



*(A California Nonprofit Public Benefit Corporation)*

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED JUNE 30, 2010 AND 2009**

LIFEHOUSE, INC.  
*(A California Nonprofit Public Benefit Corporation)*  
FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2010 AND 2009

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Board of Directors  
Lifehouse, Inc.  
San Rafael, California

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of financial position of Lifehouse, Inc., a California nonprofit public benefit corporation, as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Lifehouse, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Lifehouse, Inc. as of June 30, 2009 were audited by other auditors, whose report dated March 10, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Lifehouse, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lifehouse, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Lindquist, von Husen and Joyce LLP*

November 15, 2010

LIFEHOUSE, INC.  
*(A California Nonprofit Public Benefit Corporation)*  
 STATEMENTS OF FINANCIAL POSITION  
 JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Current assets:		
Cash	\$ 31,802	\$ 21,107
Accounts receivable – net	511,258	646,612
Grants receivable	30,908	16,349
Promises to give – current portion, net (Note 3)	8,522	6,922
Prepaid expenses	80,100	20,337
Total current assets	662,590	711,327
Cash – designated for long-term	62,137	268,214
Investments – designated for long-term (Note 6)	458,274	280,852
Promises to give – net of current portion (Note 3)	3,657	3,612
Deposits	13,095	16,816
Notes receivable – net (Note 4)	62,025	60,906
Interest receivable – net (Note 4)	101,295	94,103
Property and equipment – net (Note 5)	1,165,537	1,235,391
Total assets	\$ 2,528,610	\$ 2,671,221
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 107,658	\$ 116,202
Accrued salaries	85,423	87,610
Accrued vacation	181,495	156,595
Payable to Medi-Cal	21,514	35,057
Line of credit (Note 7)	202	60,000
Notes payable – current portion (Note 8)	10,013	9,424
Total current liabilities	406,305	464,888
Notes payable – net of current portion (Note 8)	474,641	485,302
Total liabilities	880,946	950,190
Net assets:		
Unrestricted	1,098,596	1,054,039
Unrestricted – board-designated	329,550	485,669
Temporarily restricted (Note 11)	31,802	21,107
Permanently restricted	187,716	160,216
Total net assets	1,647,664	1,721,031
Total liabilities and net assets	\$ 2,528,610	\$ 2,671,221

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

LIFEHOUSE, INC.  
(A California Nonprofit Public Benefit Corporation)  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue:</b>								
Client fees	\$ 4,923,593	\$ -	\$ -	\$ 4,923,593	\$ 4,794,648	\$ -	\$ -	\$ 4,794,648
Management fees	91,062	-	-	91,062	71,156	-	-	71,156
Investment income	27,924	-	-	27,924	(38,345)	-	-	(38,345)
Interest and other income	8,367	-	-	8,367	15,028	-	-	15,028
Total revenue	5,050,946	-	-	5,050,946	4,842,487	-	-	4,842,487
<b>Support:</b>								
Contributions	384,709	18,433	27,500	430,642	321,438	-	22,500	343,938
Grants	24,584	36,806	-	61,390	69,643	70,535	-	140,178
Net assets released from restrictions	44,544	(44,544)	-	-	184,822	(184,822)	-	-
Sales of donated good – net of direct expenses of \$124,823 in 2010 and \$99,010 in 2009	272,748	-	-	272,748	239,467	-	-	239,467
In-kind donations	78,433	-	-	78,433	82,360	-	-	82,360
Special events – net of direct donor benefits of \$87,678 in 2010 and \$71,214 in 2009	80,609	-	-	80,609	76,013	-	-	76,013
Total revenue and support	5,936,572	10,695	27,500	5,974,767	5,816,230	(114,287)	22,500	5,724,443
<b>Expenses:</b>								
Program services:								
Intermediate Care	1,757,402	-	-	1,757,402	1,996,637	-	-	1,996,637
Community Living	1,927,973	-	-	1,927,973	1,757,105	-	-	1,757,105
Independent Living	961,923	-	-	961,923	947,957	-	-	947,957
Other programs	175,888	-	-	175,888	179,751	-	-	179,751
General and administrative	777,385	-	-	777,385	856,279	-	-	856,279
Fundraising	447,563	-	-	447,563	349,821	-	-	349,821
Total expenses	6,048,134	-	-	6,048,134	6,087,550	-	-	6,087,550
Change in net assets	(111,562)	10,695	27,500	(73,367)	(271,320)	(114,287)	22,500	(363,107)
Net assets, beginning of year	1,539,708	21,107	160,216	1,721,031	1,811,028	135,394	137,716	2,084,138
Net assets, end of year	\$ 1,428,146	\$ 31,802	\$ 187,716	\$ 1,647,664	\$ 1,539,708	\$ 21,107	\$ 160,216	\$ 1,721,031

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

LIFEHOUSE, INC.  
(A California Nonprofit Public Benefit Corporation)  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2010 AND 2009

	2010							
	<i>Intermediate Care</i>	<i>Community Living</i>	<i>Independent Living</i>	<i>Other Programs</i>	<i>Total Programs</i>	<i>General &amp; Administrative</i>	<i>Fundraising</i>	<i>Total</i>
Personnel:								
Salaries	\$ 1,031,873	\$ 1,453,653	\$ 571,057	\$ 82,179	\$ 3,138,762	\$ 422,591	\$ 212,914	\$ 3,774,267
Benefits and payroll taxes	288,766	341,764	163,431	19,712	813,673	97,634	31,220	942,527
Total personnel expenses	1,320,639	1,795,417	734,488	101,891	3,952,435	520,225	244,134	4,716,794
Consultants	100	-	-	5,621	5,721	13,670	733	20,124
Food, medicine and supplies	105,718	70	61,740	1,833	169,361	-	631	169,992
Rent	17,633	18,411	-	2,831	38,875	104,279	-	143,154
Telephone and utilities	29,492	18,706	31,712	8	79,918	5,078	3,720	88,717
Insurance	12,033	3,245	12,978	105	28,361	8,861	978	38,200
Interest	17,132	-	12,184	-	29,316	-	-	29,316
Repairs and maintenance	17,648	225	27,941	-	45,814	360	-	46,174
Conference, recruiting, training and travel	4,568	10,273	6,717	1,236	22,794	7,446	7,203	37,443
Automobile	12,885	48,257	8,960	1,798	71,900	1,340	20,015	93,255
Office supplies	2,334	2,608	1,499	1,609	8,050	14,000	3,662	25,712
Postage	67	-	12	6,337	6,416	8,243	93,486	108,144
Accounting and legal	-	-	-	-	-	51,303	-	51,303
Dues and assessments	3,264	276	136	100	3,776	1,266	2,653	7,695
Printing and advertising	186	110	40	1,133	1,469	2,867	22,229	26,565
Professional services	51,160	9,386	-	32,616	93,162	-	-	93,162
Taxes and licenses	25,546	1,170	6,804	-	33,520	160	5,105	38,785
Small equipment, rental, maintenance	3,914	963	2,599	689	8,165	3,885	23,532	35,582
Client recreation and education	1,610	1,880	2,678	1,293	7,461	-	-	7,461
Fundraising and program events	-	-	-	12,832	12,832	-	165	12,997
Quality assurance fees	72,451	-	-	-	72,451	-	-	72,451
Bad debts	7,820	8,123	8,239	-	24,182	-	(5,334)	18,848
Bank fees	-	-	-	-	-	17,450	178	17,628
Depreciation	45,423	7,340	39,521	-	92,284	10,484	-	102,768
Other	5,778	1,512	3,677	3,956	14,923	6,468	24,473	45,864
Total	\$ 1,757,402	\$ 1,927,973	\$ 961,923	\$ 175,888	\$ 4,823,186	\$ 777,385	\$ 447,563	\$ 6,048,134

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

LIFEHOUSE, INC.  
(A California Nonprofit Public Benefit Corporation)  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2010 AND 2009

	2009							
	<i>Intermediate Care</i>	<i>Community Living</i>	<i>Independent Living</i>	<i>Other Programs</i>	<i>Total Programs</i>	<i>General &amp; Administrative</i>	<i>Fundraising</i>	<i>Total</i>
Personnel:								
Salaries	\$ 1,131,407	\$ 1,359,771	\$ 568,403	\$ 84,819	\$ 3,144,400	\$ 474,926	\$ 136,649	\$ 3,755,975
Benefits and payroll taxes	278,590	284,086	162,863	20,739	746,278	94,219	25,067	865,564
Total personnel expenses	1,409,997	1,643,857	731,266	105,558	3,890,678	569,145	161,716	4,621,539
Consultants	210	-	-	600	810	2,174	1,442	4,426
Food, medicine and supplies	112,596	471	58,709	3,157	174,933	-	1,113	176,046
Rent	38,124	11,274	-	2,790	52,188	100,819	3,640	156,647
Telephone and utilities	29,880	18,204	28,538	-	76,622	5,191	233	82,046
Insurance	15,638	3,092	15,697	88	34,515	7,891	1,044	43,450
Interest	18,520	-	13,584	-	32,104	(1,177)	-	30,927
Repairs and maintenance	15,023	2,143	15,858	-	33,024	1,884	-	34,908
Conference, recruiting, training and travel	6,125	10,934	5,515	1,066	23,640	57,443	7,512	88,595
Automobile	12,717	44,521	11,446	128	68,812	1,510	20,386	90,708
Office supplies	2,635	2,318	1,418	960	7,331	14,842	5,440	27,613
Postage	126	-	43	204	373	7,783	73,797	81,953
Accounting and legal	-	-	-	-	-	43,170	-	43,170
Dues and assessments	3,352	220	96	-	3,668	425	2,368	6,461
Printing and advertising	104	411	44	278	837	1,975	17,895	20,707
Professional services	53,151	8,588	-	61,662	123,401	-	-	123,401
Taxes and licenses	26,212	857	6,991	-	34,060	248	3,223	37,531
Small equipment, rental, maintenance	7,446	515	11,642	522	20,125	8,158	31,100	59,383
Client recreation and education	2,017	1,144	2,878	1,701	7,740	-	-	7,740
Fundraising and program events	-	-	-	(2,825)	(2,825)	-	210	(2,615)
Quality assurance fees	61,529	-	-	-	61,529	-	-	61,529
Bad debts	123,103	-	-	-	123,103	2	5,609	128,714
Bank fees	69	-	-	-	69	14,647	(77)	14,639
Depreciation	52,220	6,609	41,754	-	100,583	16,828	-	117,411
Other	5,843	1,947	2,478	3,862	14,130	3,321	13,170	30,621
Total	\$ 1,996,637	\$ 1,757,105	\$ 947,957	\$ 179,751	\$ 4,881,450	\$ 856,279	\$ 349,821	\$ 6,087,550

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

LIFEHOUSE, INC.  
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (73,367)	\$ (363,107)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Investment (gain) loss	(27,924)	38,345
Depreciation	102,768	117,411
(Increase) decrease in assets:		
Accounts receivable – net	135,354	(169,643)
Grants receivable	(14,559)	30,325
Promises to give – net	(1,645)	2,360
Prepaid expenses and deposits	(56,042)	32,349
Notes and interest receivable – net	(8,311)	(8,012)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(8,544)	(51,908)
Accrued salaries and vacation	22,713	38,266
Payable to Medi-Cal	(13,543)	(1,659)
Total adjustments	130,267	27,834
Net cash provided by (used in) operating activities	56,900	(335,273)
Cash flows from investing activities:		
Net decrease in cash – designated for long-term	206,077	129,023
Net increase in investments – designated for long-term	(149,498)	(28,118)
Purchase of fixed assets	(32,914)	(97,776)
Net cash provided by investing activities	23,665	3,129
Cash flows from financing activities:		
Drawdown on (payment of) line of credit – net	(59,798)	60,000
Payment of mortgage principal	(10,072)	(19,808)
Net cash provided by (used in) financing activities	(69,870)	40,192
Increase (decrease) in cash	10,695	(291,952)
Cash, beginning of year	21,107	313,059
Cash, end of year	\$ 31,802	\$ 21,107
Supplementary information:		
Cash paid for interest	\$ 30,043	\$ 30,927

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

Lifehouse, Inc. is a nonprofit organization that administers nine group homes in Marin County for developmentally disabled adults, providing residential and support services for people with mild to profound disabilities, as well as an independent living program at two sites in Sonoma County. The description of each of Lifehouse, Inc.'s program is summarized as follows:

Programs

Intermediate Care – Four residential facilities provide services for individuals with severe physical and cognitive disabilities.

Community Living – Includes the supervised apartment program, designed to encourage growth in independent living, as well as San Anselmo House, whose residents have acquired the necessary skills to live safely with a minimum of staff support.

Independent Living – Four training homes provide an educational environment for adults with mild developmental disabilities to learn the necessary independent living and social skills required for effective independent community living.

Other Programs – Includes the adaptive skills program, as well as awareness training for the greater community.

Lifehouse, Inc. receives revenue from various sources (approximately 73% of total revenue is obtained from Medi-Cal and the regional centers in 2010 and 76% in 2009) for services provided to clients. However, the cost of providing such services exceeds the mandated revenue. As such, contributions, grants, sales of donated goods and proceeds from fundraising events provide funding to support the cost of Lifehouse, Inc.'s programs.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accounting Method

Lifehouse, Inc. uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expense during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Lifehouse, Inc. reports information regarding its financial position and activities according to up to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Grants from governmental agencies are deemed to be exchange transactions and are therefore not treated as contributions. Revenues from such activities are shown as grants in the Statements of Activities.

Contributions

Unconditional promises to give cash in the future generally are recorded at the net present value of the future cash flows at the time the promise was made.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Lifehouse, Inc. occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. Lifehouse, Inc. has not experienced any losses in such accounts. Lifehouse, Inc. believes that it is not exposed to any significant cash credit risk.

Accounts Receivable

Lifehouse, Inc. records an allowance for doubtful collections based on a review of outstanding receivables, historical collection information, and existing economic conditions. The allowance for doubtful collections was \$129,523 and \$148,990 as of June 30, 2010 and 2009, respectively.

Client Funds Held in Trust

Lifehouse, Inc. is holding client funds in trust in separate bank accounts. The total amount of \$1,533 and \$1,697 in 2010 and 2009, respectively, is included in cash in the Statements of Financial Position.

Fair Value of Financial Instruments

The carrying value of cash approximates fair value. It is not practicable for management to estimate the fair value of accounts and notes receivable and notes payable because of the nature of such instruments and because there is no readily available market information for financial instruments with similar terms.

Property and Equipment

Property and equipment is stated at cost of acquisition or fair value if donated. Assets costing at least \$1,500 (and all computers) are capitalized. The cost of maintenance and repairs is charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Building and improvements	15 to 30 years
Furniture and equipment	5 years
Computer equipment	5 years
Vehicles	8 years

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Promises to Give

Promises to give are recorded when pledges are made. An allowance for uncollectible promises is estimated by management to reflect the amount of promises that are deemed uncollectible. Promises to be received beyond one year are discounted to their present value using an annual rate of 4%.

In-kind Donations

Donated property is reflected in the financial statements at the estimated fair market value at the date of receipt. Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature such as skilled and professional-level volunteers. Lifehouse, Inc. would otherwise need to pay for such services. If donated property or services create or enhance a capital asset, they are capitalized and depreciated according to the fixed asset policy.

Sales of Donated Goods

Lifehouse, Inc. operates a salvage business whereby the organization solicits donations of household discards, then sells the donated goods to a third-party retailer. Direct expenses (the costs of liquidating donated goods) are recorded as a contra-revenue, while other costs of this activity are classified as fundraising expenses.

Income Taxes

Lifehouse, Inc. is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections.

Functional Expenses Allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the Statements of Activities and Statements of Functional Expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Subsequent Events

Management has evaluated subsequent events through November 15, 2010, the date on which the financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2009 financial statements were reclassified to conform to the 2010 presentation for comparative purposes.

**NOTE 3 – PROMISES TO GIVE**

	<u>2010</u>		
	<u>Due in one year</u>	<u>Due in 1-5 years</u>	<u>Total</u>
Promises to give	\$ 8,522	\$ 3,878	\$ 12,400
Discount to present value	-	(221)	(221)
Promises to give, net	<u>\$ 8,522</u>	<u>\$ 3,657</u>	<u>\$ 12,179</u>

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

	<i>2009</i>		
	<i>Due in one year</i>	<i>Due in 1-5 years</i>	<i>Total</i>
Promises to give	\$ 6,922	\$ 9,378	\$ 16,300
Allowance for doubtful promises	-	(5,333)	(5,333)
Discount to present value	-	(433)	(433)
Promises to give, net	<u>\$ 6,922</u>	<u>\$ 3,612</u>	<u>\$ 10,534</u>

**NOTE 4 – NOTES AND INTEREST RECEIVABLE**

As consideration for its financial contribution to the inception of Nova and Stonehaven (Note 13), separate nonprofit corporations, Lifehouse, Inc. is owed \$28,800 from Nova and \$63,000 from Stonehaven, in the form of residual receipts notes. The notes are expected to be paid in periodic sums from residual receipts, as defined by the U.S. Department of Housing and Urban Development (HUD), of the respective properties. The notes are due no later than the maturity of the respective HUD mortgages (in 2032) securing the properties. Nova and Stonehaven's payment of any amounts still outstanding at that point is conditional upon their full payment of the HUD mortgages. The Nova note provides for interest at 8.375% and Stonehaven at 9%. Interest is not compounded, is due upon maturity, and is accrued annually.

Both the principal and accrued interest have been discounted to their present value as follows:

	<i>2010</i>		<i>2009</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
Full amount due, by 2032	\$ 91,800	\$ 149,921	\$ 91,800	\$ 141,839
Discount to present value	(29,775)	(48,626)	(30,894)	(47,736)
Net receivable at June 30	<u>\$ 62,025</u>	<u>\$ 101,295</u>	<u>\$ 60,906</u>	<u>\$ 94,103</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows:

	<i>2010</i>	<i>2009</i>
Land	\$ 526,960	\$ 526,960
Building and improvements	1,495,529	1,466,236
Furniture and equipment	12,105	12,105
Computer equipment	128,000	124,292
Vehicles	300,013	334,622
	<u>2,462,607</u>	<u>2,464,215</u>
Less: accumulated depreciation	(1,297,070)	(1,228,824)
Total property and equipment	<u>\$ 1,165,537</u>	<u>\$ 1,235,391</u>

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**NOTE 6 – INVESTMENTS – FAIR VALUE MEASUREMENTS**

Lifehouse, Inc. adopted the fair value provisions of generally accepted accounting principles (GAAP), effective January 1, 2008. Under GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of Lifehouse, Inc. Unobservable inputs, if any, reflects Lifehouse, Inc.’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that Lifehouse, Inc. has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

All of Lifehouse, Inc.’s investments were valued using Level 1 criteria.

	<i>Balance as of June 30, 2010</i>	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>
Certificates of deposit	\$ 286,000	\$ 286,000
Stock mutual funds	172,274	172,274
Total	<u>\$ 458,274</u>	<u>\$ 458,274</u>

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YEARS ENDED JUNE 30, 2010 AND 2009

	<i>Balance as of June 30, 2009</i>	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>
Certificates of deposit	\$ 130,000	\$ 130,000
Stock mutual funds	150,852	150,852
Total	<u>\$ 280,852</u>	<u>\$ 280,852</u>

Investment income, which includes unrealized and realized gains or losses, interest and dividend income on investments, was \$27,924 and \$(38,345) at June 30, 2010 and 2009, respectively.

**NOTE 7 – LINE OF CREDIT**

Lifehouse, Inc. has available a \$250,000 line of credit with a local bank, of which \$202 and \$60,000 was outstanding as of June 30, 2010 and 2009, respectively. Advances on the credit line carry an interest rate of prime plus 3.4%. The line of credit expires on September 5, 2011, with all principal and interest due at that time.

**NOTE 8 – NOTES PAYABLE**

Notes payable are secured by the property unless otherwise noted and consist of the following:

	<u>2010</u>		<u>2009</u>	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u>Golden Hinde, SR House</u>				
6.125% simple interest loan in the original amount of \$308,100 from Bank of America. Monthly payments of principal and interest totaling \$1,872, is required throughout the loan term through June 2033. Interest expense was \$17,132 and \$18,520 in 2010 and 2009, respectively.	\$ -	\$ 276,789	\$ -	\$ 282,121

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	2010		2009	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u>Laurel Place House</u>				
6.125% simple interest loan in the original amount of \$232,100 from the Bank of America. Monthly payments of principal and interest totaling \$1,410, is required throughout the loan term through June 2033. Interest expense was \$12,184 and \$12,407 for 2010 and 2009, respectively.	-	207,865	-	212,605
Total	-	484,654	-	494,726
Less: current portion	-	(10,013)	-	(9,424)
Long-term portion	\$ -	\$ 474,641	\$ -	\$ 485,302

Principal payments on notes payable for the next five years are estimated as follows:

2011	\$ 10,013
2012	10,565
2013	11,230
2014	11,938
2015	12,691

**NOTE 9 – ENDOWMENT FUNDS**

Lifehouse, Inc.'s endowment consists of donor-restricted funds established for the purpose of providing a permanent endowment for the organization. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Lifehouse, Inc. has interpreted the State Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gifts as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Lifehouse, Inc. classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 these accounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence of the Act.

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In accordance with the Act, Lifehouse, Inc. considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund.
- b. The purposes of the organization and the donor-restricted endowment fund.
- c. General economic conditions.
- d. The possible effect of inflation and deflation.
- e. The expected total return from income and the appreciation of investments.
- f. Other resources of the organization.
- g. The investment policies of the organization.

Changes in endowment net assets for the fiscal years ended June 30, 2010 and 2009 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
June 30, 2008	\$ -	\$ -	\$ 137,716	\$ 137,716
Contributions	-	-	22,500	22,500
Investment income	6,988	-	-	6,988
June 30, 2009	6,988	-	160,216	167,204
Contributions	-	-	27,500	27,500
Investment income	3,760	-	-	3,760
June 30, 2010	<u>\$ 10,748</u>	<u>\$ -</u>	<u>\$ 187,716</u>	<u>\$ 198,464</u>

*Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires Lifehouse, Inc. to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported as a decrease in unrestricted net assets. These deficiencies can result from unfavorable market fluctuations or other market conditions. There were no such deficiencies for the years ended June 30, 2010 and 2009.

*Return Objectives and Risk Parameters*

The Endowment Account is intended to accumulate as much principal as possible, with the eventual goal of helping to support Lifehouse, Inc.'s ongoing operations while leaving the accumulated principal intact. Given this objective, investments assume a moderate degree of risk with diversification among different asset classes as a means of reducing risk.

*Strategies Employed for Achieving Objectives*

To meet the return objectives and risk parameters, guidelines for the management of the Endowment Account have been established.

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Asset allocation ranges are set for the various asset classes: money market and other liquid assets (30%), certificates of deposits and other short term fixed income investments (15%), equities (55%). Endowment investments do not include illiquid assets, such as real estate, and acceptable and unacceptable investments for each asset class have been determined.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Lifehouse, Inc. seeks to hold endowment assets and their related earnings for investment and capital accumulation whenever possible. In years where the level of support and revenue received by the organization is insufficient to cover the operating expenditures of the organization, Lifehouse, Inc. reserves the right to make distributions from its investment accounts sufficient to cover these costs.

**NOTE 10 – LEASES**

Lifehouse, Inc. leases real property and office equipment as follows:

<i>Real Property</i>	<i>Monthly Rent</i>	<i>Terms</i>
Nova	\$ 1,679	Agreement and rent determined per HUD regulations.
Stonehaven	1,579	Agreement and rent determined per HUD regulations.
100 Smith Ranch Road	8,842	57-month lease expiring February 2012. Annual increases of 3% plus pro rata share of operating expenses.
Rohnert Park	700	One-year sublease lease expiring October, 2010.

<i>Equipment</i>	<i>Monthly Rent</i>	<i>Terms</i>
Delivery truck	\$ 1,124	60-month lease to June, 2015
Postage meter	80	63-month lease to February, 2012

As the Nova and Stonehaven leases are based on client occupancy, they have not been included in the minimum lease payment calculation. Future minimum lease payments are as follows:

2011	\$ 124,946
2012	87,534
2013	13,488
2014	13,488
2015	13,488
	\$ 252,945

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## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS**

The temporarily restricted net assets are for the following purposes:

	<i>2010</i>			
	<i>June 30, 2009</i>	<i>Contributions and Interest</i>	<i>Releases from Restrictions</i>	<i>June 30, 2010</i>
Program:				
Marin Coalition Teen Recreation	\$ 12,471	\$ 23,306	\$ (20,491)	\$ 15,286
Autism work	8,636	31,933	(24,053)	16,516
	<u>\$ 21,107</u>	<u>\$ 55,239</u>	<u>\$ (44,544)</u>	<u>\$ 31,802</u>
	<i>2009</i>			
	<i>June 30, 2008</i>	<i>Contributions and Interest</i>	<i>Releases from Restrictions</i>	<i>June 30, 2009</i>
Program:				
Marin Coalition Teen Recreation	\$ 46,035	\$ -	\$ (33,564)	\$ 12,471
Autism work	1,251	23,500	(16,115)	8,636
Affordable housing	62,500	15,000	(77,500)	-
Vehicles	25,608	-	(25,608)	-
Upgrade emergency communications and power system	-	20,000	(20,000)	-
Various	-	12,035	(12,035)	-
	<u>\$ 135,394</u>	<u>\$ 70,535</u>	<u>\$ (184,822)</u>	<u>\$ 21,107</u>

**NOTE 12 – RETIREMENT PLAN**

Lifehouse, Inc. has established a 403(b) retirement plan for its employees. Lifehouse, Inc. matches contributions of 3% of each eligible participant's compensation, plus an additional 50% of the next 2% contributed by each eligible participant, as defined in the plan. The total plan expense for the years ended June 30, 2010 and 2009 was \$59,858 and \$67,441, respectively.

**NOTE 13 – NOVA AND STONEHAVEN HOMES**

Nova and Stonehaven are two group homes which Lifehouse, Inc. assisted in establishing in 1992. Per HUD requirements, the homes are owned by a separate corporation. Lifehouse, Inc., however, manages the operation of the two homes, receiving client fees as it does with its other homes. The Nova and Stonehaven corporations receive rent from Lifehouse, Inc. and from clients through HUD subsidy, and pay all mortgage and property expenses.

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**NOTE 14 – COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS**

*Allowance for doubtful accounts*

The allowance for doubtful accounts as of June 30, 2009 was calculated based on amounts Lifehouse, Inc. invoiced to the State of California for the year ended June 30, 2009, in which some amounts have been collected during the fiscal year ended June 30, 2010. While it is at least reasonably possible that a portion of these amounts will ultimately be collected by Lifehouse, Inc., no reasonable estimate can be made at this time.

*Notes receivable*

The \$91,800 notes receivable held by Lifehouse, Inc. are conditional upon the debtors (Nova and Stonehaven) generating surplus funds to repay the notes. Management believes that repayment is probable.

*Real estate liens*

When Community Development Block Grants (CDBG) and Marin Housing Authority grants were made, the Marin County Planning Department recorded a lien on the property which received the corresponding improvements. The lien was placed on a percentage basis (amount of grant/estimated value of property at the time of the grant). In the event that Lifehouse, Inc. sells the property or alters its use, the County could enforce the lien and would be entitled to its percentage interest in the property.