lifehouse

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2016 AND 2015

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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LINDQUIST
VON HUSEN
& JOYCE LLP

Board of Directors
Lifehouse, Inc.
San Rafael, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lifehouse, Inc., a California nonprofit public benefit corporation, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements .

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 90 New Montgomery, llth Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 Email mail@lvhj.com http://www.lvhj.com
AN INDEPENDENT MEMBER FIRM OF BKR INTERNATIONAL WITH ASSOCIATES IN PRINCIPAL CITIES WORLDWIDE

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lifehouse, Inc. as of June 30, 2016 and 2015, 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 October 19, 2016 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

October 19, 2016

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current assets:		
Cash	$ 50,403	$ 29,024
Accounts receivable – net	991,090	862,460
Contributions receivable	-	18,895
Prepaid expenses	36,654	33,149
Total current assets	1,078,147	943,528
Restricted cash:		
Programs	382,357	390,581
Investments (Note 5):		
Programs	88,140	27,649
Unrestricted	289,853	516,747
Beneficial interest in assets held by the Foundation (Note 5):		
Unrestricted	489,600	491,067
Endowment	195,042	208,040
Deposits	16,269	16,269
Notes receivable – net (Note 3)	69,006	67,786
Interest receivable – net (Note 3)	131,589	123,908
Property and equipment – net (Note 4)	958,396	977,292
Total assets	$ 3,698,399	$ 3,762,867
LIABILITIES AND NET ASSETS		
Current liabilities:		
Bank overdraft	$ 29,815	$ 239,584
Accounts payable and accrued expenses	110,440	121,327
Accrued salaries	237,117	208,514
Accrued vacation	343,079	300,948
Payable to Medi-Cal	32,831	64,768
Notes payable – current portion (Note 7)	9,150	12,115
Total current liabilities	762,432	947,256
Notes payable – net of current portion (Note 7)	431,226	426,660
Total liabilities	1,193,658	1,373,916
Net assets:		
Unrestricted	1,839,202	1,762,681
Temporarily restricted (Note 10)	476,823	437,554
Permanently restricted (Note 8)	188,716	188,716
Total net assets	2,504,741	2,388,951
Total liabilities and net assets	$ 3,698,399	$ 3,762,867

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Revenue:								
Client fees	$ 11,099,146	$ -	$ -	$ 11,099,146	$ 9,253,808	$ -	$ -	$ 9,253,808
Investment income (Note 5)	10,339	(3,097)	-	7,242	15,929	803	-	16,732
Other income (Note 12)	115,456	-	-	115,456	125,952	-	-	125,952
Total revenue	11,224,941	(3,097)	-	11,221,844	9,395,689	803	-	9,396,492
Support:								
Contributions	496,526	182,426	-	678,952	507,847	461,089	1,000	969,936
In-kind donations	128,581	-	-	128,581	83,883	-	-	83,883
Special events – net of direct donor benefits of $174,312 in 2016 and $153,682 in 2015	86,292	-	-	86,292	164,062	-	-	164,062
Net assets released from restrictions	140,060	(140,060)	-	-	95,144	(95,144)	-	-
Total support	851,459	42,366	-	893,825	850,936	365,945	1,000	1,217,881
Total revenue and support	12,076,400	39,269	-	12,115,669	10,246,625	366,748	1,000	10,614,373
Expenses:								
Program services:								
Intermediate Care	1,998,648	-	-	1,998,648	2,038,836	-	-	2,038,836
Community Living	7,664,531	-	-	7,664,531	6,063,759	-	-	6,063,759
Independent Living	523,616	-	-	523,616	539,380	-	-	539,380
Other programs	187,755	-	-	187,755	241,873	-	-	241,873
General and administrative	1,215,093	-	-	1,215,093	1,137,661	-	-	1,137,661
Fundraising	410,236	-	-	410,236	453,289	-	-	453,289
Total expenses	11,999,879	-	-	11,999,879	10,474,798	-	-	10,474,798
Change in net assets	76,521	39,269	-	115,790	(228,173)	366,748	1,000	139,575
Net assets, beginning of year	1,762,681	437,554	188,716	2,388,951	1,990,854	70,806	187,716	2,249,376
Net assets, end of year	$ 1,839,202	$ 476,823	$ 188,716	$ 2,504,741	$ 1,762,681	$ 437,554	$ 188,716	$ 2,388,951

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016							
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Total*
Personnel:								
Salaries	$ 1,179,773	$ 5,977,651	$ 318,021	$ 147,295	$ 7,622,740	$ 579,862	$ 247,596	$ 8,450,198
Benefits and payroll taxes	403,849	1,442,933	114,324	31,275	1,992,381	161,543	30,339	2,184,263
Total personnel expenses	1,583,622	7,420,584	432,345	178,570	9,615,121	741,405	277,935	10,634,461
Rent	28,219	12,211	-	-	40,430	158,765	1,642	200,837
Automobile	9,448	105,259	3,223	6,498	124,428	837	909	126,174
Accounting and legal	1,038	-	-	-	1,038	118,906	-	119,944
Food, medicine and supplies	93,840	-	23,669	-	117,509	-	396	117,905
Bank fees	-	-	-	-	-	85,720	11,170	96,890
Quality assurance fees	94,034	-	-	-	94,034	-	-	94,034
Professional services	56,256	11,437	-	-	67,693	26,290	-	93,983
Printing and advertising	4,348	15,764	2,076	1,558	23,746	10,293	47,216	81,255
Telephone and utilities	29,671	12,673	16,591	289	59,224	10,663	1,124	71,011
Depreciation and amortization	29,691	12,492	16,890	-	59,073	7,128	-	66,201
Conference, recruiting, training and travel	4,842	27,838	1,935	245	34,860	11,894	8,923	55,677
Insurance	12,066	26,185	7,796	298	46,345	2,028	596	48,969
Consultants	715	3,881	615	-	5,211	15,676	14,584	35,471
Small equipment, rental, maintenance	16,340	3,842	1,443	6	21,631	2,878	489	24,998
Fundraising and program events	-	-	-	-	-	-	24,662	24,662
Taxes and licenses	6,358	5,819	5,419	-	17,596	631	5,170	23,397
Interest	12,983	-	7,163	-	20,146	-	-	20,146
Repairs and maintenance	9,918	2,635	3,412	-	15,965	2,198	-	18,163
Office supplies	2,357	1,950	853	4	5,164	9,506	1,884	16,554
Other	523	125	84	-	732	382	7,889	9,003
Postage	94	-	-	-	94	6,279	2,402	8,775
Dues and assessments	1,260	401	-	-	1,661	3,614	3,245	8,520
Client recreation and education	1,025	1,435	102	287	2,849	-	-	2,849
Total	$ 1,998,648	$ 7,664,531	$ 523,616	$ 187,755	$ 10,374,550	$ 1,215,093	$ 410,236	$ 11,999,879

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2016 AND 2015

	2015							
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Total*
Personnel:								
Salaries	$ 1,221,165	$ 4,725,753	$ 326,131	$ 190,446	$ 6,463,495	$ 580,284	$ 273,261	$ 7,317,040
Benefits and payroll taxes	394,793	1,096,837	115,240	42,040	1,648,910	159,812	34,354	1,843,076
Total personnel expenses	1,615,958	5,822,590	441,371	232,486	8,112,405	740,096	307,615	9,160,116
Rent	21,266	12,520	-	-	33,786	154,030	11,420	199,236
Food, medicine and supplies	95,461	254	26,185	-	121,900	-	2,178	124,078
Professional services	54,492	34,698	-	-	89,190	27,127	4,250	120,567
Automobile	12,395	89,450	4,518	7,866	114,229	978	922	116,129
Quality assurance fees	93,393	-	-	-	93,393	-	-	93,393
Depreciation and amortization	40,677	13,690	16,450	-	70,817	11,674	-	82,491
Telephone and utilities	35,340	13,409	18,176	263	67,188	14,093	1,144	82,425
Bank fees	-	-	-	-	-	61,237	14,316	75,553
Accounting and legal	1,552	-	-	-	1,552	73,876	-	75,428
Printing and advertising	514	1,302	190	69	2,075	8,438	43,730	54,243
Conference, recruiting, training and travel	5,192	30,829	2,686	414	39,121	10,684	3,158	52,963
Insurance	10,750	19,271	7,024	302	37,347	2,021	449	39,817
Fundraising and program events	-	-	-	-	-	-	30,626	30,626
Repairs and maintenance	13,415	8,590	6,771	-	28,776	1,458	-	30,234
Consultants	5,476	2,228	-	-	7,704	3,851	16,882	28,437
Interest	14,984	-	7,376	-	22,360	-	-	22,360
Small equipment, rental, maintenance	7,955	3,806	2,522	6	14,289	6,722	1,117	22,128
Office supplies	2,213	2,874	710	-	5,797	11,494	1,479	18,770
Taxes and licenses	3,789	5,611	5,130	-	14,530	468	2,712	17,710
Postage	-	49	-	-	49	5,823	3,874	9,746
Other	1,606	216	135	112	2,069	748	6,892	9,709
Dues and assessments	1,680	420	37	-	2,137	2,843	525	5,505
Client recreation and education	728	1,952	99	355	3,134	-	-	3,134
Total	$ 2,038,836	$ 6,063,759	$ 539,380	$ 241,873	$ 8,883,848	$ 1,137,661	$ 453,289	$ 10,474,798

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 115,790	$ 139,575
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Investment (gain) loss	4,425	(5,752)
Depreciation and amortization	66,201	82,491
(Increase) decrease in assets:		
Accounts receivable – net	(128,630)	(185,295)
Contributions receivable	18,895	(18,195)
Prepaid expenses and deposits	(3,505)	1,497
Notes and interest receivable – net	(8,901)	(8,863)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(10,887)	40,713
Accrued salaries and vacation	70,734	115,446
Payable to Medi-Cal	(31,937)	32,853
Total adjustments	(23,605)	54,895
Net cash provided by operating activities	92,185	194,470
Cash flows from investing activities:		
Net (increase) decrease in restricted cash	8,224	(377,240)
Net decrease in investments	176,443	5,797
Purchase of fixed assets	(47,305)	(60,982)
Net cash provided by (used in) investing activities	137,362	(432,425)
Cash flows from financing activities:		
Proceeds from line of credit	4,160,766	1,173,152
Payment on line of credit	(4,160,766)	(1,173,152)
Proceeds from mortgage refinancing	10,482	-
Payment of mortgage principal	(8,881)	(11,739)
Bank overdraft	(209,769)	239,584
Net cash provided by (used in) financing activities	(208,168)	227,845
Net increase (decrease) in cash	21,379	(10,110)
Cash, beginning of year	29,024	39,134
Cash, end of year	$ 50,403	$ 29,024
Supplementary information:		
Cash paid for interest	$ 18,348	$ 22,603
Non-cash investing and financing activities:		
Loan refinance	$ 242,518	$ -

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Lifehouse, Inc. is a nonprofit organization with the mission to improve the quality of life of the people they serve 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.

Beginning in late 2014, Lifehouse, Inc. established a limited liability company, Residential Opportunities, LLC that operates a home located in Corte Madera, California. Residential Opportunities, LLC's assets, liabilities, revenues and expenses have been consolidated in the financial statements. Residential Opportunities, LLC did not have any significant activity in 2016 or 2015.

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

Programs

Intermediate Care – Four 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 adaptive skills program, individualized day support services, the Teen Recreation Integration Program as well as awareness training for the greater community.

Lifehouse, Inc. receives revenue from various sources (approximately 88% and 83% of total revenue is obtained from Medi-Cal and the regional centers in 2016 and 2015, 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.

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 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 up to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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 Consolidated 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. The uninsured cash balance, including restricted cash, was approximately $132,357 as of June 30, 2016. 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, 2016 and 2015.

Client Funds Held in Trust

Lifehouse, Inc. is holding client funds in trust in separate bank accounts. The total amount of $10,090 and $12,726 in 2016 and 2015, respectively, is included in *Cash* in the Consolidated 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 consolidated financial statements at the estimated fair market value at the date of receipt. Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature such as skilled and professional-level volunteers. Lifehouse, Inc. would otherwise need to pay for such services. If donated property or services create or enhance a capital asset, they are capitalized and depreciated according to the fixed asset policy.

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 it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. Lifehouse, Inc.'s federal and state information returns for the fiscal years ended June 30, 2012 through 2015 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

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

Subsequent Events

Management has evaluated subsequent events through October 19, 2016, the date on which the consolidated financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2015 financial statements were reclassified to conform to the 2016 presentation for comparative purposes.

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:

	2016		2015	
	Principal	*Interest*	*Principal*	*Interest*
Full amount due, by 2032	$ 91,800	$ 183,413	$ 91,800	$ 175,331
Discount to present value	(22,794)	(51,824)	(24,014)	(51,423)
Net receivable at June 30	$ 69,006	$ 131,589	$ 67,786	$ 123,908

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:

	2016	2015
Land	$ 526,960	$ 526,960
Building and improvements	1,770,738	1,724,539
Furniture and equipment	16,900	16,900
Computer equipment/software	180,864	179,759
Vehicles	301,098	301,098
	2,796,560	2,749,256
Less: accumulated depreciation	(1,838,164)	(1,771,964)
Total property and equipment	$ 958,396	$ 977,292

NOTE 5 – FAIR VALUE MEASUREMENTS

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

	2016		
	Balance as of June 30, 2016	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 145,853	$ 145,853	$ -
Small/mid-capitalization index funds	71,664	71,664	-
S&P 500 growth	32,522	32,522	-
Large value	42,978	42,978	-
Commodities broad-basket	2,072	2,072	-
Foreign large blend	24,889	24,889	-
Diversified emerging market	16,749	16,749	-
Real estate	17,645	17,645	-
Equity energy	1,774	1,774	-
Financial	3,725	3,725	-
Industrials	2,520	2,520	-
Preferred stock	758	758	-
Technology	5,140	5,140	-
Consumer defensive	1,268	1,268	-
Consumer cyclical	3,680	3,680	-
Health	4,015	4,015	-
Natural resources	741	741	-
Total investments [(1)]	$ 377,993	$ 377,993	$ -

[(1)] Total includes $88,140 designated for programs and $289,853 is unrestricted investments.

	Balance as of June 30, 2016	*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	$ 195,042	$ -	$ 195,042
Beneficial interest in assets held by the Foundation – unrestricted	489,600	-	489,600
Total beneficial interest in assets held by the Foundation	$ 684,642	$ -	$ 684,642

	2015		
	Balance as of June 30, 2015	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 198,624	$ 198,624	$ -
Small/mid-capitalization index funds	98,875	98,875	-
S&P 500 growth	52,525	52,525	-
Large value	66,795	66,795	-
Commodities broad-basket	8,154	8,154	-
Foreign large blend	40,471	40,471	-
Diversified emerging market	36,006	36,006	-
Real estate	16,058	16,058	-
Equity energy	2,029	2,029	-
Financial	4,071	4,071	-
Industrials	3,299	3,299	-
Preferred stock	783	783	-
Technology	6,797	6,797	-
Consumer defensive	1,095	1,095	-
Consumer cyclical	3,871	3,871	-
Natural resources	774	774	-
Health	3,647	3,647	-
Communications	522	522	-
Total investments (2)	$ 544,396	$ 544,396	$ -

(2) Total includes $27,649 designated for programs and $516,747 is unrestricted investments.

	Balance as of June 30, 2015	*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	$ 208,040	$ -	$ 208,040
Beneficial interest in assets held by the Foundation – unrestricted	491,067	-	491,067
Total beneficial interest in assets held by the Foundation	$ 699,107	$ -	$ 699,107

Investment income, which includes unrealized and realized gains or losses, interest and dividend income on investments, net of fees, was $7,242 and $16,732 at June 30, 2016 and 2015, 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 Consolidated Statements of Financial Position and reports changes in the value of the Funds as *Investment Income* in the Consolidated Statements of Activities. As of June 30, 2016 and 2015, the unrestricted funds were $489,600 and $491,067, respectively, and permanently restricted funds were $195,042 and $208,040, as of June 30, 2016 and 2015, 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

In February 2015, Lifehouse, Inc. renewed and increased their line of credit, held with a local bank, from $300,000 to $500,000. Prior to the line of credit expiring in February 2016, Lifehouse, Inc. renewed and increased their line of credit in January 2016 to $800,000, of which $-0- was outstanding as of June 30, 2016 and 2015. Advances on the credit line carry an interest rate of prime plus ¾%. As of June 30, 2016, the rate was 4.25%. The line of credit expires on November 5, 2016.

NOTE 7 – NOTES PAYABLE

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

	2016		2015	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
Golden Hinde, SR House 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, was required throughout the loan term through June 2033. Interest expense was $7,054 and $14,984 in 2016 and 2015, respectively. The note was paid in full during 2016 through proceeds from note obtained from Marin Community Foundation.	$ -	$ -	$ -	$ 244,401

	2016		2015	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
4% simple interest loan in the original amount of $253,000 from Marin Community Foundation. Monthly payments of principal and interest totaling $1,208, is required throughout the loan term through November 2025, at which date, a balloon payment of $199,865 is also required. Interest expense was $5,878 in 2016.	-	250,423	-	-
Laurel Place House				
3.750% simple interest loan in the original amount of $209,350 from the Union Bank. Monthly payments of principal and interest totaling $970, is required throughout the loan term through October 2042. Interest expense was $7,214 and $7,376 for 2016 and 2015, respectively.	-	189,953	-	194,374
Total	-	440,376	-	438,775
Less: current portion	-	(9,150)	-	(12,115)
Long-term portion	$ -	$ 431,226	$ -	$ 426,660

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

2017	$ 9,150
2018	9,511
2019	9,886
2020	10,276
2021	10,681

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.

Interpretation of Relevant Law

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

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, 2016 and 2015 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
June 30, 2014	$ -	$ 28,592	$ 187,716	$ 216,308
Contribution	-	-	1,000	1,000
Investment income, net of expenses	-	803	-	803
June 30, 2015	-	29,395	188,716	218,111
Contribution	-	-	-	-
Investment income (loss), net of expenses	-	(3,097)	-	(3,097)
June 30, 2016	$ -	$ 26,298	$ 188,716	$ 215,014

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, 2016 and 2015.

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 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		13,516	96-month lease expiring March 2020. Annual increases of 3% plus pro rata share of operating expenses.

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

As the Nova and Stonehaven leases are based on client occupancy, these bases have not been included in the minimum lease payment calculation. Future minimum lease payments on 899 Northgate Boulevard lease are as follows:

2017	$ 165,236
2018	170,138
2019	175,188
2020	134,751
2021	1,370
	$ 646,683

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes:

	2016			
	June 30, 2015	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2016*
Program:				
Autism work	$ 8,500	$ 55,705	$ (63,734)	$ 471
Repairs and maintenance	4,000	52,000	(49,000)	7,000
Investment income (loss) – endowment	29,395	(3,097)	-	26,298
Bequest for specific care	379,409	2,761	(116)	382,054
Film Grant and Communication Technology Center	16,250	65,000	(26,250)	55,000
Other	-	6,960	(960)	6,000
	$ 437,554	$ 179,329	$ (140,060)	$ 476,823

	2015			
	June 30, 2014	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2015*
Program:				
Autism work	$ 5,000	$ 33,628	$ (30,128)	$ 8,500
Repairs and maintenance	36,950	17,500	(50,450)	4,000
Investment income – endowment	28,592	803	-	29,395
Bequest for specific care	-	390,611	(11,202)	379,409
Film Grant	-	19,250	(3,000)	16,250
Other	264	100	(364)	-
	$ 70,806	$ 461,892	$ (95,144)	$ 437,554

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, 2016 and 2015 was $105,700 and $96,841, 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 $50,336 and $52,144 during 2016, respectively, and $50,204 and $52,120 during 2015, respectively. The amounts are included in *Other Income* in the accompanying Consolidated Statements of Activities.

NOTE 13 – COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS

Notes Receivable

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

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.

LINDQUIST
VON HUSEN
& JOYCE LLP

James M. Kraft
S. Scott Seamands
Mark O. Brittain
Alexis H. Wong
Charlotte Siew-Kun Tay
Cathy L. Hwang
Rita B. Dela Cruz
Stanley Woo

Scott K. Smith

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 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, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 19, 2016.

Internal Control Over Financial Reporting

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

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

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

BKR INTERNATIONAL
Certified Public Accountants, 90 New Montgomery, IIth Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 Email mail@lvhj.com http://www.lvhj.com
An Independent Member Firm of BKR International with Associates in Principal Cities Worldwide

Compliance and Other Matters

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

Purpose of This Report

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

Lindquist, von Husen and Joyce LLP

October 19, 2016