lifehouse

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2014 AND 2013

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

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 financial statements of Lifehouse, Inc., a California nonprofit public benefit corporation, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lifehouse, Inc. as of June 30, 2014 and 2013, 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated November 5, 2014 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 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 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

November 5, 2014

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Current assets:		
Cash	$ 39,134	$ 36,170
Accounts receivable – net	677,165	552,308
Contributions receivable	700	1,969
Prepaid expenses	34,646	33,573
Total current assets	751,645	624,020
Restricted cash:		
Programs	12,460	12,787
Board-designated	881	75,324
Investments (Note 5):		
Programs	29,754	-
Board-designated	508,444	406,420
Beneficial interest in assets held by the Foundation (Note 5):		
Board-designated	489,042	435,421
Endowment	216,308	191,781
Deposits	16,269	16,269
Notes receivable – net (Note 3)	66,587	65,410
Interest receivable – net (Note 3)	116,244	108,629
Property and equipment – net (Note 4)	998,801	1,056,802
Total assets	$ 3,206,435	$ 2,992,863
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 80,614	$ 136,326
Accrued salaries	160,900	139,635
Accrued vacation	233,116	236,685
Payable to Medi-Cal	31,915	39,104
Notes payable – current portion (Note 7)	11,496	10,911
Total current liabilities	518,041	562,661
Notes payable – net of current portion (Note 7)	439,018	450,514
Total liabilities	957,059	1,013,175
Net assets:		
Unrestricted	992,487	857,955
Unrestricted – board-designated (Note 2)	998,367	917,165
Temporarily restricted (Note 10)	70,806	16,852
Permanently restricted (Note 8)	187,716	187,716
Total net assets	2,249,376	1,979,688
Total liabilities and net assets	$ 3,206,435	$ 2,992,863

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2014 AND 2013

	2014				2013			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Revenue:								
Client fees	$ 7,489,739	$ -	$ -	$ 7,489,739	$ 6,593,578	$ -	$ -	$ 6,593,578
Investment income	115,721	24,527	-	140,248	18,035	33	-	18,068
Other income (Note 13)	136,411	-	-	136,411	159,087	-	-	159,087
Total revenue	7,741,871	24,527	-	7,766,398	6,770,700	33	-	6,770,733
Support:								
Contributions	460,496	106,224	-	566,720	449,477	68,412	-	517,889
Net assets released from restrictions	76,797	(76,797)	-	-	72,718	(72,718)	-	-
Sales of donated good – net of direct expenses of $84,136 in 2014 and $201,656 in 2013	17,940	-	-	17,940	40,959	-	-	40,959
In-kind donations	74,589	-	-	74,589	65,251	-	-	65,251
Special events – net of direct donor benefits of $170,371 in 2014 and $141,446 in 2013	69,434	-	-	69,434	125,597	-	-	125,597
	699,256	29,427	-	728,683	754,002	(4,306)	-	749,696
Total revenue and support	8,441,127	53,954	-	8,495,081	7,524,702	(4,273)	-	7,520,429
Expenses:								
Program services:								
Intermediate Care	1,992,967	-	-	1,992,967	1,986,202	-	-	1,986,202
Community Living	4,077,375	-	-	4,077,375	3,392,929	-	-	3,392,929
Independent Living	517,983	-	-	517,983	585,491	-	-	585,491
Other programs	228,696	-	-	228,696	217,214	-	-	217,214
General and administrative	1,015,497	-	-	1,015,497	913,026	-	-	913,026
Fundraising	392,875	-	-	392,875	394,423	-	-	394,423
Total expenses	8,225,393	-	-	8,225,393	7,489,285	-	-	7,489,285
Change in net assets	215,734	53,954	-	269,688	35,417	(4,273)	-	31,144
Net assets, beginning of year	1,775,120	16,852	187,716	1,979,688	1,739,703	21,125	187,716	1,948,544
Net assets, end of year	$ 1,990,854	$ 70,806	$ 187,716	$ 2,249,376	$ 1,775,120	$ 16,852	$ 187,716	$ 1,979,688

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	2014							
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Total*
Personnel:								
Salaries	$ 1,173,072	$ 3,116,221	$ 301,985	$ 183,726	$ 4,775,004	$ 525,692	$ 221,250	$ 5,521,946
Benefits and payroll taxes	391,245	764,176	106,119	38,875	1,300,415	138,446	26,762	1,465,623
Total personnel expenses	1,564,317	3,880,397	408,104	222,601	6,075,419	664,138	248,012	6,987,569
Rent	20,239	13,394	-	-	33,633	149,543	1,320	184,496
Food, medicine and supplies	101,132	1,252	25,780	-	128,164	-	2,560	130,724
Professional services	53,706	29,018	128	-	82,852	25,000	-	107,852
Quality assurance fees	97,818	-	-	-	97,818	-	-	97,818
Depreciation and amortization	42,445	10,870	26,411	-	79,726	9,899	-	89,625
Automobile	15,660	62,208	4,182	5,062	87,112	1,130	899	89,141
Telephone and utilities	33,839	11,324	18,029	73	63,265	11,127	1,111	75,503
Repairs and maintenance	16,232	24,851	12,022	-	53,105	718	1,211	55,034
Printing and advertising	489	1,480	164	4	2,137	7,580	49,076	58,793
Accounting and legal	1,404	-	-	-	1,404	56,899	-	58,303
Bank fees	467	-	-	-	467	44,927	10,496	55,890
Conference, recruiting, training and travel	4,696	12,812	3,754	193	21,455	13,007	3,909	38,371
Insurance	9,238	16,037	6,314	555	32,144	1,655	555	34,354
Consultants	1,096	1,338	48	48	2,530	5,089	26,443	34,062
Fundraising and program events	-	-	-	-	-	-	24,967	24,967
Interest	15,656	-	7,532	-	23,188	-	-	23,188
Office supplies	1,823	1,219	724	-	3,766	9,700	3,442	16,908
Taxes and licenses	3,916	5,458	4,373	-	13,747	233	2,444	16,424
Other	1,587	382	-	-	1,969	3,602	10,474	16,045
Small equipment, rental, maintenance	4,625	2,784	316	-	7,725	3,147	3,183	14,055
Postage	-	24	-	-	24	4,400	2,346	6,770
Dues and assessments	1,720	75	55	-	1,850	3,482	427	5,759
Loss on disposal of fixed assets	-	-	-	-	-	221	-	221
Client recreation and education	862	2,452	47	160	3,521	-	-	3,521
Total	$ 1,992,967	$ 4,077,375	$ 517,983	$ 228,696	$ 6,817,021	$ 1,015,497	$ 392,875	$ 8,225,393

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	2013							
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Total*
Personnel:								
Salaries	$ 1,189,565	$ 2,571,852	$ 346,182	$ 168,621	$ 4,276,220	$ 438,515	$ 247,913	$ 4,962,648
Benefits and payroll taxes	376,177	649,753	120,344	40,055	1,186,329	116,706	42,222	1,345,257
Total personnel expenses	1,565,742	3,221,605	466,526	208,676	5,462,549	555,221	290,135	6,307,905
Rent	20,814	16,397	-	-	37,211	145,188	1,731	184,130
Food, medicine and supplies	100,223	621	25,735	-	126,579	-	1,256	127,835
Accounting and legal	1,544	-	-	-	1,544	58,926	-	60,470
Quality assurance fees	99,344	-	-	-	99,344	-	-	99,344
Depreciation and amortization	40,973	15,680	31,348	-	88,001	10,733	-	98,734
Automobile	13,406	56,360	6,876	7,187	83,829	1,325	2,231	87,385
Professional services	54,771	20,820	43	-	75,634	50,000	-	125,634
Telephone and utilities	32,051	12,647	16,424	94	61,216	6,678	2,406	70,300
Bank fees	-	-	-	-	-	34,869	11,692	46,561
Printing and advertising	427	1,316	231	34	2,008	4,372	37,502	43,882
Repairs and maintenance	12,645	16,380	7,254	-	36,279	580	3,600	40,459
Conference, recruiting, training and travel	4,541	9,822	1,903	498	16,764	12,541	5,550	34,855
Insurance	7,660	9,555	7,678	673	25,566	1,840	755	28,161
Interest	16,061	-	9,325	-	25,386	-	-	25,386
Taxes and licenses	3,464	3,059	9,465	-	15,988	192	2,635	18,815
Fundraising and program events	-	-	-	-	-	-	16,418	16,418
Office supplies	1,428	546	829	-	2,803	10,975	2,385	16,163
Small equipment, rental, maintenance	5,770	2,581	1,578	4	9,933	4,426	390	14,749
Consultants	542	1,382	169	23	2,116	5,914	5,543	13,573
Other	2,703	306	-	-	3,009	484	6,289	9,782
Postage	37	-	-	-	37	5,318	3,203	8,558
Dues and assessments	1,320	245	-	-	1,565	3,444	702	5,711
Client recreation and education	736	3,607	107	25	4,475	-	-	4,475
Total	$ 1,986,202	$ 3,392,929	$ 585,491	$ 217,214	$ 6,181,836	$ 913,026	$ 394,423	$ 7,489,285

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 269,688	$ 31,144
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Investment gain	(140,248)	(18,068)
Depreciation and amortization	89,625	98,734
Loss on disposal of fixed assets	221	-
(Increase) decrease in assets:		
Accounts receivable – net	(124,857)	(108,775)
Contributions receivable	1,269	61,089
Prepaid expenses and deposits	(1,073)	14,014
Notes and interest receivable – net	(8,792)	(8,694)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(61,414)	39,321
Accrued salaries, vacation, and benefits	17,696	38,447
Payable to Medi-Cal	(7,189)	10,519
Total adjustments	(234,762)	126,587
Net cash provided by operating activities	34,926	157,731
Cash flows from investing activities:		
Net decrease in restricted cash	74,770	243,626
Net increase in investments	(69,678)	(258,658)
Purchase of fixed assets	(26,143)	(51,383)
Net cash used in investing activities	(21,051)	(66,415)
Cash flows from financing activities:		
Proceeds from (payment of) line of credit – net	-	(64,960)
Proceeds from mortgage	-	10,368
Payment of mortgage principal	(10,911)	(13,093)
Net cash used in financing activities	(10,911)	(67,685)
Increase in cash	2,964	23,631
Cash, beginning of year	36,170	12,539
Cash, end of year	$ 39,134	$ 36,170
Supplementary information:		
Cash paid for interest	$ 23,162	$ 25,458
Non-cash investing and financing activities:		
Assets acquired by assuming current liabilities	$ 5,702	$ -
Payment of a loan from proceeds of a new loan	$ -	$ 198,982
Transfer of investments to the Foundation	$ -	$ 636,260

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

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

Programs

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

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

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

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

Lifehouse, Inc. receives revenue from various sources (approximately 83% of total revenue is obtained from Medi-Cal and the regional centers in 2014 and 81% in 2013) for services provided to clients. However, the cost of providing such services exceeds the mandated revenue. As such, contributions, sales of donated goods and proceeds from fundraising events provide funding to support the cost of Lifehouse, Inc.'s programs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

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

Estimates

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

Basis of Presentation

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

At June 30, 2014 and 2013, the board of directors designated unrestricted net assets to be used for Lifehouse, Inc.'s programs.

Revenue Recognition

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

Government contracts, which are funded on a reimbursement basis, are shown as unrestricted revenue.

Contributions

Unconditional promises to give cash in the future generally are recorded at the net present value of the future cash flows at the time the promise was made. An allowance for uncollectible promises is estimated by management to reflect the amount of promises that are deemed uncollectible.

Cash

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

Accounts Receivable

Lifehouse, Inc. records an allowance for doubtful collections based on a review of outstanding receivables, historical collection information, and existing economic conditions. The allowance for doubtful collections was $-0- as of June 30, 2014 and 2013, respectively.

Client Funds Held in Trust

Lifehouse, Inc. is holding client funds in trust in separate bank accounts. The total amount of $1,457 and $827 in 2014 and 2013, respectively, is included in *Cash* in the Statements of Financial Position.

Investments

Under generally accepted accounting principles (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 and Intangible Assets

Property and equipment is stated at cost of acquisition or fair value if donated. Assets costing at least $1,500 (and all computers), or have an estimated useful life 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

In-kind Donations

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

Sales of Donated Goods

Lifehouse, Inc. directly operated a salvage program through December 2011 whereby the organization solicits donations of household discards, then sells the donated goods to a third-party retailer. In December 2011, Lifehouse, Inc. signed an agreement with ReUseIt, for the operation and management of Lifehouse, Inc.'s salvage program including the supply of all personnel and equipment to perform all activities related to this program. All donated goods solicited by ReUseIt are delivered to a designated third-party retailer, Norquist Salvage Corporation (Norquist), based on an agreement entered into between Lifehouse, Inc. and Norquist. Lifehouse, Inc. receives $630 per cart of donated goods delivered to Norquist for both years ended June, 30 2014 and 2013. On the other hand, Lifehouse, Inc. pays $520 per cart to ReUseIt in consideration for their services for the years ended June 30, 2014 and 2013. Direct expenses are recorded as a contra-revenue, while other costs of this activity, if any, are classified as fundraising expenses. The agreement with ReUseIt expired on November 30, 2013 without any renewal. Currently, Lifehouse, Inc., does not have an operating salvage program.

Income Taxes

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

Lifehouse, Inc. believes that is has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Lifehouse, Inc.'s federal and state information returns for the fiscal years ended 2010 through 2013 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 Statements of Activities and Statements of Functional Expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Subsequent Events

Management has evaluated subsequent events through November 5, 2014, the date on which the financial statements were available to be issued.

NOTE 3 – NOTES AND INTEREST RECEIVABLE

As consideration for its financial contribution to the inception of Nova and Stonehaven (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:

	2014		2013	
	Principal	*Interest*	*Principal*	*Interest*
Full amount due, by 2032	$ 91,800	$ 167,249	$ 91,800	$ 159,167
Discount to present value	(25,213)	(51,005)	(26,390)	(50,538)
Net receivable at June 30	$ 66,587	$ 116,244	$ 65,410	$ 108,629

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:

	2014	2013
Land	$ 526,960	$ 526,960
Building and improvements	1,669,462	1,647,471
Furniture and equipment	15,456	13,995
Computer equipment/software	176,573	168,498
Vehicles	300,012	300,012
	2,688,463	2,656,936
Less: accumulated depreciation	(1,689,662)	(1,600,134)
Total property and equipment	$ 998,801	$ 1,056,802

NOTE 5 – FAIR VALUE MEASUREMENTS

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

	Balance as of June 30, 2014	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 142,361	$ 142,361	$ -
Small/mid-capitalization index funds	99,865	99,865	-
S&P 500 growth	82,364	82,364	-
Large value	81,974	81,974	-
Commodities broad-basket	22,380	22,380	-
Foreign large blend	48,866	48,866	-
Diversified emerging market	48,595	48,595	-
Real estate	11,793	11,793	-
Total investments [(1)]	$ 538,198	$ 538,198	$ -

[(1)] Total includes $29,754 designated for programs and $508,444 board-designated.

	Balance as of June 30, 2014	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Beneficial interest in assets held by the Foundation – endowment	$ 216,308	$ -	$ 216,308
Beneficial interest in assets held by the Foundation – board-designated	489,042	-	489,042
Total beneficial interest in assets held by the Foundation	$ 705,350	$ -	$ 705,350

	Balance as of June 30, 2013	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 183,520	$ 183,520	$ -
Small/mid-capitalization index funds	64,566	64,566	-
S&P 500 growth	40,661	40,661	-
Large value	46,371	46,371	-
Commodities broad-basket	7,640	7,640	-
Foreign large blend	25,134	25,134	-
Diversified emerging market	25,139	25,139	-
Real estate	13,389	13,389	-
Total investments – board-designated	$ 406,420	$ 406,420	$ -

	Balance as of June 30, 2013	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Beneficial interest in assets held by the Foundation – endowment	$ 191,781	$ -	$ 191,781
Beneficial interest in assets held by the Foundation – board-designated	435,421	-	435,421
Total beneficial interest in assets held by the Foundation	$ 627,202	$ -	$ 627,202

Investment income, which includes unrealized and realized gains or losses, interest and dividend income on investments, net of fees, was $140,248 and $18,068 at June 30, 2014 and 2013, respectively.

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 Statements of Financial Position and reports distributions received and changes in the value of the Funds are reported as *Investment Income* in the Statements of Activities. As of June 30, 2014, the balance was $489,042 and $216,308 for unrestricted and permanently restricted funds, 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. has a $350,000 line of credit with a local bank, of which $-0- was outstanding as of June 30, 2014 and 2013. Advances on the credit line carry an interest rate of prime plus ¾%. The line of credit expires on February 5, 2015.

NOTE 7 – NOTES PAYABLE

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

	2014		2013	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
<u>Golden Hinde, SR House</u>				
6.125% simple interest loan in the original amount of $308,100 from Bank of America. Monthly payments of principal and interest totaling $1,872, is required throughout the loan term through June 2033. Interest expense was $15,656 and $16,061 in 2014 and 2013, respectively.	$ -	$ 251,882	$ -	$ 258,691

	2014		2013	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
<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, is required throughout the loan term through October 2042. Interest expense was $7,532 and $5,106 for 2014 and 2013, respectively.	-	198,632	-	202,734
Total	-	450,514	-	461,425
Less: current portion	-	(11,496)	-	(10,911)
Long-term portion	$ -	$ 439,018	$ -	$ 450,514

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

2015	$ 11,496
2016	12,115
2017	12,768
2018	13,455
2019	14,203

NOTE 8 – ENDOWMENT FUNDS

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

<u>Interpretation of Relevant Law</u>

The Board of Directors of Lifehouse, Inc. has interpreted the State Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gifts as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Lifehouse, Inc. classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until these accounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence of the Act.

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

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

Changes in endowment net assets for the fiscal years ended June 30, 2014 and 2013 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
June 30, 2012	$ -	$ 4,032	$ 187,716	$ 191,748
Investment income	-	33	-	33
June 30, 2013	-	4,065	187,716	191,781
Investment income	-	24,527	-	24,527
June 30, 2014	$ -	$ 28,592	$ 187,716	$ 216,308

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires Lifehouse, Inc. to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported as a decrease in unrestricted net assets. These deficiencies can result from unfavorable market fluctuations or other market conditions. There were no such deficiencies for the years ended June 30, 2014 and 2013.

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

NOTE 9 – LEASES

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

Real Property	*Monthly Rent*	*Terms*
Nova	$ 1,713	Agreement and rent determined per HUD regulations.
Stonehaven	1,658	Agreement and rent determined per HUD regulations.
899 Northgate Boulevard	12,740	96-month lease expiring March 2020. Annual increases of 3% plus pro rata share of operating expenses.
Rohnert Park	700	One-year sublease lease expiring October 2014.

Equipment	*Monthly Rent*	*Terms*
Postage meter	$ 148	63-month lease to June 30, 2016.

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

2015	$ 158,601
2016	160,422
2017	163,410
2018	168,312
2019	173,362
Thereafter	132,925
	$ 957,032

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes:

	2014			
	June 30, 2013	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2014*
Program:				
Autism work	$ -	$ 13,000	$ (8,000)	$ 5,000
Affordable housing	10,000	-	(10,000)	-
Repairs and maintenance	-	85,294	(48,344)	36,950
Investment income – endowment	4,065	24,527	-	28,592
Other	2,787	7,930	(10,453)	264
	$ 16,852	$ 130,751	$ (76,797)	$ 70,806

	2013			
	June 30, 2012	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2013*
Program:				
Autism work	$ -	$ 4,000	$ (4,000)	$ -
Affordable housing	10,000	-	-	10,000
Repairs and maintenance	-	56,625	(56,625)	-
Investment income – endowment	4,032	33	-	4,065
Other	7,093	7,787	(12,093)	2,787
	$ 21,125	$ 68,445	$ (72,718)	$ 16,852

NOTE 11 – RETIREMENT PLAN

Lifehouse, Inc. has established a 403(b) retirement plan for its employees. Lifehouse, Inc. matches contributions of 3% of each eligible participant's compensation, plus an additional 50% of the next 2% contributed by each eligible participant, as defined in the plan. The total plan expense for the years ended June 30, 2014 and 2013 was $86,356 and $83,125, respectively.

NOTE 12 – NOVA AND STONEHAVEN HOMES

Nova and Stonehaven are two group homes which Lifehouse, Inc. assisted in establishing in 1992. Per HUD requirements, the homes are owned by a separate corporation. Lifehouse, Inc., however, manages the operation of the two homes, receiving client fees as it does with its other homes. The Nova and Stonehaven corporations receive rent from Lifehouse, Inc. and from clients through HUD subsidy, and pay all mortgage and property expenses. Lifehouse, Inc. provides staffing and other services to Nova and Stonehaven homes totaling $50,152 and $52,301 during 2014, respectively, and $55,683 and $56,585 during 2013, respectively. The amounts are included in *Other Income* in the accompanying Statements of Activities.

NOTE 13 – COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS

Receivable from the State of California

During the year ended June 30, 2012, Lifehouse, Inc. agreed to a settlement with the State of California for amounts previously invoiced and considered uncollectible totaling $129,523. During the years ended June 30, 2014 and 2013, Lifehouse, Inc. collected $9,324 and $8,255, respectively. The amounts are included in *Other Income* in the accompanying Statements of Activities. A cumulative amount of $74,437 has been collected through June 30, 2014.

Notes Receivable

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

Real Estate Liens

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

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Board of Directors
Lifehouse, Inc.
San Francisco, 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 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 statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 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 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 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

November 5, 2014