lifehouse

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2019 AND 2018

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

TABLE OF CONTENTS

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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, 2019 and 2018, 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
CERTIFIED PUBLIC ACCOUNTANTS, 301 Howard Street, Suite 850, San Francisco, California 94105
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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, 2019 and 2018, 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 classification of net assets and enhanced its disclosures about net assets and liquidity in Notes 2 and 12. The change in accounting principle has been applied retrospectively to the prior period presented. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated October 17, 2019 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 17, 2019

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current assets:		
Cash	$ 366,469	$ 406,232
Accounts receivable	1,631,857	1,410,350
Contributions receivable	98,206	70,374
Contributions receivable – capital campaign	72,700	-
Prepaid expenses	18,417	28,164
Total current assets	2,187,649	1,915,120
Restricted cash:		
Programs	495,320	498,516
Investments without donor restrictions (Note 5)	671,089	638,784
Beneficial interest in assets held by the Foundation (Note 5):		
Without donor restrictions	576,801	557,248
With donor restrictions	226,013	220,516
Deposits	18,629	15,469
Notes receivable – net (Note 3)	72,799	71,512
Interest receivable – net (Note 3)	140,743	131,746
Property and equipment – net (Note 4)	3,413,440	987,483
Total assets	$ 7,802,483	$ 5,036,394
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 210,988	$ 160,699
Accrued salaries	486,624	363,366
Accrued vacation	476,195	421,400
Payable to Medi-Cal	35,523	46,372
Notes payable – current portion (Note 7)	30,953	9,887
Total current liabilities	1,240,283	1,001,724
Notes payable – net of current portion (Note 7)	1,772,274	411,828
Total liabilities	3,012,557	1,413,552
Net assets:		
Without donor restrictions	3,993,438	2,837,810
With donor restrictions (Note 9)	796,488	785,032
Total net assets	4,789,926	3,622,842
Total liabilities and net assets	$ 7,802,483	$ 5,036,394

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, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*	*Without Donor Restrictions*	*With Donor Restrictions*	*Total*
Revenue:						
Client fees	$ 18,013,976	$ -	$ 18,013,976	$ 14,232,525	$ -	$ 14,232,525
Investment and interest income (Note 5 and 9)	69,390	8,348	77,738	68,220	15,354	83,574
Other income (Note 11)	104,860	-	104,860	120,446	-	120,446
Total revenue	18,188,226	8,348	18,196,574	14,421,191	15,354	14,436,545
Support:						
Contributions	692,418	396,615	1,089,033	567,871	268,549	836,420
Contributions – capital campaign	-	583,725	583,725	-	-	-
In-kind donations	118,047	-	118,047	89,844	-	89,844
In-kind donations – capital campaign	-	91,608	91,608	-	-	-
Special events – net of direct donor benefits of $195,306 in 2019 and $208,740 in 2018	(37,011)	-	(37,011)	(47,647)	-	(47,647)
Net assets released from restrictions	1,068,840	(1,068,840)	-	313,050	(313,050)	-
Total support	1,842,294	3,108	1,845,402	923,118	(44,501)	878,617
Total revenue and support	20,030,520	11,456	20,041,976	15,344,309	(29,147)	15,315,162
Expenses:						
Program services:						
Intermediate Care	1,875,363	-	1,875,363	1,809,019	-	1,809,019
Community Living	13,833,878	-	13,833,878	10,538,845	-	10,538,845
Independent Living	601,488	-	601,488	601,362	-	601,362
Other programs	440,840	-	440,840	114,180	-	114,180
General and administrative	1,456,508	-	1,456,508	1,307,006	-	1,307,006
Fundraising	633,921	-	633,921	576,312	-	576,312
Fundraising – capital campaign	32,894	-	32,894	-	-	-
Total expenses	18,874,892	-	18,874,892	14,946,724	-	14,946,724
Change in net assets	1,155,628	11,456	1,167,084	397,585	(29,147)	368,438
Net assets, beginning of year	2,837,810	785,032	3,622,842	2,440,225	814,179	3,254,404
Net assets, end of year	$ 3,993,438	$ 796,488	$ 4,789,926	$ 2,837,810	$ 785,032	$ 3,622,842

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, 2019 AND 2018

	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	33,039	11,328	-	-	44,367	175,423	5,873	-	225,663
Travel and fleet expenses	13,242	175,511	7,018	5,949	201,720	1,749	1,457	34	204,960
Printing and advertising	69	441	46	5,336	5,892	2,693	77,826	2,697	89,108
Food, medicine and supplies	74,253	1,137	27,485	727	103,602	-	322	-	103,924
Quality assurance fees	98,673	-	-	-	98,673	-	-	-	98,673
Conference, recruiting and training	5,263	45,866	3,920	7,293	62,342	20,656	6,541	126	89,665
Bank and payroll fees	-	-	-	9	9	78,835	13,240	-	92,084
Utilities and telephone	21,465	15,761	20,105	6,066	63,397	19,080	1,382	-	83,859
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
Accounting and legal	-	-	-	-	-	89,226	-	-	89,226
Insurance	12,000	27,495	7,018	6,165	52,678	6,714	1,344	-	60,736
Professional services	40,693	2,266	-	-	42,959	-	-	-	42,959
Temporary administrative	-	-	-	-	-	36,536	-	-	36,536
Office supplies	2,980	8,186	774	28,322	40,262	21,820	5,718	15	67,815
Fundraising and program events	-	-	-	-	-	1,691	23,602	-	25,293
Taxes and licenses	3,053	201	6,172	8,504	17,930	12,747	3,214	-	33,891
Repairs and maintenance	5,853	258	4,713	8,891	19,715	2,289	-	-	22,004
Interest	9,555	-	6,688	-	16,243	32,397	-	-	48,640
Consultants	1,788	5,307	3	3,420	10,518	9,390	9,869	30,000	59,777
Postage	-	11	-	-	11	6,614	6,070	22	12,717
Dues and memberships	1,395	1,102	-	250	2,747	4,840	781	-	8,368
Client recreation and education	826	626	152	550	2,154	-	-	-	2,154
Other	622	51	-	-	673	7,334	6,306	-	14,313
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 FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2019 AND 2018

	2018							
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Total*
Personnel:								
Salaries	$ 1,129,285	$ 8,263,466	$ 391,331	$ 60,688	$ 9,844,770	$ 731,219	$ 343,066	$ 10,919,055
Benefits and payroll taxes	340,574	1,965,311	109,323	7,810	2,423,018	191,130	61,646	2,675,794
Total personnel expenses	1,469,859	10,228,777	500,654	68,498	12,267,788	922,349	404,712	13,594,849
Rent	36,511	11,817	-	-	48,328	168,424	2,751	219,503
Travel and fleet expenses	10,788	112,519	3,198	2,765	129,270	825	2,722	132,817
Printing and advertising	5,506	32,854	3,686	5,597	47,643	3,545	75,440	126,628
Food, medicine and supplies	68,109	137	27,852	87	96,185	-	844	97,029
Quality assurance fees	95,787	-	-	-	95,787	-	-	95,787
Conference, recruiting and training	4,964	42,408	2,526	3,096	52,994	14,200	12,383	79,577
Bank and payroll fees	-	(15)	-	-	(15)	66,434	12,144	78,563
Utilities and telephone	21,595	17,750	19,003	3,346	61,694	7,666	1,277	70,637
Depreciation and amortization	17,147	16,912	18,298	1,610	53,967	5,429	-	59,396
Small equipment, rental, maintenance	4,493	11,978	1,511	18,452	36,434	19,022	3,854	59,310
Accounting and legal	-	3,600	-	-	3,600	52,302	-	55,902
Insurance	11,051	28,904	6,750	2,315	49,020	3,306	1,255	53,581
Professional services	41,493	7,528	-	-	49,021	-	-	49,021
Office supplies	1,910	3,990	876	4,562	11,338	15,067	6,262	32,667
Fundraising and program events	-	-	-	-	-	-	28,525	28,525
Taxes and licenses	2,910	6,717	5,438	2,412	17,477	776	3,951	22,204
Repairs and maintenance	3,579	9,348	4,301	438	17,666	2,818	-	20,484
Interest	9,748	-	6,870	-	16,618	-	-	16,618
Consultants	385	1,633	28	598	2,644	7,557	2,143	12,344
Postage	-	33	-	29	62	7,060	4,439	11,561
Dues and memberships	1,278	461	12	4	1,755	3,920	1,080	6,755
Client recreation and education	911	1,335	225	371	2,842	-	-	2,842
Other	995	159	134	-	1,288	6,306	12,530	20,124
Total	$ 1,809,019	$ 10,538,845	$ 601,362	$ 114,180	$ 13,063,406	$ 1,307,006	$ 576,312	$ 14,946,724

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, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 1,167,084	$ 368,438
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Investment gain	(38,984)	(55,428)
Depreciation and amortization	80,147	59,396
Gain on disposal of property and equipment	-	(4,500)
(Increase) decrease in assets:		
Accounts receivable – net	(221,507)	(219,262)
Contributions receivable	(100,532)	63,701
Prepaid expenses and deposits	9,747	73
Notes and interest receivable – net	(10,284)	(14,163)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	50,289	16,610
Deposit payable	(3,160)	800
Accrued salaries and vacation	178,053	78,777
Payable to Medi-Cal	(10,849)	20,476
Net cash provided by operating activities	1,100,004	314,918
Cash flows from investing activities:		
Net (increase) decrease in restricted cash	3,196	(113,355)
Net increase in investments	(18,371)	(200,069)
Purchase of fixed assets	(2,506,104)	(131,917)
Proceeds from disposal of property and equipment	-	4,500
Net cash used in investing activities	(2,521,279)	(440,841)
Cash flows from financing activities:		
Proceeds from line of credit	168,191	-
Payment on line of credit	(168,191)	-
Proceeds from loan	1,400,000	-
Payment of mortgage note	(18,488)	(9,510)
Net cash provided by (used in) financing activities	1,381,512	(9,510)
Net increase (decrease) in cash	(39,763)	(135,433)
Cash, beginning of year	406,232	541,665
Cash, end of year	$ 366,469	$ 406,232
Supplementary information:		
Cash paid for interest	$ 48,640	$ 16,618

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 our 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, Reclife, Adaptive Technology Center, Rental Housing Property Management and Great Expectations Preschool.

Lifehouse, Inc. receives revenue from various sources (approximately 87% and 90% of total revenue is obtained from Medi-Cal and the regional centers annually in 2019 and 2018, respectively) 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, which is commonly controlled by Lifehouse, Inc. Board of Directors and 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.

<u>*Basis of Presentation*</u>

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, 2019 and 2018 amounting to $192,216 and $191,216, respectively.

<u>*Revenue Recognition*</u>

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*.

Government contracts, which are funded on a reimbursement basis, are shown as revenue without donor restriction.

<u>*Contributions*</u>

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.

<u>*In-kind Donations*</u>

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.

<u>*Cash*</u>

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as 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 $313,000 as of June 30, 2019. Lifehouse, Inc. has not experienced any losses in such accounts.

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, 2019 and 2018.

Client Funds Held in Trust

Lifehouse, Inc. is holding client funds in trust in separate bank accounts. The total amount of $15,233 and $14,373 in 2019 and 2018, 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 costing 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 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.

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, 2015 through 2018 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.

Subsequent Events

Management has evaluated subsequent events through October 17, 2019, the date on which the consolidated financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2018 consolidated financial statements were reclassified to conform to the 2019 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 11, 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:

	2019		2018	
	Principal	*Interest*	*Principal*	*Interest*
Full amount due, by 2032	$ 91,800	$ 177,479	$ 91,800	$ 179,170
Discount to present value	(19,001)	(36,736)	(20,288)	(47,424)
Net receivable at June 30	$ 72,799	$ 140,743	$ 71,512	$ 131,746

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

	Collateralized	*Uncollateralized*	*Past Due*	*Allowance*	*Net*
Related party	$ -	$ -	$ -	$ -	$ -
Non-related party	91,800	-	-	-	91,800
Total	$ 91,800	$ -	$ -	$ -	$ 91,800

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2019	2018
Land	$ 1,826,960	$ 526,960
Building and improvements	2,846,713	1,814,968
Furniture and equipment	28,839	24,843
Computer equipment/software	159,876	159,876
Vehicles	208,147	290,972
	5,070,535	2,817,619
Less: accumulated depreciation	(1,831,127)	(1,833,805)
	3,239,408	983,814
Construction in progress	174,032	3,669
Total property and equipment	$ 3,413,440	$ 987,483

NOTE 5 – FAIR VALUE MEASUREMENTS

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

	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 – with donor restrictions	$ 226,013	$ -	$ 226,013
Beneficial interest in assets held by the Foundation – without donor restrictions	576,801	-	576,801
Total beneficial interest in assets held by the Foundation	$ 802,814	$ -	$ 802,814

	2018		
	Balance as of June 30, 2018	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 266,538	$ 266,538	$ -
Small/mid-capitalization index funds	119,237	119,237	-
S&P 500 growth	57,401	57,401	-
Large value	79,626	79,626	-
Commodities broad-basket	13,587	13,587	-
Foreign large blend	41,656	41,656	-
Diversified emerging market	28,907	28,907	-
Real estate	31,832	31,832	-
Total investments	$ 638,784	$ 638,784	$ -

	Balance as of June 30, 2018	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Beneficial interest in assets held by the Foundation – with donor restrictions	$ 220,516	$ -	$ 220,516
Beneficial interest in assets held by the Foundation – without donor restrictions	557,248	-	557,248
Total beneficial interest in assets held by the Foundation	$ 777,764	$ -	$ 777,764

Investment income, which includes unrealized and realized gains or losses, interest and dividend income on investments, net of fees, was $54,777 and $66,537 at June 30, 2019 and 2018, 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 some 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 funds without donor restrictions were $576,801 and $557,248, respectively, and funds with donor restrictions were $226,013 and $220,516, as of June 30, 2019 and 2018, respectively.

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 for up to $800,000, of which $-0- was outstanding as of June 30, 2019 and 2018. Advances on the credit line carry an interest rate of prime plus ¾%. As of June 30, 2019, the rate was 6.25%. The line of credit expired on February 5, 2019. In accordance with the extension letter dated January 28, 2019, the maturity date of the note was extended to May 5, 2019. This was further extended for another year, to May 5, 2020, effective April 22, 2019.

NOTE 7 – NOTES PAYABLE

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

	2019		2018	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
<u>*Golden Hinde, SR House*</u> 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 November 2025, at which date, a balloon payment of $199,865 is also required. Interest expense was $9,555 and $9,748 in 2019 and 2018, respectively.	$ -	$ 236,176	$ -	$ 241,116
<u>*Laurel Place House*</u> 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. Interest expense was $6,688 and $6,870 in 2019 and 2018, respectively.	-	175,652	-	180,599

	2019		2018	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
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. Interest expense was $32,397 in 2019.	-	1,391,399	-	-
Total	-	1,803,227	-	421,715
Less: current portion	-	(30,953)	-	(9,887)
Long-term portion	$ -	$ 1,772,274	$ -	$ 411,828

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

2020	$ 30,953
2021	32,625
2022	34,185
2023	35,820
2024	37,355

NOTE 8 – 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:
	$ 1,713	*Effective through March 31, 2019*
	1,768	*Effective April 1, 2019*
Stonehaven [1]		Agreement and rent determined per HUD regulations:
	1,705	*Effective through January 31, 2019*
	1,760	*Effective February 1, 2019*
899 Northgate Drive	14,769	96-month lease expiring March 2020. Annual increases of 3% plus pro rata share of operating expenses.
Rohnert Park	838	36-month lease expiring April 2020. Annual increases of 3% plus pro rata share of operating expenses.

[1] Tenants of Nova and Stonehaven receive rent subsidy therefore the amount paid by Lifehouse 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.

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

2020	$ 143,157
2021	1,370
2022	-
2023	-
2024	-
	$ 144,527

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

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

	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

	2018			
	June 30, 2017	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2018*
Program:				
Autism work	$ -	$ 79,464	$ (79,464)	$ -
Repairs and maintenance	42,250	83,046	(53,100)	72,196
Investment income (loss) – endowment	40,019	12,525	-	52,544
Bequest for specific care	384,858	2,829	(131)	387,556
Film Grant and Technology Center	94,483	8,000	(75,555)	26,928
Wheelchair accessible van purchase	59,445	275	(59,720)	-
Marketing	-	80,000	(33,007)	46,993
Other	3,408	16,264	(12,073)	7,599
	624,463	282,403	(313,050)	593,816
Endowment funds	189,716	1,500	-	191,216
	$ 814,179	$ 283,903	$ (313,050)	$ 785,032

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, 2019 and 2018.

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 10 – 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, 2019 and 2018 was $249,188 and $227,531, respectively.

NOTE 11 – 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 $45,737 and $48,062 during 2019, respectively, and $48,596 and $51,042 during 2018, respectively. The amounts are included in other income in the accompanying Consolidated Statements of Activities.

NOTE 12 – 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:

Financial assets at end of year:	
Cash	$ 861,789
Contributions receivable	170,906
Accounts receivable	1,631,857
Investments	1,473,903
	4,138,455
Less financial assets not available for general expenditures:	
Cash subject to expenditure for specific purpose	(495,320)
Contributions receivable for specific purpose	(75,155)
Investments for specific purpose	(226,013)
Financial assets available for general expenditures within one year	$ 3,341,967

NOTE 13 – 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, 2018.

Real Estate Liens

When Community Development Block Grants and Marin Housing Authority 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. In the event that Lifehouse, Inc. sells the property or alters its use, the County would enforce the liens and would be entitled to its amount due.

LINDQUIST
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, 2019, 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 17, 2019.

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 17, 2019