lifehouse

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2017 AND 2016

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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Board of Directors
Lifehouse, Inc.
San Rafael, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lifehouse, Inc., a California nonprofit public benefit corporation, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lifehouse, Inc. as of June 30, 2017 and 2016, 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 20, 2017 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 20, 2017

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash	$ 541,665	$ 50,403
Accounts receivable – net	1,194,757	991,090
Contributions receivable	134,075	-
Prepaid expenses	28,237	36,654
Total current assets	1,898,734	1,078,147
Restricted cash:		
Programs	385,161	382,357
Investments (Note 5):		
Programs	97,276	88,140
Unrestricted	322,913	289,853
Beneficial interest in assets held by the Foundation (Note 5):		
Unrestricted	532,870	489,600
Endowment	207,992	195,042
Deposits	16,269	16,269
Notes receivable – net (Note 3)	70,248	69,006
Interest receivable – net (Note 3)	118,847	131,589
Property and equipment – net (Note 4)	911,293	958,396
Total assets	$ 4,561,603	$ 3,698,399
LIABILITIES AND NET ASSETS		
Current liabilities:		
Bank overdraft	$ -	$ 29,815
Accounts payable and accrued expenses	144,089	110,440
Accrued salaries	325,440	237,117
Accrued vacation	380,549	343,079
Payable to Medi-Cal	25,896	32,831
Notes payable – current portion (Note 7)	9,512	9,150
Total current liabilities	885,486	762,432
Notes payable – net of current portion (Note 7)	421,713	431,226
Total liabilities	1,307,199	1,193,658
Net assets:		
Unrestricted	2,440,225	1,839,202
Temporarily restricted (Note 10)	624,463	476,823
Permanently restricted (Note 8)	189,716	188,716
Total net assets	3,254,404	2,504,741
Total liabilities and net assets	$ 4,561,603	$ 3,698,399

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, 2017 AND 2016

	2017				2016			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Revenue:								
Client fees	$ 12,823,603	$ -	$ -	$ 12,823,603	$ 11,099,146	$ -	$ -	$ 11,099,146
Investment income (Note 5)	91,905	22,485	-	114,390	10,339	(3,097)	-	7,242
Other income (Note 12)	105,790	-	-	105,790	115,456	-	-	115,456
Total revenue	13,021,298	22,485	-	13,043,783	11,224,941	(3,097)	-	11,221,844
Support:								
Contributions	529,107	325,773	1,000	855,880	496,526	182,426	-	678,952
In-kind donations	133,075	-	-	133,075	128,581	-	-	128,581
Special events – net of direct donor benefits of $176,805 in 2017 and $174,312 in 2016	74,156	-	-	74,156	86,292	-	-	86,292
Net assets released from restrictions	200,618	(200,618)	-	-	140,060	(140,060)	-	-
Total support	936,956	125,155	1,000	1,063,111	851,459	42,366	-	893,825
Total revenue and support	13,958,254	147,640	1,000	14,106,894	12,076,400	39,269	-	12,115,669
Expenses:								
Program services:								
Intermediate Care	1,722,936	-	-	1,722,936	1,998,648	-	-	1,998,648
Community Living	9,171,856	-	-	9,171,856	7,664,531	-	-	7,664,531
Independent Living	598,251	-	-	598,251	523,616	-	-	523,616
Other programs	95,704	-	-	95,704	187,755	-	-	187,755
General and administrative	1,253,713	-	-	1,253,713	1,215,093	-	-	1,215,093
Fundraising	514,771	-	-	514,771	410,236	-	-	410,236
Total expenses	13,357,231	-	-	13,357,231	11,999,879	-	-	11,999,879
Change in net assets	601,023	147,640	1,000	749,663	76,521	39,269	-	115,790
Net assets, beginning of year	1,839,202	476,823	188,716	2,504,741	1,762,681	437,554	188,716	2,388,951
Net assets, end of year	$ 2,440,225	$ 624,463	$ 189,716	$ 3,254,404	$ 1,839,202	$ 476,823	$ 188,716	$ 2,504,741

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, 2017 AND 2016

	2017							
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Total*
Personnel:								
Salaries	$ 1,069,563	$ 7,157,566	$ 376,545	$ 72,979	$ 8,676,653	$ 626,143	$ 293,889	$ 9,596,685
Benefits and payroll taxes	324,405	1,719,680	115,446	8,899	2,168,430	173,683	48,386	2,390,499
Total personnel expenses	1,393,968	8,877,246	491,991	81,878	10,845,083	799,826	342,275	11,987,184
Rent	32,888	13,530	-	-	46,418	163,861	3,113	213,392
Printing and advertising	6,545	36,664	4,328	4,041	51,578	8,539	69,997	130,114
Travel and fleet expenses	6,900	90,599	4,285	2,001	103,785	880	1,222	105,887
Food, medicine and HM supplies	66,748	1,489	26,551	-	94,788	-	1,211	95,999
Accounting and legal	-	470	-	-	470	95,333	-	95,803
Bank and payroll fees	-	-	-	-	-	80,757	11,506	92,263
Quality assurance fees	88,075	-	-	-	88,075	-	-	88,075
Professional services	41,980	10,542	113	-	52,635	150	20,000	72,785
Conference, recruiting and training	4,143	34,665	2,050	393	41,251	13,505	10,120	64,876
Utilities and telephone	19,721	14,120	19,794	471	54,106	7,455	1,251	62,812
Depreciation and amortization	15,743	22,839	17,094	-	55,676	6,142	-	61,818
Insurance	11,579	30,392	7,344	1,021	50,336	3,117	1,123	54,576
Small equipment, rental, maintenance	4,755	7,863	1,364	3,333	17,315	18,267	580	36,162
Office supplies	1,333	3,309	755	1,520	6,917	14,789	8,383	30,089
Repairs and maintenance	9,931	8,974	7,956	-	26,861	930	-	27,791
Other	1,284	314	-	-	1,598	17,535	5,689	24,822
Fundraising and program events	-	-	-	-	-	1,435	22,369	23,804
Consultants	254	3,301	295	715	4,565	9,279	5,797	19,641
Taxes and licenses	2,756	8,404	5,388	-	16,548	625	2,385	19,558
Interest	9,934	-	7,045	-	16,979	-	-	16,979
Client recreation and education	2,925	6,694	1,898	331	11,848	-	-	11,848
Postage	214	40	-	-	254	7,078	3,280	10,612
Dues and memberships	1,260	401	-	-	1,661	4,210	4,470	10,341
Total	$ 1,722,936	$ 9,171,856	$ 598,251	$ 95,704	$ 11,588,747	$ 1,253,713	$ 514,771	$ 13,357,231

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, 2017 AND 2016

	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
Printing and advertising	4,348	15,764	2,076	1,558	23,746	10,293	47,216	81,255
Travel and fleet expenses	9,448	105,259	3,223	6,498	124,428	837	909	126,174
Food, medicine and HM supplies	93,840	-	23,669	-	117,509	-	396	117,905
Accounting and legal	1,038	-	-	-	1,038	118,906	-	119,944
Bank and payroll 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
Conference, recruiting and training	4,842	27,838	1,935	245	34,860	11,894	8,923	55,677
Utilities and telephone	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
Insurance	12,066	26,185	7,796	298	46,345	2,028	596	48,969
Small equipment, rental, maintenance	16,340	3,842	1,443	6	21,631	2,878	489	24,998
Office supplies	2,357	1,950	853	4	5,164	9,506	1,884	16,554
Repairs and maintenance	9,918	2,635	3,412	-	15,965	2,198	-	18,163
Other	523	125	84	-	732	382	7,889	9,003
Fundraising and program events	-	-	-	-	-	-	24,662	24,662
Consultants	715	3,881	615	-	5,211	15,676	14,584	35,471
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
Client recreation and education	1,025	1,435	102	287	2,849	-	-	2,849
Postage	94	-	-	-	94	6,279	2,402	8,775
Dues and memberships	1,260	401	-	-	1,661	3,614	3,245	8,520
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 CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 749,663	$ 115,790
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Investment (gain) loss	(95,191)	4,425
Depreciation and amortization	61,818	66,201
(Increase) decrease in assets:		
Accounts receivable – net	(203,667)	(128,630)
Contributions receivable	(134,075)	18,895
Prepaid expenses and deposits	8,417	(3,505)
Notes and interest receivable – net	11,500	(8,901)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	33,649	(10,887)
Accrued salaries and vacation	125,793	70,734
Payable to Medi-Cal	(6,935)	(31,937)
Total adjustments	(198,691)	(23,605)
Net cash provided by operating activities	550,972	92,185
Cash flows from investing activities:		
Net (increase) decrease in restricted cash	(2,804)	8,224
Net decrease in investments	(3,225)	176,443
Purchase of fixed assets	(14,715)	(47,305)
Net cash provided by (used in) investing activities	(20,744)	137,362
Cash flows from financing activities:		
Proceeds from line of credit	137,762	4,160,766
Payment on line of credit	(137,762)	(4,160,766)
Proceeds from mortgage refinancing	-	10,482
Payment of mortgage principal	(9,151)	(8,881)
Bank overdraft	(29,815)	(209,769)
Net cash used in financing activities	(38,966)	(208,168)
Net increase in cash	491,262	21,379
Cash, beginning of year	50,403	29,024
Cash, end of year	$ 541,665	$ 50,403
Supplementary information:		
Cash paid for interest	$ 16,979	$ 18,348
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.

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

Programs

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

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

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

Other Programs – Includes the 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% of total revenue is obtained from Medi-Cal and the regional centers annually in 2017 and 2016) 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

Principles of Consolidation

The consolidated financial statements include the accounts of Lifehouse, Inc. and Residential Opportunities, LLC, which is commonly controlled by Lifehouse's Board of Directors. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

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 $383,700 as of June 30, 2017. 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, 2017 and 2016.

Client Funds Held in Trust

Lifehouse, Inc. is holding client funds in trust in separate bank accounts. The total amount of $10,787 and $10,090 in 2017 and 2016, 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, 2013 through 2016 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 20, 2017, the date on which the consolidated financial statements were available to be issued.

NOTE 3 – NOTES AND INTEREST RECEIVABLE

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

	2017		2016	
	Principal	*Interest*	*Principal*	*Interest*
Full amount due, by 2032	$ 91,800	$ 171,088	$ 91,800	$ 183,413
Discount to present value	(21,552)	(52,241)	(22,794)	(51,824)
Net receivable at June 30	$ 70,248	$ 118,847	$ 69,006	$ 131,589

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:

	2017	2016
Land	$ 526,960	$ 526,960
Building and improvements	1,752,464	1,770,738
Furniture and equipment	18,005	16,900
Computer equipment/software	156,878	180,864
Vehicles	277,894	301,098
	2,732,201	2,796,560
Less: accumulated depreciation	(1,820,908)	(1,838,164)
Total property and equipment	$ 911,293	$ 958,396

NOTE 5 – FAIR VALUE MEASUREMENTS

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

	2017		
	Balance as of June 30, 2017	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 156,220	$ 156,220	$ -
Small/mid-capitalization index funds	76,427	76,427	-
S&P 500 growth	36,265	36,265	-
Large value	36,841	36,841	-
Commodities broad-basket	8,916	8,916	-
Foreign large blend	30,205	30,205	-
Diversified emerging market	25,315	25,315	-
Real estate	25,549	25,549	-
Equity energy	844	844	-
Financial	4,021	4,021	-
Industrials	3,065	3,065	-
Technology	5,070	5,070	-
Consumer defensive	1,428	1,428	-
Consumer cyclical	3,764	3,764	-
Health	4,754	4,754	-
Natural resources	861	861	-
Communications	644	644	-
Total investments (1)	$ 420,189	$ 420,189	$ -

(1) Total includes $97,276 designated for programs and $322,913 unrestricted investments.

	Balance as of June 30, 2017	*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	$ 207,992	$ -	$ 207,992
Beneficial interest in assets held by the Foundation – unrestricted	532,870	-	532,870
Total beneficial interest in assets held by the Foundation	$ 740,862	$ -	$ 740,862

	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 [(2)]	$ 377,993	$ 377,993	$ -

[(2)] Total includes $88,140 designated for programs and $289,853 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

Investment income, which includes unrealized and realized gains or losses, interest and dividend income on investments, net of fees, was $114,390 and $7,242 at June 30, 2017 and 2016, 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. The unrestricted funds were $532,870 and $489,600, respectively, and permanently restricted funds were $207,992 and $195,042, as of June 30, 2017 and 2016, 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 January 2016, Lifehouse, Inc. renewed and increased their line of credit, held with a local bank, from $500,000 to $800,000, of which $-0- was outstanding as of June 30, 2017 and 2016. Advances on the credit line carry an interest rate of prime plus ¾%. As of June 30, 2017, the rate was 5%. The line of credit was renewed in October 2016, and now expires on February 5, 2018.

NOTE 7 – NOTES PAYABLE

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

	2017		2016	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
Golden Hinde, SR House 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 $9,934 and $5,878 in 2017 and 2016, respectively.	$ -	$ 245,862	$ -	$ 250,423

	2017		2016	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
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 $7,045 and $7,214 for 2017 and 2016, respectively.	-	185,363	-	189,953
Total	-	431,225	-	440,376
Less: current portion	-	(9,512)	-	(9,150)
Long-term portion	$ -	$ 421,713	$ -	$ 431,226

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

2018	$ 9,512
2019	9,887
2020	10,277
2021	10,683
2022	11,104

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, 2017 and 2016 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
June 30, 2015	$ -	$ 29,395	$ 188,716	$ 218,111
Contribution	-	-	-	-
Investment income, net of expenses	-	(3,097)	-	(3,097)
June 30, 2016	-	26,298	188,716	215,014
Contribution	-	-	1,000	1,000
Distribution for expenditure	-	(8,764)	-	(8,764)
Investment income (loss), net of expenses	-	22,485	-	22,485
June 30, 2017	$ -	$ 40,019	$ 189,716	$ 229,735

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, 2017 and 2016.

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	13,922	96-month lease expiring March 2020. Annual increases of 3% plus pro rata share of operating expenses.
Rohnert Park	790	36-month lease expiring April 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 are as follows:

2018	$ 179,690
2019	185,025
2020	143,157
2021	1,370
2022	-
	$ 509,242

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes:

	2017			
	June 30, 2016	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2017*
Program:				
Autism work	$ 471	$ 83,444	$ (83,915)	$ -
Repairs and maintenance	7,000	57,880	(22,630)	42,250
Investment income (loss) – endowment	26,298	22,485	(8,764)	40,019
Bequest for specific care	382,054	2,804	-	384,858
Film Grant and Technology Center	55,000	102,000	(62,517)	94,483
Wheelchair Accessible Van purchase	-	59,445	-	59,445
Other	6,000	20,200	(22,792)	3,408
	$ 476,823	$ 348,258	$ (200,618)	$ 624,463

	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 Technology Center	16,250	65,000	(26,250)	55,000
Other	-	6,960	(960)	6,000
	$ 437,554	$ 179,329	$ (140,060)	$ 476,823

NOTE 11 – RETIREMENT PLAN

Lifehouse, Inc. terminated its 403(b) retirement plan for its employees in the current year, and initiated a 401(k) plan as of January 1, 2017. Lifehouse, Inc. matches 100% of the first 3% of each eligible participant's deferral, plus an additional 50% of the next 2% contributed by each eligible participant, as defined in the plan. The total plan expense for the years ended June 30, 2017 and 2016 was $165,532 and $105,700, respectively.

NOTE 12 – NOVA AND STONEHAVEN HOMES

Lifehouse, Inc. assisted in establishing Nova and Stonehaven, two group homes. Per HUD requirements, the homes are owned by a separate corporation. Lifehouse, Inc., however, manages the operation of the two homes, receiving client fees as it does with its other homes. The Nova and Stonehaven corporations receive rent from Lifehouse, Inc. and from clients through HUD subsidy, and pay all mortgage and property expenses. Lifehouse, Inc. provides staffing and other services to Nova and Stonehaven homes totaling $48,195 and $50,406 during 2017, respectively, and $50,336 and $52,144 during 2016, 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. Both Nova and Stonehaven generated surplus cash in prior years and obtained approval from HUD to pay interest on these loans. Therefore, payments on interest were received during 2017 totaling $20,407.

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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VON HUSEN
& JOYCE LLP

Board of Directors
Lifehouse, Inc.
San Rafael, California

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to 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, 2017, 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 20, 2017.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lifehouse, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 20, 2017