lifehouse

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2020 AND 2019

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

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Board of Directors
Lifehouse, Inc.
San Rafael, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lifehouse, Inc., a California nonprofit public benefit corporation, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BKR INTERNATIONAL
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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lifehouse, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, Lifehouse, Inc. adopted the new accounting guidance required by accounting principles generally accepted in the United States of America and changed its presentation of the statements of cash flows and enhanced its revenue recognition policy for contributions and contracts. The change in accounting principle related to the presentation of the statements of cash flows has been applied retrospectively to the prior period presented. The change in accounting principle related to revenue recognition has been applied on a modified prospective basis. Our opinion is not modified with respect to these matters.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2020 on our consideration of Lifehouse, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lifehouse, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lifehouse, Inc.'s internal control over financial reporting and compliance.

Lindquist, von Husen and Joyce LLP

October 28, 2020

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Current assets:		
Cash	$ 1,488,149	$ 366,469
Accounts receivable	2,402,752	1,631,857
Contributions receivable	3,980	98,206
Contributions receivable – capital campaign	219,090	72,700
Prepaid expenses	43,321	18,417
Total current assets	4,157,292	2,187,649
Restricted cash:		
Programs	438,829	495,320
Investments without donor restrictions (Note 5)	606,378	671,089
Beneficial interest in assets held by the Foundation (Note 5):		
Without donor restrictions	586,172	576,801
With donor restrictions	223,315	226,013
Deposits	17,935	18,629
Notes receivable – net (Note 3)	74,109	72,799
Interest receivable – net (Note 3)	149,801	140,743
Property and equipment – net (Note 4)	5,372,456	3,413,440
Total assets	$ 11,626,287	$ 7,802,483
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 152,238	$ 210,988
Accounts payable – construction	861,137	-
Accrued salaries	518,358	486,624
Accrued vacation	654,302	476,195
Payable to Medi-Cal	49,055	35,523
Paycheck Protection Program loan – current portion (Note 8)	1,608,356	-
Interest payable (Note 8)	3,000	-
Notes payable – current portion (Note 7)	30,528	30,953
Total current liabilities	3,876,974	1,240,283
Paycheck Protection Program loan (Note 8)	191,644	-
Notes payable – net of current portion (Note 7)	1,743,528	1,772,274
Total liabilities	5,812,146	3,012,557
Net assets:		
Without donor restrictions	5,151,997	3,993,438
With donor restrictions (Note 10)	662,144	796,488
Total net assets	5,814,141	4,789,926
Total liabilities and net assets	$ 11,626,287	$ 7,802,483

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*	*Without Donor Restrictions*	*With Donor Restrictions*	*Total*
Revenue:						
Client fees	$ 22,810,773	$ -	$ 22,810,773	$ 18,013,976	$ -	$ 18,013,976
Investment and interest income (Note 5 and 10)	40,102	(405)	39,697	69,390	8,348	77,738
Other income (Note 12)	131,902	-	131,902	104,860	-	104,860
Total revenue	22,982,777	(405)	22,982,372	18,188,226	8,348	18,196,574
Support:						
Contributions	557,341	261,580	818,921	692,418	396,615	1,089,033
Contributions – capital campaign	-	1,522,031	1,522,031	-	583,725	583,725
In-kind donations	53,635	-	53,635	118,047	-	118,047
In-kind donations – capital campaign	-	135,905	135,905	-	91,608	91,608
Special events – net of direct donor benefits of $27,817 in 2020 and $195,306 in 2019	63,738	-	63,738	(37,011)	-	(37,011)
Net assets released from restrictions	2,053,455	(2,053,455)	-	1,068,840	(1,068,840)	-
Total support	2,728,169	(133,939)	2,594,230	1,842,294	3,108	1,845,402
Total revenue and support	25,710,946	(134,344)	25,576,602	20,030,520	11,456	20,041,976
Expenses:						
Program services:						
Intermediate Care	2,084,161	-	2,084,161	1,875,363	-	1,875,363
Community Living	18,937,996	-	18,937,996	13,833,878	-	13,833,878
Independent Living	701,313	-	701,313	601,488	-	601,488
Other programs	480,292	-	480,292	440,840	-	440,840
General and administrative	1,549,959	-	1,549,959	1,456,508	-	1,456,508
Fundraising	733,499	-	733,499	633,921	-	633,921
Fundraising – capital campaign	65,167	-	65,167	32,894	-	32,894
Total expenses	24,552,387	-	24,552,387	18,874,892	-	18,874,892
Change in net assets	1,158,559	(134,344)	1,024,215	1,155,628	11,456	1,167,084
Net assets, beginning of year	3,993,438	796,488	4,789,926	2,837,810	785,032	3,622,842
Net assets, end of year	$ 5,151,997	$ 662,144	$ 5,814,141	$ 3,993,438	$ 796,488	$ 4,789,926

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020								
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Fundraising – Capital Campaign*	*Total*
Personnel:									
Salaries	$ 1,283,244	$ 14,991,546	$ 446,052	$ 323,722	$ 17,044,564	$ 837,911	$ 455,785	$ -	$ 18,338,260
Benefits and payroll taxes	411,233	3,484,649	132,885	80,872	4,109,639	179,748	93,745	-	4,383,132
Total personnel expenses	1,694,477	18,476,195	578,937	404,594	21,154,203	1,017,659	549,530	-	22,721,392
Rent and other occupancy expenses	69,411	33,417	40,336	25,234	168,398	210,154	7,472	-	386,024
Transportation	17,433	208,391	10,070	4,952	240,846	2,940	2,426	-	246,212
Consultants and contracted services	52,075	84	4,449	1,793	58,401	230,310	36,571	54,117	379,399
Office supplies	16,799	33,786	5,666	9,619	65,870	34,038	20,916	977	121,801
Food, medicine and supplies	79,653	2,632	28,007	985	111,277	-	-	-	111,277
Quality assurance fees	108,658	-	-	-	108,658	-	-	-	108,658
Printing and advertising	48	376	32	1,486	1,942	3,428	79,810	1,469	86,649
Conferences and meetings	1,882	10,742	720	1,386	14,730	10,204	8,276	478	33,688
Recruitment, hiring and retention	9,713	39,335	1,755	1,795	52,598	4,709	78	-	57,385
Depreciation and amortization	22,936	81	22,360	19,755	65,132	4,437	-	-	69,569
Small equipment, rental, maintenance	3,291	2,324	2,514	2,769	10,898	3,721	2,631	1,979	19,229
Insurance	4,398	32,275	2,932	3,756	43,361	3,656	1,366	330	48,713
Dues and memberships	2,283	7,382	502	1,002	11,169	5,109	549	-	16,827
Bad debts expense	194	-	-	360	554	-	1,950	-	2,504
Loss on retirement of property and equipment	-	-	2,125	-	2,125	-	-	-	2,125
Other	910	90,976	908	806	93,600	19,594	21,924	5,817	140,935
Total	$ 2,084,161	$ 18,937,996	$ 701,313	$ 480,292	$ 22,203,762	$ 1,549,959	$ 733,499	$ 65,167	$ 24,552,387

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2020 AND 2019

	2019								
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Fundraising – Capital Campaign*	*Total*
Personnel:									
Salaries	$ 1,162,755	$ 10,995,494	$ 387,725	$ 273,693	$ 12,819,667	$ 730,595	$ 394,759	$ -	$ 13,945,021
Benefits and payroll taxes	364,469	2,539,028	107,425	61,803	3,072,725	169,700	72,776	-	3,315,201
Total personnel expenses	1,527,224	13,534,522	495,150	335,496	15,892,392	900,295	467,535	-	17,260,222
Rent and other occupancy expenses	68,633	27,643	35,181	22,429	153,886	242,847	7,255	-	403,988
Transportation	20,300	177,174	9,928	5,949	213,351	1,749	1,457	34	216,591
Consultants and contracted services	46,782	7,573	2,068	6,017	62,440	214,432	33,471	30,000	340,343
Office supplies	2,980	8,197	774	28,322	40,273	28,434	11,788	37	80,532
Food, medicine and supplies	75,079	1,763	27,637	1,277	105,756	-	322	-	106,078
Quality assurance fees	98,673	-	-	-	98,673	-	-	-	98,673
Printing and advertising	69	441	46	5,336	5,892	2,693	77,826	2,697	89,108
Conferences and meetings	360	6,448	122	5,306	12,236	19,163	4,816	126	36,341
Recruitment, hiring and retention	4,903	39,418	3,798	1,987	50,106	1,493	1,725	-	53,324
Depreciation and amortization	21,354	81	20,695	17,400	59,530	20,617	-	-	80,147
Small equipment, rental, maintenance	2,016	3,728	1,549	6,462	13,755	5,562	2,841	-	22,158
Insurance	4,332	25,536	2,888	3,778	36,534	5,495	1,344	-	43,373
Dues and memberships	1,395	1,102	-	250	2,747	4,840	781	-	8,368
Bad debts expense	-	-	-	-	-	-	100	-	100
Other	1,263	252	1,652	831	3,998	8,888	22,660	-	35,546
Total	$ 1,875,363	$ 13,833,878	$ 601,488	$ 440,840	$ 16,751,569	$ 1,456,508	$ 633,921	$ 32,894	$ 18,874,892

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 1,024,215	$ 1,167,084
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized investment gain	(14,577)	(38,984)
Depreciation and amortization	69,569	80,147
Loss on retirement of property and equipment	2,125	-
(Increase) decrease in assets:		
Accounts receivable – net	(770,895)	(221,507)
Contributions receivable	(52,164)	(100,532)
Prepaid expenses and deposits	(24,210)	6,587
Notes and interest receivable – net	(10,368)	(10,284)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(58,750)	50,289
Accrued salaries and vacation	209,841	178,053
Payable to Medi-Cal	13,532	(10,849)
Interest payable	3,000	-
Paycheck Protection Program forgivable loan	1,800,000	-
Net cash provided by operating activities	2,191,318	1,100,004
Cash flows from investing activities:		
Net (increase) decrease in investments	72,615	(18,371)
Purchase of property and equipment, and construction in progress	(1,169,573)	(2,506,104)
Net cash used in investing activities	(1,096,958)	(2,524,475)
Cash flows from financing activities:		
Proceeds from line of credit	1,504,389	168,191
Payment on line of credit	(1,504,389)	(168,191)
Proceeds from note payable	-	1,400,000
Payment of notes payable	(29,171)	(18,488)
Net cash provided by (used in) financing activities	(29,171)	1,381,512
Net increase (decrease) in cash and restricted cash	1,065,189	(42,959)
Cash and restricted cash, beginning of year	861,789	904,748
Cash and restricted cash, end of year	$ 1,926,978	$ 861,789

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Supplementary information:		
Cash paid for interest	$ 85,214	$ 48,640
Non-cash investing activity:		
Assets acquired by assuming current liabilities	$ 861,137	$ -
Cash	$ 1,488,149	$ 366,469
Restricted cash:		
Programs	438,829	495,320
Total cash and restricted cash shown in the statements of cash flows	$ 1,926,978	$ 861,789

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Lifehouse, Inc. is a nonprofit organization with the mission to improve the quality of life for people with developmental disabilities in its community by providing a lifetime of compassionate support in an atmosphere of respect, inspiration and purpose. Their programs serve the needs of adults with developmental disabilities such as intellectual disability, autism, cerebral palsy and epilepsy.

The description of each of Lifehouse, Inc.'s program is summarized as follows:

Intermediate Care – Three residential facilities staffed to provide intensive personal care and medical support for individuals with significant physical and cognitive disabilities.

Community Living – Includes the Supported Living Program which provides individualized training and support for adults, no matter the disability, enabling them to live in their apartment or home as well as the Specialized Autism Services Program which provides supported living services to individuals with autism.

Independent Living – Two licensed group homes provide an educational environment for individuals to learn the necessary independent living and social skills required for effective independent community living.

Other Programs – Includes the Teen Recreation Integration Program (TRIP), Reclife, Adaptive Technology Center, Rental Housing Property Management and Great Expectations Preschool.

Lifehouse, Inc. receives revenue from various sources (approximately 87% of total revenue is obtained from Medi-Cal and the regional centers annually in 2020 and 2019) for services provided to the people served. However, the cost of providing such services exceeds the mandated revenue. As such, contributions and proceeds from fundraising events provide funding to support the cost of Lifehouse, Inc.'s programs.

Residential Opportunities, LLC was established in 2013 with Lifehouse, Inc. as its sole member. Residential Opportunities, LLC is organized and operated exclusively for charitable purposes and to further the charitable purposes of its member. This company operates an affordable housing rental property for people with developmental disabilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Lifehouse, Inc. and Residential Opportunities, LLC, of which Lifehouse, Inc. is the sole member. All significant intercompany transactions and balances have been eliminated in the consolidation.

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 consolidated 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 consolidated 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 two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

- Net assets without donor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of Lifehouse, Inc.

- Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires – that is, when a stipulated time restrictions ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. Lifehouse, Inc. has net assets with non-expiring donor restrictions as of June 30, 2020 and 2019 amounting to $192,216.

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 support without donor restrictions or support with donor restrictions, 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), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities as *Net Assets Released from Restrictions*.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give cash in the future generally are recorded at fair value which is measured as the net present value of the future cash flows at the time the promise was made. An allowance for uncollectible promises is estimated by management to reflect the amount of promises that are deemed uncollectible. Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

In 2020, Lifehouse, Inc. adopted the new accounting guidance on Contributions Received and Contributions Made by Not-for-Profit Entities, as required by accounting principles generally accepted in the United States of America. The accounting guidance clarifies whether transactions are reciprocal or non-reciprocal transactions and whether contributions are conditional. The change was applied on a modified prospective basis to agreements that were entered into or existed but have not yet been recognized in 2020. There was no impact on the revenue recognized due to the implementation of this guidance.

No allowance for uncollectible contributions has been provided as the contributions receivable are all deemed to be collectible.

Government contracts are disclosed as conditional promises to give until qualified expenses have been incurred for cost reimbursement basis contracts or until the service has been provided and/or other conditions have been met.

Lifehouse, Inc. deferred adoption of the new accounting guidance, Revenues from Contracts with Customers, as permitted. Adoption of the standard will be required for fiscal years beginning after December 15, 2019. The guidance requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 establishes a five-step process for recognizing revenue which includes identifying the contract, identifying performance obligations within the contract, determining the transaction price, estimating the amount of variable consideration in the transaction price and allocating the transaction price to each performance obligation, and recognizing revenue upon performance of the identified obligations.

In-kind Donations

Donated property is reflected in the consolidated 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.

Cash and Restricted Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Restricted cash are funds restricted as to their use, regardless of liquidity. Lifehouse, Inc. occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance, including restricted cash, was approximately $1,570,000 as of June 30, 2020. Lifehouse, Inc. has not experienced any losses in such accounts.

During the fiscal year ended June 30, 2020, Lifehouse, Inc. adopted the new accounting guidance required by accounting principles generally accepted in the United States of America and changed its presentation of the statements of cash flows. As a result, the statement of cash flows for the fiscal year ended June 30, 2019 has been restated to include cash and restricted cash.

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 $-0- as of June 30, 2020 and 2019.

Client Funds Held in Trust

Lifehouse, Inc. is holding client funds in trust in separate bank accounts. The total amount of $12,919 and $15,233 in 2020 and 2019, respectively, is included in cash in the Consolidated Statements of Financial Position.

Investments

Under accounting principles generally accepted in the United States of America (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.

Property and Equipment

Property and equipment is stated at cost of acquisition, construction or fair value if donated. Assets with a cost basis of at least $1,500 (and all computers), or have an estimated useful life of over a year, 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	10 to 30 years
Furniture and equipment	5 years
Computer equipment/software	5 years
Vehicles	8 years

Construction in Progress

Lifehouse, Inc. incurs costs during the construction of new office facilities and housing projects. Such costs include architectural fees, legal, loan mortgage and consulting fees, as well as construction costs. Lifehouse, Inc. records these costs as assets (construction in progress) and are considered to be construction in progress until the building is placed in service. Construction in progress is not depreciated until the completion of construction.

Capitalized Interest

Lifehouse, Inc. capitalizes applicable interest incurred during construction as a component of construction in progress. For the period ending June 30, 2020 and 2019, Lifehouse, Inc. capitalized interest on note payable of $64,456 and $-0-, respectively.

Income Taxes

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

Lifehouse, Inc. and Residential Opportunities, LLC believe that they have appropriate support for any tax position taken, and as such, do not have any uncertain tax positions that are material to the consolidated financial statements. Lifehouse, Inc. and Residential Opportunities, LLC federal and state information returns for the fiscal years ended June 30, 2016 through 2019 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the Consolidated Statements of Activities and Consolidated 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. Directly identifiable expenses are charged to programs and supporting services.

Subsequent Events

Management has evaluated subsequent events through October 28, 2020, the date on which the consolidated financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2019 consolidated financial statements were reclassified to conform to the 2020 presentation for comparative purposes.

NOTE 3 – NOTES AND INTEREST RECEIVABLE

As consideration for its financial contribution to the inception of Nova House, Inc. (Nova) and Stonehaven House, Inc. (Stonehaven), see Note 12, 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:

	2020		2019	
	Principal	*Interest*	*Principal*	*Interest*
Full amount due, by 2032	$ 91,800	$ 185,561	$ 91,800	$ 177,479
Discount to present value	(17,691)	(35,760)	(19,001)	(36,736)
Net receivable at June 30	$ 74,109	$ 149,801	$ 72,799	$ 140,743

Lifehouse, Inc. evaluates the notes and interest receivables based on the following credit quality indicators: collateral and related versus non-related borrowers. These credit quality indicators are reviewed at least annually. Details follow:

	2020				
	Collateralized	*Uncollateralized*	*Past Due*	*Allowance*	*Net*
Related party	$ -	$ -	$ -	$ -	$ -
Non-related party:					
Notes receivable	91,800	-	-	-	91,800
Interest receivable	185,561	-	-	-	185,561
Total	$ 277,361	$ -	$ -	$ -	$ 277,361

	2019				
	Collateralized	*Uncollateralized*	*Past Due*	*Allowance*	*Net*
Related party	$ -	$ -	$ -	$ -	$ -
Non-related party:					
Notes receivable	91,800	-	-	-	91,800
Interest receivable	177,479	-	-	-	177,479
Total	$ 269,279	$ -	$ -	$ -	$ 269,279

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2020	2019
Land	$ 1,826,960	$ 1,826,960
Building and improvements	2,957,981	2,846,713
Furniture and equipment	28,839	28,839
Computer equipment/software	159,876	159,876
Vehicles	247,029	208,147
	5,220,685	5,070,535
Less: accumulated depreciation	(1,897,789)	(1,831,127)
	3,322,896	3,239,408
Construction in progress	2,049,560	174,032
Total property and equipment	$ 5,372,456	$ 3,413,440

NOTE 5 – FAIR VALUE MEASUREMENTS

The following were valued using Level 1 and Level 2 criteria. Details follow:

	2020		
	Balance as of June 30, 2020	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 233,358	$ 233,358	$ -
Small/mid-capitalization index funds	144,071	144,071	-
S&P 500 growth	40,876	40,876	-
Large value	88,857	88,857	-
Foreign large blend	39,178	39,178	-
Diversified emerging market	39,174	39,174	-
Fixed income	20,864	20,864	-
Total investments	$ 606,378	$ 606,378	$ -

	Balance as of June 30, 2020	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Beneficial interest in assets held by the Foundation – without donor restrictions	$ 586,172	$ -	$ 586,172
Beneficial interest in assets held by the Foundation – with donor restrictions	223,315	-	223,315
Total beneficial interest in assets held by the Foundation	$ 809,487	$ -	$ 809,487

	2019		
	Balance as of June 30, 2019	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 268,824	$ 268,824	$ -
Small/mid-capitalization index funds	116,123	116,123	-
S&P 500 growth	63,272	63,272	-
Large value	84,832	84,832	-
Commodities broad-basket	12,048	12,048	-
Foreign large blend	40,500	40,500	-
Diversified emerging market	29,133	29,133	-
Real estate	33,264	33,264	-
Fixed income	23,093	23,093	-
Total investments	$ 671,089	$ 671,089	$ -

	Balance as of June 30, 2019	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Beneficial interest in assets held by the Foundation – without donor restrictions	$ 576,801	$ -	$ 576,801
Beneficial interest in assets held by the Foundation – with donor restrictions	226,013	-	226,013
Total beneficial interest in assets held by the Foundation	$ 802,814	$ -	$ 802,814

Investment income, which includes unrealized and realized gains or losses, interest and dividend income on investments, net of fees, was $26,987 and $54,777 at June 30, 2020 and 2019, respectively, and is included in investment and interest income in the Consolidated Statements of Activities.

During the year ended June 30, 2013, Lifehouse, Inc. transferred certain unrestricted and endowed assets to Marin Community Foundation (the Foundation), a nonprofit organization, for the purpose of holding them as agency funds (Funds) for the benefit of Lifehouse, Inc. Variance power has been granted to the Foundation which gives the Foundation's Board of Trustees power to redirect distributions of income to another nonprofit organization in the event that Lifehouse, Inc. ceases to exist or if the Foundation's Board of Trustees determines that support to Lifehouse, Inc. is no longer practical. Additionally, the Funds are subject to the Foundation's investment and spending policies and, with recommendations from Lifehouse, Inc., the Foundation will determine when distributions will be made from the Funds. Lifehouse, Inc. reports the fair value of the Funds as beneficial interest in assets held by the foundation in the Consolidated Statements of Financial Position and reports changes in the value of the Funds as investment income in the Consolidated Statements of Activities.

The beneficial interest in assets held at the Foundation has been valued, as a practical expedient, at the fair value of Lifehouse, Inc.'s share of the Foundation's investment pool as of the measurement date, utilizing valuations provided by the investment funds. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which includes private placements and other securities for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

NOTE 6 – LINE OF CREDIT

Lifehouse, Inc. maintains a line of credit, held with a local bank, in the original amount of $800,000, secured by certain assets of the Organization. The principal amount was increased to $1,200,000 effective February 7, 2020. The outstanding balance due to the bank as of June 30, 2020 and 2019 amounted to $-0-. Advances on the credit line carry an interest rate of prime plus ¾%. As of June 30, 2020, the rate was 5.50%. The line of credit expired on February 5, 2019. In accordance with the extension letters dated January 28, 2019, April 22, 2019 and February 7, 2020, the maturity date of the note was extended to May 5, 2019, May 5, 2020 and May 5, 2021, respectively.

NOTE 7 – NOTES PAYABLE

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

	2020		2019	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
Golden Hinde, SR House				
4% simple interest loan in the original amount of $253,000 from Marin Community Foundation. Monthly payments of principal and interest, totaling $1,208, are required through maturity, at which date, a balloon payment of $199,324 is also required. The interest accrual and loan payments due during the COVID-19 Loan Payment Assistance Period, beginning April 1, 2020 through September 1, 2020, were temporarily deferred and the maturity date of the loan was extended to November 2026 from November 2025. Interest expense was $7,034 and $9,555 in 2020 and 2019, respectively.	$ -	$ 232,340	$ -	$ 236,176

	2020		2019	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
Laurel Place House				
3.750% simple interest loan in the original amount of $209,350 from the Union Bank. Monthly payments of principal and interest, totaling $970, are required through October 2042, the end of the loan term. Effective November 1, 2019, the interest rate and total monthly principal and interest payment increased to 4.375% and $1,001, respectively. Interest expense was $7,224 and $6,688 in 2020 and 2019, respectively.	-	170,992	-	175,652
18 Professional Center Parkway				
5% simple interest loan, dated January 2019, in the original amount of $1,400,000 from the Bank of Marin. Interest is fixed through January 2024, at which time it becomes variable based on the 5-year Treasury Constant Yield, plus 2.25%. Monthly payments of principal and interest, totaling $7,577, are required through January 2029, at which date a balloon payment of $1,144,014 is required. The capitalized interest was $64,456 in 2020. Interest expense was $5,797 and $32,397 in 2020 and 2019, respectively. (1)	-	1,370,724	-	1,391,399
Total	-	1,774,056	-	1,803,227
Less: current portion	-	(30,528)	-	(30,953)
Long-term portion	$ -	$ 1,743,528	$ -	$ 1,772,274

(1) The 18 Professional Center Parkway note is expected to be refinanced during October 2020 to provide additional funds for the completion of the construction of the new office building. The principal amount of the loan is expected to increase to $2,900,000 and will have a term of 10 years including both the construction and permanent loan periods. Interest-only payments, calculated as 4.5% of unpaid principal balance, will be due monthly until permanent loan conversion, at which time, the construction loan will convert to a permanent loan with monthly principal and interest payments based on a 25 year amortization period, with a balloon payment of the remaining principal and interest balance due at maturity. Interest rate during the permanent phase is fixed at 4.5% for the first 5 years and will reset thereafter to be based on the 5 Year Treasury Constant Maturity rate plus 2.75%.

<u>*Monticello House*</u>

A new loan in the original amount of $700,000 was obtained by Lifehouse, Inc. in February 2020 from the Bank of Marin. Interest is calculated on the unpaid principal balance using a fixed rate of 4% through March 2025, at which time it resets to a rate equal to the 5-year Treasury Constant Yield, plus 2.25%. Monthly payments of principal and interest, totaling $3,365, are required through February 2030, at which date a balloon payment of $569,212 is required. Loan funds amounting to $700,000 were drawn by Lifehouse, Inc. in July 2020 and August 2020.

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

2021	$	30,528
2022		33,384
2023		35,019
2024		36,557
2025		38,529

NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN

On April 30, 2020, Lifehouse, Inc. received loan proceeds of $3,608,005 from a promissory note issued under the Paycheck Protection Program (“PPP”) which was established under the CARES Act to be administered by the U.S. Small Business Administration. The term of the loan is two years and the annual interest rate is 1%. Payments of principal and interest are deferred for the first seven months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations.

On May 14, 2020, Lifehouse, Inc. returned a total of $1,808,005 to the bank, reducing the principal balance of the loan to $1,800,000. Management intends to apply for and be granted forgiveness of the loan in full. Interest expense for the period ended June 30, 2020 and 2019 was $3,703 and $-0-, respectively. Interest payable as of June 30, 2020 and 2019 amounted to $3,000 and $-0-, respectively.

NOTE 9 – LEASES

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

Real Property	*Monthly Rent*	*Terms*
Nova [1]		Agreement and rent determined per HUD regulations:
	$ 1,768	*Effective through March 31, 2020*
	1,806	*Effective April 1, 2020*
Stonehaven [1]		Agreement and rent determined per HUD regulations:
	1,760	*Effective through January 31, 2020*
	1,795	*Effective February 1, 2020*
899 Northgate Drive	15,169	96-month lease expired in March 2020. The lease term was extended through October 31, 2020. Annual increases of 3% plus pro rata share of operating expenses.

Real Property	*Monthly Rent*	*Terms*
Rohnert Park	1,580	36-month lease expired in April 2020. Beginning May 2020, the lease term became month-to-month with additional charges for quarterly common area maintenance.

(1) Tenants of Nova and Stonehaven receive rent subsidy therefore the amount paid by Lifehouse, Inc. is only the amount owed by the tenant after applying the rent subsidy.

Equipment	*Monthly Rent*	*Terms*
Postage meter	$ 152	63-month lease to March 31, 2021. (1)

(1) Effective March 2021, the lease payments are $169 per month for 63 months.

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

2021	$ 47,007
2022	-
2023	-
2024	-
2025	-
	$ 47,007

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are for the following purposes or periods:

	2020			
	June 30, 2019	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2020*
Program:				
Autism work	$ -	$ 94,000	$ (94,000)	$ -
Capital campaign	-	1,657,936	(1,657,936)	-
Repairs and maintenance	35,155	-	(35,155)	-
Investment income (loss) – endowment	58,041	(2,698)	-	55,343
Bequest for specific care	392,771	2,293	(191)	394,873
Film Grant and Technology Center	56,707	100,000	(155,543)	1,164
Marketing	48,641	32,000	(74,636)	6,005
Preschool	-	28,686	(25,000)	3,686
Other	12,957	6,894	(10,994)	8,857
	604,272	1,919,111	(2,053,455)	469,928
Endowment funds	192,216	-	-	192,216
	$ 796,488	$ 1,919,111	$ (2,053,455)	$ 662,144

	2019			
	June 30, 2018	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2019*
Program:				
Autism work	$ -	$ 89,331	$ (89,331)	$ -
Capital campaign	-	675,333	(675,333)	-
Repairs and maintenance	72,196	22,467	(59,508)	35,155
Investment income (loss) – endowment	52,544	5,497	-	58,041
Bequest for specific care	387,556	5,391	(176)	392,771
Film Grant and Technology Center	26,928	180,000	(150,221)	56,707
Marketing	46,993	80,000	(78,352)	48,641
Other	7,599	21,277	(15,919)	12,957
	593,816	1,079,296	(1,068,840)	604,272
Endowment funds	191,216	1,000	-	192,216
	$ 785,032	$ 1,080,296	$ (1,068,840)	$ 796,488

Endowment Funds

Lifehouse, Inc.'s endowment consists of funds with donor restrictions established for the purpose of providing a permanent endowment for the organization. As required by 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 net assets with non-expiring donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the 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 net assets with restrictions for non-expiring donor restrictions is classified as net assets with restrictions for expiring donor-imposed until these accounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence of the Act.

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.

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 net assets with restrictions. These deficiencies can result from unfavorable market fluctuations or other market conditions. There were no such deficiencies for the years ended June 30, 2020 and 2019.

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.

Asset allocation ranges are set for the various asset classes: cash and equivalents (5%), fixed income investments (30%), alternative assets (5%), and equities (domestic large cap 30%, domestic small cap 15%, and international 15%). 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 11 – RETIREMENT PLAN

Lifehouse, Inc. terminated its 403(b) retirement plan, and initiated a 401(k) plan as of January 1, 2017. Lifehouse, Inc. provides a safe harbor match equivalent to 100% of the first 3% of each eligible participant's deferral, plus an additional 50% of the next 2% contributed by each eligible participant, as defined in the plan. The total safe harbor match for the years ended June 30, 2020 and 2019 was $322,936 and $249,188, respectively.

NOTE 12 – NOVA AND STONEHAVEN HOMES

Lifehouse, Inc. assisted in establishing Nova and Stonehaven, two group homes. 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. Lifehouse, Inc. provides staffing and other services to Nova and Stonehaven homes totaling $44,591 and $47,620 during 2020, respectively, and $45,737 and $48,062 during 2019, respectively. The amounts are included in other income in the accompanying Consolidated Statements of Activities.

NOTE 13 – LIQUIDITY AND AVAILABILITY

Financial assets include amounts that will be used to pay accounts payable, accrued expenses and other distributions from operating cash flow, if any, in the subsequent year. Financial assets available for general expenditure, which are without donor or other restriction limiting their use, within one year of the Consolidated Statement of Financial Position, comprise the following:

	2020	2019
Financial assets at end of year available within one year:		
Cash	$ 1,926,978	$ 861,789
Contributions receivable	223,070	170,906
Accounts receivable	2,402,752	1,631,857
Investments	1,415,865	1,473,903
	5,968,665	4,138,455
Less financial assets not available for general expenditures:		
Cash subject to expenditure for specific purpose	(438,829)	(495,320)
Contributions receivable for specific purpose	(219,090)	(75,155)
Investments for specific purpose	(223,315)	(226,013)
Financial assets available for general expenditures within one year	$ 5,087,431	$ 3,341,967

NOTE 14 – COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS

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. Both Nova and Stonehaven generated surplus cash in prior years and obtained approval from HUD to pay interest on these loans. Therefore, payments on interest were received during 2019 totaling $9,773. No interest payments were received for the year ended June 30, 2020.

Real Estate Liens

When Community Development Block Grants (CDBG) and Marin Housing Authority (MHA) loans were made, the Marin County Planning Department recorded liens on the property which received the corresponding improvements. The liens were placed on either a percentage basis (amount of grant/estimated value of property at the time of the grant) or as a loan with simple interest. The loans were recorded as increases in net assets without donor restrictions in a prior year.

In 2020, Lifehouse, Inc. obtained financing with Bank of Marin secured by one of the properties. The County enforced the liens and was entitled to its amount due. On February 25, 2020, Lifehouse, Inc. paid off the MHA loan and interest amounting to $51,928 and CDBG grant amounting to $39,000 which were included in other expense in the accompanying Consolidated Statements of Activities.

COVID-19 Pandemic

The emergence and spread of the coronavirus (COVID-19) beginning in the first quarter of 2020 has affected businesses and economic activities in the US and beyond. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on supply chains, service providers, and business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time.

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VON HUSEN
& JOYCE LLP

Board of Directors
Lifehouse, Inc.
San Rafael, California

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to consolidated financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lifehouse, Inc., which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Lifehouse, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lifehouse, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Lifehouse, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lifehouse, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

October 28, 2020