lifehouse

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2022 AND 2021

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

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LINDQUIST
VON HUSEN
& JOYCE LLP

Board of Directors
Lifehouse, Inc.
San Rafael, California

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Consolidated Financial Statements

Opinion

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, 2022 and 2021, 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.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lifehouse, Inc. as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Lifehouse, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lifehouse, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lifehouse, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lifehouse, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2022 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

November 3, 2022

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current assets:		
Cash	$ 1,517,145	$ 1,916,367
Accounts receivable	2,775,960	2,481,611
Contributions receivable – current portion	19,150	4,394
Contributions receivable – capital campaign – current portion	46,790	91,110
Prepaid expenses	96,335	75,289
Total current assets	4,455,380	4,568,771
Restricted cash – programs	36,155	38,518
Contributions receivable – net of current portion	-	22,750
Contributions receivable – capital campaign – net of current portion	44,739	50,090
Investments without donor restrictions (Note 5)	632,872	738,777
Beneficial interest in assets held by the Foundation (Note 5):		
Without donor restrictions	607,228	696,338
With donor restrictions	245,490	287,788
Deposits	5,170	5,170
Notes receivable – net (Note 3)	76,801	75,443
Interest receivable – net (Note 3)	152,580	147,081
Property and equipment – net (Note 4)	6,823,196	7,067,162
Total assets	$ 13,079,611	$ 13,697,888
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 228,516	$ 192,703
Accounts payable – construction	-	37,909
Accrued salaries	656,103	563,782
Accrued vacation	700,631	766,984
Payable to Medi-Cal	54,072	53,956
Paycheck Protection Program loan (Note 8)	-	1,800,000
Interest payable (Note 8)	-	21,000
Notes payable – current portion (Note 7)	66,526	65,523
Total current liabilities	1,705,848	3,501,857
Notes payable – net of current portion (Note 7)	2,695,160	2,961,032
Total liabilities	4,401,008	6,462,889
Net assets:		
Without donor restrictions	8,396,958	6,908,693
With donor restrictions (Note 10)	281,645	326,306
Total net assets	8,678,603	7,234,999
Total liabilities and net assets	$ 13,079,611	$ 13,697,888

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, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*	*Without Donor Restrictions*	*With Donor Restrictions*	*Total*
Revenue:						
Client fees	$ 29,279,229	$ -	$ 29,279,229	$ 27,693,793	$ -	$ 27,693,793
Investment and interest income (loss) (Note 5 and 10)	(180,253)	(42,299)	(222,552)	266,029	65,210	331,239
Forgiveness of Paycheck Protection Program loan and interest (Note 8)	1,823,250	-	1,823,250	-	-	-
Other income (Note 12)	92,984	-	92,984	111,024	-	111,024
Total revenue	31,015,210	(42,299)	30,972,911	28,070,846	65,210	28,136,056
Support:						
Contributions	691,651	142,944	834,595	526,645	209,795	736,440
Contributions – capital campaign	-	173,248	173,248	-	413,409	413,409
In-kind donations	78,962	-	78,962	47,853	-	47,853
In-kind donations – capital campaign	-	-	-	-	267,936	267,936
Special events – net of direct donor benefits of $264,848 in 2022 and $12,196 in 2021	(65,380)	-	(65,380)	81,433	-	81,433
Net assets released from restrictions	318,554	(318,554)	-	1,292,188	(1,292,188)	-
Total support	1,023,787	(2,362)	1,021,425	1,948,119	(401,048)	1,547,071
Total revenue and support	32,038,997	(44,661)	31,994,336	30,018,965	(335,838)	29,683,127
Expenses:						
Program services:						
Intermediate Care	2,144,590	-	2,144,590	2,061,600	-	2,061,600
Community Living	23,962,859	-	23,962,859	22,314,067	-	22,314,067
Independent Living	772,395	-	772,395	712,999	-	712,999
Other programs	465,779	-	465,779	448,565	-	448,565
General and administrative	2,478,282	-	2,478,282	2,021,685	-	2,021,685
Fundraising	724,125	-	724,125	700,644	-	700,644
Fundraising – capital campaign	2,702	-	2,702	2,709	-	2,709
Total expenses	30,550,732	-	30,550,732	28,262,269	-	28,262,269
Change in net assets	1,488,265	(44,661)	1,443,604	1,756,696	(335,838)	1,420,858
Net assets, beginning of year	6,908,693	326,306	7,234,999	5,151,997	662,144	5,814,141
Net assets, end of year	$ 8,396,958	$ 281,645	$ 8,678,603	$ 6,908,693	$ 326,306	$ 7,234,999

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, 2022 AND 2021

	2022								
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Fundraising – Capital Campaign*	*Total*
Personnel:									
Salaries	$ 1,329,072	$ 19,186,541	$ 505,481	$ 285,448	$ 21,306,542	$ 1,217,256	$ 467,582	$ -	$ 22,991,380
Benefits and payroll taxes	393,816	4,363,234	140,333	68,820	4,966,203	224,347	88,942	-	5,279,492
Total personnel expenses	1,722,888	23,549,775	645,814	354,268	26,272,745	1,441,603	556,524	-	28,270,872
Rent and other occupancy expenses	72,738	16,463	40,821	42,922	172,944	252,661	1,115	-	426,720
Transportation	15,641	205,467	8,181	1,218	230,507	2,888	477	-	233,872
Consultants and contracted services	63,610	1,330	4,333	887	70,160	257,909	10,005	-	338,074
Office and program supplies	12,859	32,476	3,971	34,930	84,236	88,754	15,229	779	188,998
Food, medicine and supplies	74,652	706	29,644	2,611	107,613	204	-	-	107,817
Quality assurance fees	125,956	-	-	-	125,956	-	-	-	125,956
Printing and advertising	12	205	172	1,431	1,820	1,981	92,343	1,832	97,976
Conferences, trainings and meetings	235	8,207	186	273	8,901	11,653	6,206	-	26,760
Recruitment, hiring and retention	13,066	77,612	2,928	1,595	95,201	16,064	90	-	111,355
Depreciation and amortization	23,320	4,860	25,235	16,305	69,720	226,236	-	-	295,956
Small equipment, rental, maintenance	2,852	4,682	611	1,635	9,780	9,501	4,749	-	24,030
Insurance	5,109	43,281	3,406	4,399	56,195	14,268	1,603	-	72,066
Dues and memberships	3,285	14,163	1,050	2,311	20,809	14,345	10,247	-	45,401
Bad debts	668	3,477	-	344	4,489	-	-	-	4,489
Mortgage interest expense	6,918	-	4,626	-	11,544	119,259	-	-	130,803
Other	781	155	1,417	650	3,003	20,956	25,537	91	49,587
Total	$ 2,144,590	$ 23,962,859	$ 772,395	$ 465,779	$ 27,345,623	$ 2,478,282	$ 724,125	$ 2,702	$ 30,550,732

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, 2022 AND 2021

	2021								
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Fundraising – Capital Campaign*	*Total*
Personnel:									
Salaries	$ 1,242,274	$ 17,930,671	$ 466,595	$ 263,563	$ 19,903,103	$ 1,023,818	$ 474,471	$ -	$ 21,401,392
Benefits and payroll taxes	381,073	4,036,639	131,918	72,888	4,622,518	207,534	88,127	-	4,918,179
Total personnel expenses	1,623,347	21,967,310	598,513	336,451	24,525,621	1,231,352	562,598	-	26,319,571
Rent and other occupancy expenses	66,416	27,809	36,771	31,940	162,936	187,555	2,385	-	352,876
Transportation	17,546	162,002	7,120	4,050	190,718	568	340	-	191,626
Consultants and contracted services	61,635	893	3,370	2,114	68,012	240,031	240	-	308,283
Office and program supplies	40,852	22,652	2,286	16,919	82,709	57,256	22,544	76	162,585
Food, medicine and supplies	79,766	6,072	27,842	1,133	114,813	-	-	-	114,813
Quality assurance fees	133,985	-	-	-	133,985	-	-	-	133,985
Printing and advertising	21	364	14	2,408	2,807	2,348	79,021	490	84,666
Conferences, trainings and meetings	60	765	40	80	945	2,315	4,007	-	7,267
Recruitment, hiring and retention	6,025	70,145	2,460	24,180	102,810	17,643	410	-	120,863
Depreciation and amortization	23,136	-	23,495	20,787	67,418	140,092	-	-	207,510
Small equipment, rental, maintenance	820	3,542	378	1,783	6,523	6,243	3,155	1,946	17,867
Insurance	4,719	39,319	3,146	4,040	51,224	8,117	1,473	173	60,987
Dues and memberships	2,643	10,607	742	1,482	15,474	10,592	7,218	-	33,284
Bad debts	170	2,205	-	334	2,709	-	1,980	-	4,689
Mortgage interest expense	-	-	5,843	-	5,843	93,510	-	-	99,353
Other	459	382	979	864	2,684	24,063	15,273	24	42,044
Total	$ 2,061,600	$ 22,314,067	$ 712,999	$ 448,565	$ 25,537,231	$ 2,021,685	$ 700,644	$ 2,709	$ 28,262,269

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, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 1,443,604	$ 1,420,858
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized investment (gain) loss	249,257	(311,775)
Depreciation and amortization	295,956	207,510
Amortization of debt issuance costs	3,151	13,297
Loss on abandonment of construction in progress	14,442	-
Gain on disposal of property and equipment	(2,300)	-
Forgiveness of Paycheck Protection Program loan and interest	(1,823,250)	-
(Increase) decrease in assets:		
Accounts receivable – net	(294,349)	(78,859)
Contributions receivable	29,564	54,726
Prepaid expenses and deposits	(21,046)	(19,203)
Notes and interest receivable – net	(6,857)	1,386
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	35,813	40,465
Accrued salaries and vacation	25,968	158,106
Payable to Medi-Cal	116	4,901
Interest payable	2,250	18,000
Net cash provided by (used in) operating activities	(47,681)	1,509,412
Cash flows from investing activities:		
Net (increase) decrease in investments	(11,944)	4,737
Proceeds from deposit and other refunds	7,537	501
Proceeds from disposal of property and equipment	2,300	-
Purchase of property and equipment, and construction in progress	(73,969)	(1,907,186)
Net cash used in investing activities	(76,076)	(1,901,948)
Cash flows from financing activities:		
Proceeds from note payable	-	3,282,718
Payment of notes payable	(268,020)	(2,001,138)
Payment of accounts payable – construction	(37,909)	(861,137)
Net cash provided by (used in) financing activities	(305,929)	420,443
Net increase (decrease) in cash and restricted cash	(429,686)	27,907
Cash and restricted cash, beginning of year	1,954,885	1,926,978
Cash and restricted cash, end of year	$ 1,525,199	$ 1,954,885

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, 2022 AND 2021

	2022	2021
Supplementary information:		
Cash paid for interest – net of capitalized portion	$ 127,652	$ 86,056
Non-cash investing activity:		
Assets acquired by assuming current liabilities	$ -	$ 37,909
Cash	$ 1,517,145	$ 1,916,367
Restricted cash – programs	36,155	38,518
Total cash and restricted cash shown in the statements of cash flows	$ 1,553,300	$ 1,954,885

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

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

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

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

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

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

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

Lifehouse, Inc. receives revenue from various sources (approximately 89% and 92% of total revenue is obtained from Medi-Cal and the regional centers in 2022 and 2021, 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, of which Lifehouse, Inc. is the sole member. All significant intercompany transactions and balances have been eliminated in the consolidation.

Accounting Method

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

Estimates

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

Basis of Presentation

Lifehouse, Inc. reports information regarding its financial position and activities according to two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

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

- Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires – that is, when a stipulated time restrictions ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. Lifehouse, Inc. has net assets with non-expiring donor restrictions as of June 30, 2022 and 2021 amounting to $194,216 and $192,216, respectively.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities as *Net Assets Released from Restrictions*.

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

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

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

Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 establishes a five-step process for recognizing revenue which includes identifying the contract, identifying performance obligations within the contract, determining the transaction price, estimating the amount of variable consideration in the transaction price and allocating the transaction price to each performance obligation, and recognizing revenue upon performance of the identified obligations.

In-kind Donations

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

Cash and Restricted Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Restricted cash are funds restricted as to their use, regardless of liquidity. Lifehouse, Inc. occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance, including restricted cash, was approximately $1,190,000 as of June 30, 2022. 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, 2022 and 2021.

Client Funds Held in Trust

Lifehouse, Inc. is holding client funds in trust in separate bank accounts. The total amount of $23,319 and $26,793 in 2022 and 2021, respectively, is included in cash in the Consolidated Statements of Financial Position.

Investments

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

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

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

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

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

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

Property and Equipment

Property and equipment is stated at cost of acquisition, construction or fair value if donated. Assets with a cost basis of at least $1,500 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	5 to 30 years
Furniture and equipment	5 to 15 years
Computer equipment/software	5 years
Vehicles	8 years

Construction in Progress

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

Capitalized Interest

Lifehouse, Inc. capitalizes applicable interest incurred during construction as a component of construction in progress. For the period ending June 30, 2022 and 2021, Lifehouse, Inc. capitalized interest on notes payable of $-0- and $30,836, respectively.

Debt Issuance Costs

Costs incurred in order to obtain construction and permanent financing are stated at cost and amortized on a straight-line basis into interest expense over the term of the loan. Debt issuance costs are reported as a direct deduction from the face amount of the related debt.

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, 2018 through 2021 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

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

Subsequent Events

Management has evaluated subsequent events through November 3, 2022, the date on which the consolidated financial statements were available to be issued.

NOTE 3 – NOTES AND INTEREST RECEIVABLE

As consideration for its financial contribution to the inception of Nova House, Inc. (Nova) and Stonehaven House, Inc. (Stonehaven), see Note 12, separate nonprofit corporations, Lifehouse, Inc. is owed $28,800 from Nova and $63,000 from Stonehaven, in the form of residual receipts notes. The notes are expected to be paid in periodic sums from residual receipts, as defined by the U.S. Department of Housing and Urban Development (HUD), of the respective properties. The notes are due no later than the maturity of the respective HUD mortgages (in 2032) securing the properties. Nova and Stonehaven's payment of any amounts still outstanding at that point is conditional upon their full payment of the HUD mortgages. The Nova note provides for interest at 8.375% and Stonehaven at 9%. Interest is not compounded, is due upon maturity, and is accrued annually.

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

	2022		2021	
	Principal	*Interest*	*Principal*	*Interest*
Full amount due, by 2032	$ 91,800	$ 182,379	$ 91,800	$ 178,971
Discount to present value	(14,999)	(29,799)	(16,357)	(31,890)
Net receivable at June 30	$ 76,801	$ 152,580	$ 75,443	$ 147,081

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

	2022				
	Collateralized	*Uncollateralized*	*Past Due*	*Allowance*	*Net*
Related party	$ -	$ -	$ -	$ -	$ -
Non-related party:					
Notes receivable	91,800	-	-	-	91,800
Interest receivable	182,379	-	-	-	182,379
Total	$ 274,179	$ -	$ -	$ -	$ 274,179

	2021				
	Collateralized	*Uncollateralized*	*Past Due*	*Allowance*	*Net*
Related party	$ -	$ -	$ -	$ -	$ -
Non-related party:					
Notes receivable	91,800	-	-	-	91,800
Interest receivable	178,971	-	-	-	178,971
Total	$ 270,771	$ -	$ -	$ -	$ 270,771

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2022	2021
Land	$ 1,826,960	$ 1,826,960
Building and improvements	6,519,689	6,475,711
Furniture and equipment	336,083	328,457
Computer equipment/software	191,050	180,376
Vehicles	270,724	293,928
	9,144,506	9,105,432
Less: accumulated depreciation	(2,321,310)	(2,052,712)
	6,823,196	7,052,720
Construction in progress	-	14,442
Total property and equipment	$ 6,823,196	$ 7,067,162

NOTE 5 – FAIR VALUE MEASUREMENTS

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

	2022		
	Balance as of June 30, 2022	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 276,950	$ 276,950	$ -
Large value	97,274	97,274	-
Small/mid-capitalization index funds	87,908	87,908	-
Foreign large blend	53,326	53,326	-
Broad-based index equities	42,979	42,979	-
Diversified emerging market	42,108	42,108	-
S&P 500 growth	18,346	18,346	-
Commodities broad basket	13,981	13,981	-
Total investments	$ 632,872	$ 632,872	$ -

	Balance as of June 30, 2022	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Beneficial interest in assets held by the Foundation – without donor restrictions	$ 607,228	$ -	$ 607,228
Beneficial interest in assets held by the Foundation – with donor restrictions	245,490	-	245,490
Total beneficial interest in assets held by the Foundation	$ 852,718	$ -	$ 852,718

	2021		
	Balance as of June 30, 2021	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 318,890	$ 318,890	$ -
Small/mid-capitalization index funds	137,777	137,777	-
S&P 500 growth	39,711	39,711	-
Large value	136,651	136,651	-
Foreign large blend	52,035	52,035	-
Diversified emerging market	53,713	53,713	-
Total investments	$ 738,777	$ 738,777	$ -

	Balance as of June 30, 2021	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Beneficial interest in assets held by the Foundation – without donor restrictions	$ 696,338	$ -	$ 696,338
Beneficial interest in assets held by the Foundation – with donor restrictions	287,788	-	287,788
Total beneficial interest in assets held by the Foundation	$ 984,126	$ -	$ 984,126

Investment income, which includes unrealized and realized gains or losses, interest and dividend income on investments, net of fees, was $(238,483) and $317,030 at June 30, 2022 and 2021, respectively, and is included in investment and interest income in the Consolidated Statements of Activities.

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

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

NOTE 6 – LINE OF CREDIT

Lifehouse, Inc. maintains a line of credit, held with a local bank, in the original amount of $800,000, secured by certain assets of the Organization. The principal amount was increased to $1,200,000 effective February 7, 2020. The outstanding balance due to the bank as of June 30, 2022 and 2021 amounted to $-0-. Advances on the credit line carry an interest rate of prime plus ¾%. As of June 30, 2022, the rate was 4.25%. The line of credit expired on May 5, 2021. In accordance with the change in terms agreement dated May 21, 2021, the maturity date of the note was extended to May 5, 2022. In accordance with the change in terms agreement dated April 28, 2022, the maturity date of the note was extended to May 5, 2023.

NOTE 7 – NOTES PAYABLE

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

	2022		2021	
	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 maturity, at which date, a balloon payment of $199,324 is also required. In 2020, the interest accrual and loan payments due during the COVID-19 Loan Payment Assistance Period, beginning April 1, 2020 through September 1, 2020, were temporarily deferred and the maturity date of the loan was extended to November 2026 from November 2025. In 2021, the COVID-19 Loan Assistance Period and maturity date of the loan were further extended through September 1, 2021 and May 2027, respectively. Interest expense was $6,918 and $-0- in 2022 and 2021, respectively.	$ -	$ 228,387	$ -	$ 232,340
<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 is subject to change by up to 3% annually, never to be below 2.50% or exceed 8.75%. Effective November 1, 2019, the interest rate and total monthly principal and interest payment increased to 4.375% and $1,001, respectively. Effective November 1, 2020, the interest rate and total monthly principal and interest payment decreased to 3.000% and $878, respectively. Interest expense was $4,626 and $5,843 in 2022 and 2021, respectively.	-	160,068	-	165,810

	2022		2021	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
<u>*18 Professional Center Parkway*</u> Variable interest rate loan, dated November 2020, in the maximum amount of $2,900,000 from the Bank of San Francisco. Monthly interest-only payments were made beginning December 6, 2020 through May 6, 2021. Effective June 6, 2021, monthly payments of principal and interest, totaling $11,015 are required through November 6, 2030, the maturity date of the loan. For the period from December 6, 2020 through May 6, 2026, interest is calculated on the unpaid principal balance using an interest rate of 4.50%. Thereafter, interest will be calculated using a rate equal to the 5-year Treasury Constant Yield, plus a margin of 2.75%. A balloon payment of approximately $1,470,000 is required at maturity. Interest expense was $88,238 and $57,787 in 2022 and 2021, respectively.	-	1,718,812	-	1,964,625
<u>*Monticello House*</u> Variable interest rate loan, dated February 2020, in the original amount of $700,000 from the Bank of Marin. Monthly interest-only payments were made beginning August 25, 2020 through November 25, 2020. Effective November 26, 2020 monthly payments of principal and interest, totaling $3,365, are required through February 25, 2030, the maturity date of the loan. For the period from July 25, 2020 through February 25, 2025 interest is calculated on the unpaid principal balance using a fixed rate of 4%. Thereafter, interest will be calculated using a rate equal to the 5-year Treasury Constant Yield, plus a margin of 2.25%. A balloon payment of approximately $569,000 is required at maturity. The capitalized interest was $-0- and $7,655 in 2022 and 2021, respectively. Interest expense was $27,870 and $18,828 in 2022 and 2021, respectively.	-	680,349	-	692,861
Total	-	2,787,616	-	3,055,636
Less:				
Unamortized debt issuance costs [1]	-	(25,930)	-	(29,081)
Current portion	-	(66,526)	-	(65,523)
Long-term portion	$ -	$ 2,695,160	$ -	$ 2,961,032

(1) Costs incurred in order to obtain permanent financing were $42,378 and are amortized on a straight-line basis into interest expense over the terms of the loan. Interest expense for amortization of debt issuance costs was $3,151 and $13,297 in 2022 and 2021, respectively.

Lifehouse, Inc. had a note payable to Bank of Marin in the original amount of $1,400,000. The loan bore 5% simple interest and would have required monthly payments of principal and interest totaling $7,577 through January 2029, at which date a balloon payment of $1,144,014 would have been required. The capitalized interest was $-0- and $23,181 in 2022 and 2021, respectively. Interest expense was $-0- and $3,598 in 2022 and 2021, respectively. The loan was refinanced in October 2020 to provide additional funds for the completion of the construction of the new office building.

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

2023	$ 66,526
2024	69,132
2025	72,415
2026	75,562
2027	273,350

NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN

On April 30, 2020, Lifehouse, Inc. received loan proceeds of $3,608,005 from a promissory note issued under the Paycheck Protection Program ("PPP") which was established under the CARES Act to be administered by the U.S. Small Business Administration. The term of the loan was two years and the annual interest rate was 1%. The initial term required payments of principal and interest which were deferred for the first seven months of the loan. The deferral period was extended and no payments were required during the year ended June 30, 2021. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under PPP. Such forgiveness was determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations.

On May 14, 2020, Lifehouse, Inc. returned a total of $1,808,005 to the bank, reducing the principal balance of the loan to $1,800,000. Management applied for forgiveness in May 2021 and was granted forgiveness of the loan in full on August 16, 2021. Interest expense for the period ended June 30, 2022 and 2021 was $2,250 and $18,000, respectively. Interest payable as of June 30, 2022 and 2021 amounted to $-0- and $-0-, respectively.

NOTE 9 – LEASES

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

Real Property	*Monthly Rent*	*Terms*
Nova (1)		Agreement and rent determined per HUD regulations:
	$ 1,806	*Effective through March 31, 2022*
	1,806	*Effective April 1, 2022*
Stonehaven (1)		Agreement and rent determined per HUD regulations:
	1,820	*Effective through January 31, 2022*
	1,820	*Effective February 1, 2022*
1353B Redwood Way		60.6-month lease commencing November 13, 2020 and ending on November 30, 2025.
	4,827	*Effective through November 30, 2021*
	4,924	*Effective December 1, 2021*

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

Equipment	*Monthly Rent*	*Terms*
Postage meter	$ 169	63-month lease through June 30, 2026.
Copier	$ 1,045	60-month lease through September 30, 2025.

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

2023	$ 75,262
2024	76,937
2025	78,411
2026	33,500
2027	-
	$ 264,110

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2022			
	June 30, 2021	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2022*
Program:				
Autism work	$ -	$ 91,000	$ (91,000)	$ -
Capital campaign	-	173,248	(173,248)	-
Affordable housing	-	1,000	-	1,000
Investment income (loss) – endowment	119,816	(42,299)	-	77,517
Film Grant and Technology Center	-	32,607	(32,607)	-
Preschool	1,550	1,850	(3,400)	-
Other	12,724	14,487	(18,299)	8,912
	134,090	271,893	(318,554)	87,429
Endowment funds	192,216	2,000	-	194,216
	$ 326,306	$ 273,893	$ (318,554)	$ 281,645

	2021			
	June 30, 2020	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2021*
Program:				
Autism work	$ -	$ 91,500	$ (91,500)	$ -
Capital campaign	-	681,345	(681,345)	-
Investment income (loss) – endowment	55,343	64,473	-	119,816
Bequest for specific care	394,873	737	(395,610)	-
Film Grant and Technology Center	1,164	17,393	(18,557)	-
Marketing	6,005	-	(6,005)	-
Preschool	3,686	9,194	(11,330)	1,550
COVID-19 support	-	32,457	(32,457)	-
Other	8,857	59,251	(55,384)	12,724
	469,928	956,350	(1,292,188)	134,090
Endowment funds	192,216	-	-	192,216
	$ 662,144	$ 956,350	$ (1,292,188)	$ 326,306

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, 2022 and 2021.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Asset allocation ranges are set for the various asset classes: cash and equivalents (5%), fixed income investments (30%), alternative assets (5%), and equities (domestic large cap 30%, domestic small cap 15%, and international 15%). Endowment investments do not include illiquid assets, such as real estate, and acceptable and unacceptable investments for each asset class have been determined.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

NOTE 11 – RETIREMENT PLAN

Lifehouse, Inc. terminated its 403(b) retirement plan, and initiated a 401(k) plan as of January 1, 2017. Lifehouse, Inc. provides a safe harbor match equivalent to 100% of the first 3% of each eligible participant’s deferral, plus an additional 50% of the next 2% contributed by each eligible participant, as defined in the plan. The total safe harbor match for the years ended June 30, 2022 and 2021 was $448,187 and $387,046, respectively.

NOTE 12 – NOVA AND STONEHAVEN HOMES

Lifehouse, Inc. assisted in establishing Nova and Stonehaven, two group homes. Per HUD requirements, the homes are owned by a separate corporation. Lifehouse, Inc., however, manages the operation of the two homes, receiving client fees as it does with its other homes. The Nova and Stonehaven corporations receive rent from Lifehouse, Inc. and from clients through HUD subsidy, and pay all mortgage and property expenses. Lifehouse, Inc. provides staffing and other services to Nova and Stonehaven homes totaling $42,681 and $36,834 during 2022, respectively, and $43,499 and $48,148 during 2021, respectively. The amounts are included in other income in the accompanying Consolidated Statements of Activities.

NOTE 13 – CONDITIONAL PROMISES TO GIVE

Lifehouse, Inc. has been awarded government reimbursement contracts that are contingent upon incurring qualified expenses, which are accounted for as conditional promises to give. Revenue is recognized upon meeting the specified condition(s). For the year ended June 30, 2021, contributions of approximately $35,000 were not recognized in the accompanying statement of activities because the conditions on which they depend have not yet been met. There were no conditional grants with balances not yet recognized as revenue for the year ended June 30, 2022.

NOTE 14 – 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. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statements of financial position date. As part of its liquidity management, Lifehouse, Inc. maintains a line of credit account as described in Note 6.

Financial assets available for general expenditure, which are without donor or other restriction limiting their use, within one year of the Consolidated Statements of Financial Position, comprise the following:

	2022	2021
Financial assets at end of year available within one year:		
Cash	$ 1,553,300	$ 1,954,885
Contributions receivable	110,679	168,344
Accounts receivable	2,775,960	2,481,611
Investments	1,485,590	1,722,903
	5,925,529	6,327,743
Less financial assets not available for general expenditures:		
Cash subject to expenditure for specific purpose	(36,155)	(38,518)
Contributions receivable for specific purpose	(91,529)	(141,200)
Investments for specific purpose	(245,490)	(287,788)
Financial assets available for general expenditures within one year	$ 5,552,355	$ 5,860,237

NOTE 15 – 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 2022 and 2021 totaling $4,674 and $14,672, respectively.

COVID-19 Pandemic

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

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VON HUSEN
& JOYCE LLP

Board of Directors
Lifehouse, Inc.
San Rafael, California

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to consolidated financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lifehouse, Inc., which comprise the consolidated statement of financial position as of June 30, 2022, 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 November 3, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

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Report on 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 consolidated financial statements. 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 3, 2022