities	1,607,066	1,613,887
Fixed income mutual funds	454,144	458,751
Balanced mutual funds	<u>433,040</u>	<u>491,431</u>
	<u>\$ 3,818,865</u>	<u>\$ 4,099,656</u>

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NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - (CONTINUED)

The following is a summary of investments by fair value hierarchy on June 30, 2025:

Investments	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Equity mutual funds	\$ 1,535,587	\$ -	\$ -	\$ 1,535,587
Fixed income securities	1,513,979	99,908	-	1,613,887
Fixed income mutual funds	458,751	-	-	458,751
Balanced mutual funds	491,431	-	-	491,431
	<u>\$ 3,999,748</u>	<u>\$ 99,908</u>	<u>\$ -</u>	<u>\$ 4,099,656</u>

Investment income for the year ended June 30, 2025, is summarized as follows:

Interest and dividends income	\$ 167,738
Realized gains, net	187,117
Unrealized gains, net	<u>34,382</u>
Investment income, net	<u>\$ 389,237</u>

NOTE 5 – CONTRIBUTED NON-FINANCIAL ASSETS

For the year ended June 30, 2025, contributed non-financial assets recognized in the accompanying consolidated statement of activities included:

	Expenses			Total
	Program Expenses	Support Services	Fundraising Expenses	
Goods and services for programs	\$ 217,630	\$ -	\$ -	\$ 217,630
Rent	26,159	5,536	2,059	33,754
Legal services	-	156,343	-	156,343
	<u>\$ 243,789</u>	<u>\$ 161,879</u>	<u>\$ 2,059</u>	<u>\$ 407,727</u>

Unless otherwise noted, contributed non-financial assets did not have donor-imposed restrictions.

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NOTE 5 - CONTRIBUTED NON-FINANCIAL ASSETS - (CONTINUED)

Goods & services for programs - This category consists of goods (e.g., food, clothing, supplies, equipment, etc.) and services (e.g., airline tickets, music concert tickets, etc.) used for programmatic activities. These assets were utilized in program operations during the year received and were not monetized. No donor-imposed restrictions were associated with these contributions. Fair value is estimated using:

- Published retail prices for identical or comparable goods,
- Online market pricing,
- Vendor quotes, or
- Comparable market data.

Rent - The donated rent space is primarily used and restricted for programmatic activities. A portion of the donated rent space can also be used for administrative and fundraising activities. Fair value is determined using:

- Comparable rental rates for similar commercial properties in the same geographic area,
- Adjusted for square footage and lease terms,
- Multiplied by the applicable usage period.

Legal services - These contributed services are comprised of legal services from attorneys advising the Organization on various administrative legal matters. These services were utilized in support services and were not monetized. No donor-imposed restrictions were associated with these services. Fair value is based on:

- Standard hourly billing rates of the attorneys providing the services,
- Adjusted for the nature and complexity of services rendered,
- Consistent with rates charged for similar services in the local market.

NOTE 6 - CONTRIBUTIONS RECEIVABLE

Contributions receivable on June 30, 2025 are composed of the following:

Receivable in less than one year	\$ 934,764
Receivable in one to five years	934,953
Receivable thereafter	<u>200,000</u>
	2,069,717
Less: allowance for doubtful pledges	-
Less: present value discount	<u>(128,111)</u>
Total contributions receivable, net	<u><u>\$ 1,941,606</u></u>

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NOTE 7 - LAFAYETTE PARK COMMUNITY CENTER

In 2006, Heart of LA, together with the City of Los Angeles, Department of Recreation and Parks (City), launched the "*Building for the Future*" project. Funds raised through this public / private partnership secured working capital for several short-term and long-term needs, programmatic expansion, and the renovation and expansion of the Lafayette Park Community Center (Community Center).

In November 2006, Heart of LA received a grant of \$1 million (Grant) from The Everychild Foundation (Foundation). The Grant was restricted to certain capital renovations that were made by the City to the Community Center, and to increase and expand the programs offered by Heart of LA to children at the Community Center. Through this support, Heart of LA was able to leverage additional funds for program expansion from other private sources.

In December 2007, Heart of LA entered into a Gift Agreement (Gift) with the City to provide \$722,070 of the Foundation's Grant to the City for the Community Center construction project. The remaining balance owed to the City under this Gift at June 30, 2025 was \$61,310, as no payments were made during the year ended June 30, 2025. In exchange for the Gift, the City entered into a Memorandum of Agreement (Agreement) with Heart of LA to provide non-transferable use of a portion of the Community Center facilities, including utilities and general maintenance, for a term of 25 years commencing March 2011.

The Agreement requires Heart of LA to provide youth development programming at the Community Center, at its own cost, including programs such as Athletics, Heart of LA Bridges Middle School and PAT High School Education, and STEAM (Science, Technology, Engineering, Arts, and Math) classes.

Heart of LA recorded the Grant as a restricted gift with the amount committed to the City recorded as a leaseholder's prepaid right to facilities.

As of June 30, 2025, the amounts remaining to be amortized into rent expense are as follows:

Years Ending June 30,		
2026	\$	28,883
2027		28,883
2028		28,883
2029		28,883
2030		28,883
Thereafter		166,074
	\$	310,489

During the year ended June 30, 2025, Heart of LA recorded \$28,883 in rent expense related to the amortization of the leaseholder's prepaid right to facilities.

The Lafayette Park Community Center enables Heart of LA to provide an expanded range of educational and recreational programs to over 2,200 youth.

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NOTE 8 - BRYSON CENTER

On November 1, 2023, Heart of LA entered into a long-term lease for the ground floor of the Bryson Center located in Los Angeles, California. Prior to November 1, 2023, Heart of LA occupied this space without a lease agreement and paid no rent. Heart of LA has been using this space for programming and support services. This new lease expires in October 2028 and includes two options to extend the lease term for an additional five years each (i.e., ten years total). The lease extension period is incorporated in the Organization’s recognition of its right-of-use asset and liability (refer to Note 15) as management expects to exercise both options.

The rent paid by Heart of LA is heavily discounted in comparison to the fair market value of rent for the ground floor. Heart of LA recorded the in-kind rent grant as a restricted gift with the amount committed to the donor as a leaseholder’s prepaid right to facilities.

As of June 30, 2025, the amounts of donated rent remaining to be amortized into rent expense are as follows:

Years Ending June 30,		
2026	\$	25,552
2027		28,630
2028		31,916
2029		35,424
2030		39,167
Thereafter		508,645
	\$	669,334

During the year ended June 30, 2025, Heart of LA recorded in-kind rent of \$56,426 in rent expense related to the amortization of the leaseholder’s prepaid right to facilities.

NOTE 9 - ARTS, ENRICHMENT, AND RECREATION CENTER PROJECT

Commencing in 2015, in response to increased programmatic facility needs, and to ensure future program sustainability, Heart of LA began building and furnishing a new Arts, Enrichment, and Recreation Center (Center). The building project was completed in the year ended June 30, 2022, and Heart of LA obtained the certificate of occupancy on October 6, 2021.

The Center is located on undeveloped property at Lafayette Park in the City of Los Angeles. The Center’s building site is being provided through Heart of LA’s public / private partnership with the City’s Department of Recreation and Parks. In 2017, the City negotiated a fifty (50) year land lease with HOLA-CP at a nominal cost of \$1 per year, essentially gifting the building site to HOLA-CP. The land lease agreement between HOLA-CP and the City includes an option to further extend the lease beyond this initial fifty (50) year period.

In September 2017, to finance the development of the Center, Heart of LA entered a NMTC financing transaction. All prior building costs capitalized as construction-in-progress by Heart of LA were transferred to HOLA-CP, which qualified to be funded by NMTC financing. The NMTC financing resulted in approximately \$3.0 million in additional net financing for the project.

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NOTE 10 - PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following on June 30, 2025:

Buildings - Arts and Recreation Center	\$ 18,366,674
Vehicles	108,143
Building improvements	107,329
Construction in progress	66,000
Computers and software	<u>12,326</u>
	18,660,472
Less: accumulated depreciation	<u>(1,948,877)</u>
 Total property and equipment, net	 <u><u>\$ 16,711,595</u></u>

All property and equipment are held for use. Depreciation expense for the year ended June 30, 2025 was \$471,864.

NOTE 11 - NMTC LEVERAGE LOAN RECEIVABLE

In connection with Heart of LA’s financing obtained through the NMTC program (see Note 9 above), Heart of LA made leverage loans to a qualified equity investment fund (QEIF). The loans accrue interest at a fixed rate of 1.0% and require quarterly interest-only payments for the first seven years (Compliance Period); and quarterly principal and interest payments of \$228,139 through September 2047.

To fund the loans receivable, Heart of LA paid \$13,294,431 in cash on hand (including \$2,802,919 in lender reimbursements because of the NMTC transaction). These proceeds were raised from the NMTC loans described in Note 12.

After the Compliance Period, there are put and call agreements between Heart of LA and the investor in QEIF. It is anticipated that the NMTC investor will put their option and Heart of LA will own the funds in the QEIF at the end of the Compliance Period; however, if the investor does not put their interest, management may exercise its option to call the loans receivable. This action will essentially result in forgiveness of these loans as well as extinguishment of Heart of LA’s debt described in Note 12.

On September 26, 2024, the NMTC investor exercised their put option for the *first round* of NMTC loans. This action resulted in the forgiveness of the first round of NMTC leverage loan receivable and first round funding (Note 12).

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NOTE 11 - NMTC LEVERAGE LOAN RECEIVABLE - (CONTINUED)

The table below summarizes the loan settlement. These transactions resulted in gain during the year ending June 30, 2025.

Purchase of loan receivable	\$ (9,615,951)
Cancellation of Round 1 - Funding loan	14,314,000
Principal payment	<u>(29,500)</u>
 Gain on cancellation of Round 1 - Funding loan	 <u>\$ 4,668,549</u>

As of June 30, 2025, the Organization continues to hold a loan receivable of \$3,678,480 for Round 2 NMTC financing.

NOTE 12 - LONG-TERM DEBT AND NEW MARKETS TAX CREDIT PROGRAMS

In September 2017 (Round 1 funding) and May 2020 (Round 2 funding), HOLA-CP obtained financing in an arrangement structured under the New Markets Tax Credit (NMTC) program. This program is part of the Community Renewal Tax Relief Act of 2000, permits individual and corporate taxpayers to receive credit against federal income taxes for making a quality equity investment (QEI) in qualified community development entities (CDEs). The CDEs used substantially all of each QEI to make qualified low-income community investment (QLICI) loans on favorable terms to HOLA-CP as a qualified active low-income community business (QALICB).

During the year ended June 30, 2025, Round 1 leverage loans were fully canceled as part of the NMTC unwind. Loans made to HOLA-CP by the CDEs in the second round of funding in May 2020 remain outstanding as follows:

<u>Round 2 - Funding</u>	
LADF XXIII, LLC Note A	\$ 3,678,480
LADF XXIII, LLC Note B	<u>1,721,520</u>
	<u>\$ 5,400,000</u>

All Round 2 loans bear interest at 1.53% and require quarterly interest-only payments for the first seven years (Compliance Period) and principal and interest payments through maturity in September 2047. The loans can be repaid any time after the Compliance Period.

These loan agreements contain put and call agreements between Heart of LA and the investor in QEIF (which has ownership interest in the CDEs making the loans above). If the investor does not exercise their put option, Heart of LA can call the ownership in the interest in QEIF for fair market value. It is anticipated that the NMTC investor will put their option and Heart of LA will own the funds in the QEIF at the end of the Compliance Period. However, if the investor does not put their interest, management plans to exercise its option to call. By acquiring ownership interests, Heart of LA would be in a position whereby it can forgive the NMTC notes payable, resulting in a substantial reduction in outstanding debt at that point in time and recognition of the benefits from the NMTC program (in turn, it is expected that Heart of LA would forgive the NMTC notes receivable). The loans are collateralized by essentially all HOLA-CP property and equipment.

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NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS

Temporarily restricted net assets as of June 30, 2025 consists of the following:

	Balance at June 30, 2024	Restricted Contributions	Transfer from Endowment	Released From Restriction	Balance at June 30, 2025
Purpose Restricted	\$ 6,860,254	\$ 2,048,422	\$ 35,000	\$ (4,284,523)	\$ 4,659,153
Time Restricted	1,460,000	150,000	-	(685,000)	925,000
	<u>\$ 8,320,254</u>	<u>\$ 2,198,422</u>	<u>\$ 35,000</u>	<u>\$ (4,969,523)</u>	<u>\$ 5,584,153</u>

Permanently restricted net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Heart of LA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the organization considers the following factors in deciding whether to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- Investment policies

Permanently restricted net assets consist of the following endowed gifts:

Scholarship Fund	\$ 237,552
Music Endowment	184,047
Visual Arts Endowment	<u>646,401</u>
Total Endowments	<u><u>\$ 1,068,000</u></u>

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NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS - (CONTINUED)

During the year-ended June 30, 2025, Heart of LA had the following endowment related activities:

<u>Endowment Assets</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 14,257	\$ 870,949	\$ 885,206
Contributions	-	100,000	100,000
Investment income, net	-	132,051	132,051
Appropriations	35,000	(35,000)	-
Releases	<u>(32,209)</u>	<u>-</u>	<u>(32,209)</u>
End of year	<u>\$ 17,048</u>	<u>\$ 1,068,000</u>	<u>\$ 1,085,048</u>

Each endowment is tracked and invested in its own separate brokerage account. Investment balances consist of the following:

Cash and cash equivalents	\$ 13,549
Equity mutual funds	640,947
Fixed income mutual funds	199,040
Balanced mutual funds	<u>214,464</u>
	<u>\$ 1,068,000</u>

NOTE 14 - RETIREMENT PLAN

Heart of LA sponsors a qualified pension plan that covers substantially all full-time employees meeting certain eligibility requirements. Employees may contribute a portion of their annual compensation to the plan, limited to the maximum annual amount as set periodically by the Internal Revenue Service.

NOTE 15 - RIGHT-OF-USE ASSETS AND LIABILITIES

Operating Leases - Heart of LA leases three commercial spaces in Los Angeles. The first space is in an adjacent building (the Royale) under a non-cancellable operating lease agreement, expiring in May 2027. The second space is in South Central Los Angeles (the Watts Center) under a non-cancellable operating lease agreement with no renewal option. The second lease commenced in July 2023 and expires in June 2027. The third space is in an adjacent building (the Bryson Center) under a non-cancellable operating lease agreement with two options to renew for five years (see Note 8). The lease extension period is incorporated in the Organization's recognition of its right-of-use asset and liability as management expects to exercise both options. The Bryson Center lease commenced in November 2023 and expires in October 2038.

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NOTE 15 - RIGHT-OF-USE ASSETS AND LIABILITIES - (CONTINUED)

The minimum lease rent commitments for the next five fiscal years and thereafter until the lease ends are as follows:

<u>Years Ending June 30,</u>	<u>Royale</u>	<u>Watts</u>	<u>Bryson</u>	<u>Total</u>
2026	\$ 97,934	\$ 54,240	\$ 31,367	\$ 183,541
2027	92,235	54,240	32,308	178,783
2028	-	-	33,277	33,277
2029	-	-	34,275	34,275
2030	-	-	35,304	35,304
Thereafter	-	-	338,403	338,403
Total minimum lease payments	190,169	108,480	504,934	803,583
Less: Imputed interest	<u>(11,026)</u>	<u>(4,797)</u>	<u>(143,695)</u>	<u>(159,518)</u>
Total operating lease liabilities	<u>\$ 179,143</u>	<u>\$ 103,683</u>	<u>\$ 361,239</u>	<u>\$ 644,065</u>

The remaining lease term and discount rates are summarized as follows:

	<u>Royale</u>	<u>Watts</u>	<u>Bryson</u>
Remaining term (years)	1.83	1.92	13.25
Discount rate	6.00%	4.38%	4.95%

Rent expense for the three leases was \$177,895, and is part of total rent expense in the consolidated functional expense schedule for the year ended June 30, 2025.

NOTE 16 - CONTINGENCIES

In the ordinary course of business, Heart of LA may be subject to legal proceedings and claims, the outcomes of which are subject to significant uncertainty. These matters typically involve claims related to operational issues common in the industry that Heart of LA operates in. Management seeks advice from counsel to determine whether the outcome of these matters will have a material adverse effect on Heart of LA's consolidated financial statements.

Heart of LA records an accrual for legal contingencies when it determines that it is probable that a liability has been incurred, and the amount of the loss can be reasonably estimated. In making such determinations, Heart of LA evaluates, among other things, when it is probable that a liability has been incurred, the degree of probability of an unfavorable outcome, and the ability to make a reasonable estimate of the loss. Heart of LA reviews these accruals throughout the year and makes revisions based on changes in facts and circumstances.