



*(A California Nonprofit Public Benefit Corporation)*

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
YEARS ENDED JUNE 30, 2015 AND 2014**

LIFEHOUSE, INC.  
(A California Nonprofit Public Benefit Corporation)  
FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2015 AND 2014

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Board of Directors  
Lifehouse, Inc.  
San Rafael, California

**INDEPENDENT AUDITOR’S REPORT**

Report on the Financial Statements

We have audited the accompanying financial statements of Lifehouse, Inc., a California nonprofit public benefit corporation, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lifehouse, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2015 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 Hoven and Joyce LLP*

November 10, 2015

LIFEHOUSE, INC.  
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash	\$ 16,298	\$ 39,134
Accounts receivable – net	862,460	677,165
Contributions receivable	18,895	700
Prepaid expenses	33,149	34,646
Total current assets	930,802	751,645
Restricted cash:		
Programs	390,581	12,460
Board-designated	-	881
Investments (Note 5):		
Programs	17,578	29,754
Board-designated	-	508,444
Unrestricted	526,818	-
Beneficial interest in assets held by the Foundation (Note 5):		
Board-designated	-	489,042
Unrestricted	491,067	-
Endowment	208,040	216,308
Deposits	16,269	16,269
Notes receivable – net (Note 3)	67,786	66,587
Interest receivable – net (Note 3)	123,908	116,244
Property and equipment – net (Note 4)	977,292	998,801
Total assets	\$ 3,750,141	\$ 3,206,435
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Bank overdraft	\$ 226,858	\$ -
Accounts payable and accrued expenses	121,327	80,614
Accrued salaries	208,514	160,900
Accrued vacation	300,948	233,116
Payable to Medi-Cal	64,768	31,915
Notes payable – current portion (Note 7)	12,115	11,496
Total current liabilities	934,530	518,041
Notes payable – net of current portion (Note 7)	426,660	439,018
Total liabilities	1,361,190	957,059
Net assets:		
Unrestricted	1,762,681	992,487
Unrestricted – board-designated (Note 2)	-	998,367
Temporarily restricted (Note 10)	437,554	70,806
Permanently restricted (Note 8)	188,716	187,716
Total net assets	2,388,951	2,249,376
Total liabilities and net assets	\$ 3,750,141	\$ 3,206,435

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

LIFEHOUSE, INC.  
*(A California Nonprofit Public Benefit Corporation)*  
 STATEMENTS OF ACTIVITIES  
 YEARS ENDED JUNE 30, 2015 AND 2014

	2015				2014			
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Revenue:								
Client fees	\$ 9,253,808	\$ -	\$ -	\$ 9,253,808	\$ 7,489,739	\$ -	\$ -	\$ 7,489,739
Investment income (Note 5)	19,203	803	-	20,006	124,552	24,527	-	149,079
Other income (Note 12)	125,952	-	-	125,952	127,580	-	-	127,580
Total revenue	9,398,963	803	-	9,399,766	7,741,871	24,527	-	7,766,398
Support:								
Contributions	507,847	461,089	1,000	969,936	460,496	106,224	-	566,720
Sales of donated good – net of direct expenses of \$84,136 in 2014	-	-	-	-	17,940	-	-	17,940
In-kind donations	83,883	-	-	83,883	74,589	-	-	74,589
Special events – net of direct donor benefits of \$153,682 in 2015 and \$170,371 in 2014	164,062	-	-	164,062	69,434	-	-	69,434
Net assets released from restrictions	95,144	(95,144)	-	-	76,797	(76,797)	-	-
Total support	850,936	365,945	1,000	1,217,881	699,256	29,427	-	728,683
Total revenue and support	10,249,899	366,748	1,000	10,617,647	8,441,127	53,954	-	8,495,081
Expenses:								
Program services:								
Intermediate Care	2,038,836	-	-	2,038,836	1,992,967	-	-	1,992,967
Community Living	6,063,759	-	-	6,063,759	4,077,375	-	-	4,077,375
Independent Living	539,380	-	-	539,380	517,983	-	-	517,983
Other programs	241,873	-	-	241,873	228,696	-	-	228,696
General and administrative	1,140,935	-	-	1,140,935	1,015,497	-	-	1,015,497
Fundraising	453,289	-	-	453,289	392,875	-	-	392,875
Total expenses	10,478,072	-	-	10,478,072	8,225,393	-	-	8,225,393
Change in net assets	(228,173)	366,748	1,000	139,575	215,734	53,954	-	269,688
Net assets, beginning of year	1,990,854	70,806	187,716	2,249,376	1,775,120	16,852	187,716	1,979,688
Net assets, end of year	\$ 1,762,681	\$ 437,554	\$ 188,716	\$ 2,388,951	\$ 1,990,854	\$ 70,806	\$ 187,716	\$ 2,249,376

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

LIFEHOUSE, INC.  
(A California Nonprofit Public Benefit Corporation)  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2015 AND 2014

	2015							
	<i>Intermediate Care</i>	<i>Community Living</i>	<i>Independent Living</i>	<i>Other Programs</i>	<i>Total Programs</i>	<i>General &amp; Administrative</i>	<i>Fundraising</i>	<i>Total</i>
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	-	-	-	-	-	64,511	14,316	78,827
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	\$ 1,140,935	\$ 453,289	\$ 10,478,072

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

LIFEHOUSE, INC.  
(A California Nonprofit Public Benefit Corporation)  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2015 AND 2014

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

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



LIFEHOUSE, INC.  
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 139,575	\$ 269,688
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Investment gain	(9,026)	(140,248)
Depreciation and amortization	82,491	89,625
Loss on disposal of fixed assets	-	221
(Increase) decrease in assets:		
Accounts receivable – net	(185,295)	(124,857)
Contributions receivable	(18,195)	1,269
Prepaid expenses and deposits	1,497	(1,073)
Notes and interest receivable – net	(8,863)	(8,792)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	40,713	(61,414)
Accrued salaries and vacation	115,446	17,696
Payable to Medi-Cal	32,853	(7,189)
Total adjustments	51,621	(234,762)
Net cash provided by operating activities	191,196	34,926
Cash flows from investing activities:		
Net (increase) decrease in restricted cash	(377,240)	74,770
Net (increase) decrease in investments	9,071	(69,678)
Purchase of fixed assets	(60,982)	(26,143)
Net cash used in investing activities	(429,151)	(21,051)
Cash flows from financing activities:		
Proceeds from line of credit	1,173,152	889,970
Payment on line of credit	(1,173,152)	(889,970)
Payment of mortgage principal	(11,739)	(10,911)
Bank overdraft	226,858	-
Net cash provided by (used in) financing activities	215,119	(10,911)
Net increase (decrease) in cash	(22,836)	2,964
Cash, beginning of year	39,134	36,170
Cash, end of year	\$ 16,298	\$ 39,134
Supplementary information:		
Cash paid for interest	\$ 22,603	\$ 23,162
Non-cash investing and financing activities:		
Assets acquired by assuming current liabilities	\$ -	\$ 5,702

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

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

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

Programs

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

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

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

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

Lifehouse, Inc. receives revenue from various sources (approximately 83% of total revenue is obtained from Medi-Cal and the regional centers in 2015 and 2014) for services provided to clients. However, the cost of providing such services exceeds the mandated revenue. As such, contributions, sales of donated goods and proceeds from fundraising events provide funding to support the cost of Lifehouse, Inc.'s programs.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accounting Method

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

Estimates

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

Basis of Presentation

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

In November 2014, the board of directors authorized the release of the total amount of board-designated assets to unrestricted assets, to be used for Lifehouse, Inc.'s programs.

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Revenue Recognition

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

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

Contributions

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

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Lifehouse, Inc. occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance, including restricted cash, was approximately \$129,700 as of June 30, 2015. 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, 2015 and 2014.

Client Funds Held in Trust

Lifehouse, Inc. is holding client funds in trust in separate bank accounts. The total amount of \$- and \$1,457 in 2015 and 2014, respectively, is included in *Cash* in the Statements of Financial Position.

Investments

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

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

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

LIFEHOUSE, INC.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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

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

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

Property and Equipment and Intangible Assets

Property and equipment is stated at cost of acquisition or fair value if donated. Assets costing at least \$1,500 (and all computers), or have an estimated useful life over a year, are capitalized. The cost of maintenance and repairs is charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Building and improvements	10 to 30 years
Furniture and equipment	5 years
Computer equipment/software	5 years
Vehicles	8 years

In-kind Donations

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

Sales of Donated Goods

Lifehouse, Inc. directly operated a salvage program through December 2011 whereby the organization solicits donations of household discards, then sells the donated goods to a third-party retailer. In December 2011, Lifehouse, Inc. signed an agreement with ReUseIt, for the operation and management of Lifehouse, Inc.'s salvage program including the supply of all personnel and equipment to perform all activities related to this program. All donated goods solicited by ReUseIt are delivered to a designated third-party retailer, Norquist Salvage Corporation (Norquist), based on an agreement entered into between Lifehouse, Inc. and Norquist. Lifehouse, Inc. received \$630 per cart of donated goods delivered to Norquist for the year ended June, 30 2014. On the other hand, Lifehouse, Inc. paid \$520 per cart to ReUseIt in consideration for their services for the year ended June 30, 2014. Direct expenses were recorded as a contra-revenue, while other costs of this activity, if any, were classified as fundraising expenses. The agreement with ReUseIt expired on November 30, 2013 without any renewal. For the year ended June, 30 2015, Lifehouse, Inc., did not have an operating salvage program.

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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 financial statements. Lifehouse, Inc.'s federal and state information returns for the fiscal years ended 2011 through 2014 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

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

Subsequent Events

Management has evaluated subsequent events through November 10, 2015, the date on which the financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2014 financial statements were reclassified to conform to the 2015 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:

	2015		2014	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
Full amount due, by 2032	\$ 91,800	\$ 175,331	\$ 91,800	\$ 167,249
Discount to present value	(24,014)	(51,423)	(25,213)	(51,005)
Net receivable at June 30	\$ 67,786	\$ 123,908	\$ 66,587	\$ 116,244

LIFEHOUSE, INC.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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:

	<u>Collateralized</u>	<u>Uncollateralized</u>	<u>Past Due</u>	<u>Allowance</u>	<u>Net</u>
Related party	\$ -	\$ -	\$ -	\$ -	\$ -
Non-related party	91,800	-	-	-	91,800
Total	<u>\$ 91,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,800</u>

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 526,960	\$ 526,960
Building and improvements	1,724,539	1,669,462
Furniture and equipment	16,900	15,456
Computer equipment/software	179,759	176,573
Vehicles	301,098	300,012
	<u>2,749,256</u>	<u>2,688,463</u>
Less: accumulated depreciation	<u>(1,771,964)</u>	<u>(1,689,662)</u>
Total property and equipment	<u>\$ 977,292</u>	<u>\$ 998,801</u>

## LIFEHOUSE, INC.

*(A California Nonprofit Public Benefit Corporation)*

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

**NOTE 5 – FAIR VALUE MEASUREMENTS**

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

	<i>2015</i>		
	<i>Balance as of June 30, 2015</i>	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>
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 <sup>(1)</sup>	<u>\$ 544,396</u>	<u>\$ 544,396</u>	<u>\$ -</u>

<sup>(1)</sup> Total includes \$17,578 designated for programs and \$526,818 is unrestricted investments.

	<i>Quoted Prices in</i>		
	<i>Balance as of June 30, 2015</i>	<i>Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>
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	<u>\$ 699,107</u>	<u>\$ -</u>	<u>\$ 699,107</u>

## LIFEHOUSE, INC.

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## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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

<sup>(1)</sup> Total includes \$29,754 designated for programs and \$508,444 board-designated.

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

Investment income, which includes unrealized and realized gains or losses, interest and dividend income on investments, net of fees, was \$20,006 and \$149,079 at June 30, 2015 and 2014, respectively.

During the year ended June 30, 2013, Lifehouse, Inc. transferred some unrestricted and endowed assets to Marin Community Foundation (the Foundation), a nonprofit organization, for the purpose of holding them as agency funds (Funds) for the benefit of Lifehouse, Inc. Variance power has been granted to the Foundation which gives the Foundation's Board of Trustees power to redirect distributions of income to another nonprofit organization in the event that Lifehouse, Inc. ceases to exist or if the Foundation's Board of Trustees determines that support to Lifehouse, Inc. is no longer practical. Additionally, the Funds are subject to the Foundation's investment and spending policies and, with recommendations from Lifehouse, Inc., the Foundation will determine when distributions will be made from the Funds. Lifehouse, Inc. reports the fair value of the Funds as *Beneficial Interest in Assets Held by the Foundation* in the Statements of Financial Position and reports distributions received and changes in the value of the Funds are reported as *Investment Income* in the Statements of Activities. As of June 30, 2015, the balance was \$491,067 and \$208,040 for unrestricted and permanently restricted funds, respectively.



LIFEHOUSE, INC.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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 \$350,000 to \$500,000, of which \$-0- was outstanding as of June 30, 2015 and 2014. Advances on the credit line carry an interest rate of prime plus ¾%. As of June 30, 2015, the rate was 4%. The line of credit expires on February 5, 2016.

**NOTE 7 – NOTES PAYABLE**

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

	2015		2014	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u>Golden Hinde, SR House</u>				
6.125% simple interest loan in the original amount of \$308,100 from Bank of America. Monthly payments of principal and interest totaling \$1,872, is required throughout the loan term through June 2033. Interest expense was \$14,984 and \$15,656 in 2015 and 2014, respectively. Subsequent to year-end, the note with Bank of America was refinanced with a note with Marin Community Foundation.	\$ -	\$ 244,401	\$ -	\$ 251,882
<u>Laurel Place House</u>				
3.750% simple interest loan in the original amount of \$209,350 from the Union Bank. Monthly payments of principal and interest totaling \$970, is required throughout the loan term through October 2042. Interest expense was \$7,376 and \$7,532 for 2015 and 2014, respectively.	-	194,374	-	198,632
Total	-	438,775	-	450,514
Less: current portion	-	(12,115)	-	(11,496)
Long-term portion	\$ -	\$ 426,660	\$ -	\$ 439,018

LIFEHOUSE, INC.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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

2016	\$	12,115
2017		12,768
2018		13,458
2019		14,608
2020		14,975

**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.

LIFEHOUSE, INC.  
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 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2015 AND 2014

Changes in endowment net assets for the fiscal years ended June 30, 2015 and 2014 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
June 30, 2013	\$ -	\$ 4,065	\$ 187,716	\$ 191,781
Investment income	-	24,527	-	24,527
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

*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, 2015 and 2014.

*Return Objectives and Risk Parameters*

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

*Strategies Employed for Achieving Objectives*

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

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

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

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

LIFEHOUSE, INC.  
(A California Nonprofit Public Benefit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2015 AND 2014

**NOTE 9 – LEASES**

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

<i>Real Property</i>	<i>Monthly Rent</i>	<i>Terms</i>
Nova	\$ 1,713	Agreement and rent determined per HUD regulations.
Stonehaven	1,658	Agreement and rent determined per HUD regulations.
899 Northgate Boulevard	13,122	96-month lease expiring March 2020. Annual increases of 3% plus pro rata share of operating expenses.
Rohnert Park	700	One-year sublease lease expiring October 2015.

<i>Equipment</i>	<i>Monthly Rent</i>	<i>Terms</i>
Postage meter	\$ 148	63-month lease to June 30, 2016.

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

2016	\$ 163,222
2017	163,410
2018	168,312
2019	173,362
2020	132,925
	<u>\$ 801,231</u>

**NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS**

The temporarily restricted net assets are for the following purposes:

	2015			
	<i>June 30, 2014</i>	<i>Contributions and Interest</i>	<i>Releases from Restrictions</i>	<i>June 30, 2015</i>
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)	-
	<u>\$ 70,806</u>	<u>\$ 461,892</u>	<u>\$ (95,144)</u>	<u>\$ 437,554</u>

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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

**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, 2015 and 2014 was \$96,841 and \$86,356, 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 \$50,204 and \$52,120 during 2015, respectively, and \$50,152 and \$52,301 during 2014, respectively. The amounts are included in *Other Income* in the accompanying Statements of Activities.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS**

*Receivable from the State of California*

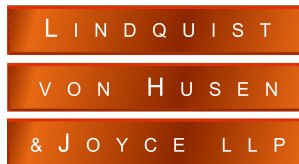
During the year ended June 30, 2012, Lifehouse, Inc. agreed to a settlement with the State of California for amounts previously invoiced and considered uncollectible totaling \$129,523. During the years ended June 30, 2015 and 2014, Lifehouse, Inc. collected \$-0- and \$9,324, respectively. The amount is included in *Other Income* in the accompanying Statements of Activities. A cumulative amount of \$74,437 has been collected through June 30, 2015.

*Notes Receivable*

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

*Real Estate Liens*

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



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SCOTT K. SMITH

Board of Directors  
Lifehouse, Inc.  
San Francisco, California

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lifehouse, Inc., which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2015.

*Internal Control Over Financial Reporting*

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

*Lindquist, von Hoven and Joyce LLP*

November 10, 2015