lifehouse

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2018 AND 2017

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

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LINDQUIST
VON HUSEN
& JOYCE LLP

Board of Directors
Lifehouse, Inc.
San Rafael, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lifehouse, Inc., a California nonprofit public benefit corporation, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

BKR INTERNATIONAL Certified Public Accountants, 90 New Montgomery, 11th Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 http://www.lvhj.com

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, 2018 and 2017, 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 16, 2018 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 16, 2018

LIFEHOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets:		
Cash	$ 406,232	$ 541,665
Accounts receivable	1,414,019	1,194,757
Contributions receivable	70,374	134,075
Prepaid expenses	28,164	28,237
Total current assets	1,918,789	1,898,734
Restricted cash:		
Programs	498,516	385,161
Investments (Note 5)		
Programs	-	97,276
Unrestricted	638,784	322,913
Beneficial interest in assets held by the Foundation (Note 5):		
Unrestricted	557,248	532,870
Endowment	220,516	207,992
Deposits	15,469	16,269
Notes receivable – net (Note 3)	71,512	70,248
Interest receivable – net (Note 3)	131,746	118,847
Property and equipment – net (Note 4)	983,814	911,293
Total assets	$ 5,036,394	$ 4,561,603
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 160,699	$ 144,089
Accrued salaries	363,366	325,440
Accrued vacation	421,400	380,549
Payable to Medi-Cal	46,372	25,896
Notes payable – current portion (Note 7)	9,887	9,512
Total current liabilities	1,001,724	885,486
Notes payable – net of current portion (Note 7)	411,828	421,713
Total liabilities	1,413,552	1,307,199
Net assets:		
Unrestricted	2,837,810	2,440,225
Temporarily restricted (Note 10)	593,816	624,463
Permanently restricted (Note 8)	191,216	189,716
Total net assets	3,622,842	3,254,404
Total liabilities and net assets	$ 5,036,394	$ 4,561,603

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, 2018 AND 2017

	2018				2017			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Revenue:								
Client fees	$ 14,232,525	$ -	$ -	$ 14,232,525	$ 12,823,603	$ -	$ -	$ 12,823,603
Investment and interest income (Note 5 and 8)	71,049	12,525	-	83,574	91,905	22,485	-	114,390
Other income (Note 12)	120,446	-	-	120,446	105,790	-	-	105,790
Total revenue	14,424,020	12,525	-	14,436,545	13,021,298	22,485	-	13,043,783
Support:								
Contributions	565,042	269,878	1,500	836,420	529,107	325,773	1,000	855,880
In-kind donations	89,844	-	-	89,844	133,075	-	-	133,075
Special events – net of direct donor benefits of $208,740 in 2018 and $176,805 in 2017	(47,647)	-	-	(47,647)	74,156	-	-	74,156
Net assets released from restrictions	313,050	(313,050)	-	-	200,618	(200,618)	-	-
Total support	920,289	(43,172)	1,500	878,617	936,956	125,155	1,000	1,063,111
Total revenue and support	15,344,309	(30,647)	1,500	15,315,162	13,958,254	147,640	1,000	14,106,894
Expenses:								
Program services:								
Intermediate Care	1,809,019	-	-	1,809,019	1,722,936	-	-	1,722,936
Community Living	10,544,370	-	-	10,544,370	9,171,856	-	-	9,171,856
Independent Living	601,362	-	-	601,362	598,251	-	-	598,251
Other programs	108,655	-	-	108,655	95,704	-	-	95,704
General and administrative	1,307,006	-	-	1,307,006	1,253,713	-	-	1,253,713
Fundraising	576,312	-	-	576,312	514,771	-	-	514,771
Total expenses	14,946,724	-	-	14,946,724	13,357,231	-	-	13,357,231
Change in net assets	397,585	(30,647)	1,500	368,438	601,023	147,640	1,000	749,663
Net assets, beginning of year	2,440,225	624,463	189,716	3,254,404	1,839,202	476,823	188,716	2,504,741
Net assets, end of year	$ 2,837,810	$ 593,816	$ 191,216	$ 3,622,842	$ 2,440,225	$ 624,463	$ 189,716	$ 3,254,404

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, 2018 AND 2017

	2018							
	Intermediate Care	*Community Living*	*Independent Living*	*Other Programs*	*Total Programs*	*General & Administrative*	*Fundraising*	*Total*
Personnel:								
Salaries	$ 1,129,285	$ 8,263,466	$ 391,331	$ 60,688	$ 9,844,770	$ 731,219	$ 343,066	$ 10,919,055
Benefits and payroll taxes	340,574	1,965,311	109,323	7,810	2,423,018	191,130	61,646	2,675,794
Total personnel expenses	1,469,859	10,228,777	500,654	68,498	12,267,788	922,349	404,712	13,594,849
Rent	36,511	11,817	-	-	48,328	168,424	2,751	219,503
Travel and fleet expenses	10,788	112,519	3,198	2,765	129,270	825	2,722	132,817
Printing and advertising	5,506	32,854	3,686	5,597	47,643	3,545	75,440	126,628
Food, medicine and supplies	68,109	137	27,852	87	96,185	-	844	97,029
Quality assurance fees	95,787	-	-	-	95,787	-	-	95,787
Conference, recruiting and training	4,964	42,408	2,526	3,096	52,994	14,200	12,383	79,577
Bank and payroll fees	-	(15)	-	-	(15)	66,434	12,144	78,563
Utilities and telephone	21,595	17,750	19,003	3,346	61,694	7,666	1,277	70,637
Depreciation and amortization	17,147	18,522	18,298	-	53,967	5,429	-	59,396
Small equipment, rental, maintenance	4,493	11,978	1,511	18,452	36,434	19,022	3,854	59,310
Accounting and legal	-	3,600	-	-	3,600	52,302	-	55,902
Insurance	11,051	30,423	6,750	796	49,020	3,306	1,255	53,581
Professional services	41,493	7,528	-	-	49,021	-	-	49,021
Office supplies	1,910	4,203	876	4,349	11,338	15,067	6,262	32,667
Fundraising and program events	-	-	-	-	-	-	28,525	28,525
Taxes and licenses	2,910	8,645	5,438	484	17,477	776	3,951	22,204
Repairs and maintenance	3,579	9,603	4,301	183	17,666	2,818	-	20,484
Other	995	159	134	-	1,288	6,306	12,530	20,124
Interest	9,748	-	6,870	-	16,618	-	-	16,618
Consultants	385	1,633	28	598	2,644	7,557	2,143	12,344
Postage	-	33	-	29	62	7,060	4,439	11,561
Dues and memberships	1,278	461	12	4	1,755	3,920	1,080	6,755
Client recreation and education	911	1,335	225	371	2,842	-	-	2,842
Total	$ 1,809,019	$ 10,544,370	$ 601,362	$ 108,655	$ 13,063,406	$ 1,307,006	$ 576,312	$ 14,946,724

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, 2018 AND 2017

	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
Travel and fleet expenses	6,900	90,599	4,285	2,001	103,785	880	1,222	105,887
Printing and advertising	6,545	36,664	4,328	4,041	51,578	8,539	69,997	130,114
Food, medicine and supplies	66,748	1,489	26,551	-	94,788	-	1,211	95,999
Quality assurance fees	88,075	-	-	-	88,075	-	-	88,075
Conference, recruiting and training	4,143	34,665	2,050	393	41,251	13,505	10,120	64,876
Bank and payroll fees	-	-	-	-	-	80,757	11,506	92,263
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
Small equipment, rental, maintenance	4,755	7,863	1,364	3,333	17,315	18,267	580	36,162
Accounting and legal	-	470	-	-	470	95,333	-	95,803
Insurance	11,579	30,392	7,344	1,021	50,336	3,117	1,123	54,576
Professional services	41,980	10,542	113	-	52,635	150	20,000	72,785
Office supplies	1,333	3,309	755	1,520	6,917	14,789	8,383	30,089
Fundraising and program events	-	-	-	-	-	1,435	22,369	23,804
Taxes and licenses	2,756	8,404	5,388	-	16,548	625	2,385	19,558
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
Interest	9,934	-	7,045	-	16,979	-	-	16,979
Consultants	254	3,301	295	715	4,565	9,279	5,797	19,641
Postage	214	40	-	-	254	7,078	3,280	10,612
Dues and memberships	1,260	401	-	-	1,661	4,210	4,470	10,341
Client recreation and education	2,925	6,694	1,898	331	11,848	-	-	11,848
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 CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 368,438	$ 749,663
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Investment gain	(55,428)	(95,191)
Depreciation and amortization	59,396	61,818
Gain on disposal of property and equipment	(4,500)	-
(Increase) decrease in assets:		
Accounts receivable – net	(219,262)	(203,667)
Contributions receivable	63,701	(134,075)
Prepaid expenses and deposits	73	8,417
Notes and interest receivable – net	(14,163)	11,500
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	16,610	33,649
Deposit payable	800	-
Accrued salaries and vacation	78,777	125,793
Payable to Medi-Cal	20,476	(6,935)
Total adjustments	(53,520)	(198,691)
Net cash provided by operating activities	314,918	550,972
Cash flows from investing activities:		
Net increase in restricted cash	(113,355)	(2,804)
Net increase in investments	(200,069)	(3,225)
Purchase of fixed assets	(131,917)	(14,715)
Proceeds from disposal of property and equipment	4,500	-
Net cash used in investing activities	(440,841)	(20,744)
Cash flows from financing activities:		
Proceeds from line of credit	168,191	137,762
Payment on line of credit	(168,191)	(137,762)
Payment of mortgage principal	(9,510)	(9,151)
Bank overdraft	-	(29,815)
Net cash used in financing activities	(9,510)	(38,966)
Net (decrease) increase in cash	(135,433)	491,262
Cash, beginning of year	541,665	50,403
Cash, end of year	$ 406,232	$ 541,665
Supplementary information:		
Cash paid for interest	$ 16,618	$ 16,979

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 for people with developmental disabilities in our community by providing a lifetime of compassionate support in an atmosphere of respect, inspiration and purpose. Their programs serve the needs of adults with developmental disabilities such as intellectual disability, autism, cerebral palsy and epilepsy.

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

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 Teen Recreation Integration Program, RecLife and the Adaptive Technology Center.

Lifehouse, Inc. receives revenue from various sources (approximately 90% and 88% of total revenue is obtained from Medi-Cal and the regional centers annually in 2018 and 2017, respectively) for services provided to the people served. However, the cost of providing such services exceeds the mandated revenue. As such, contributions and proceeds from fundraising events provide funding to support the cost of Lifehouse, Inc.'s programs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 consolidated 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. Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

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 $371,900 as of June 30, 2018. 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, 2018 and 2017.

Client Funds Held in Trust

Lifehouse, Inc. is holding client funds in trust in separate bank accounts. The total amount of $14,373 and $10,787 in 2018 and 2017, respectively, is included in *Cash* in the Consolidated Statements of Financial Position.

Investments

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

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

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

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

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

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

Property and Equipment

Property and equipment is stated at cost of acquisition 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, 2014 through 2017 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 16, 2018, the date on which the consolidated financial statements were available to be issued.

Lifehouse, Inc. is in negotiations to purchase a building for use as program facilities. The purchase is dependent on agreement on terms of purchase, release of inspections, appraisal and other contingencies.

In August 2018, Lifehouse, Inc., in collaboration with Marin County Office of Education and Dominican University, opened an inclusive preschool.

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:

	2018		2017	
	Principal	*Interest*	*Principal*	*Interest*
Full amount due, by 2032	$ 91,800	$ 179,170	$ 91,800	$ 171,088
Discount to present value	(20,288)	(47,424)	(21,552)	(52,241)
Net receivable at June 30	$ 71,512	$ 131,746	$ 70,248	$ 118,847

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:

	2018	2017
Land	$ 526,960	$ 526,960
Building and improvements	1,814,968	1,752,464
Furniture and equipment	24,843	18,005
Computer equipment/software	159,876	156,878
Vehicles	290,972	277,894
	2,817,619	2,732,201
Less: accumulated depreciation	(1,833,805)	(1,820,908)
Total property and equipment	$ 983,814	$ 911,293

NOTE 5 – FAIR VALUE MEASUREMENTS

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

	2018		
	Balance as of June 30, 2018	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*
Bonds	$ 266,538	$ 266,538	$ -
Small/mid-capitalization index funds	119,237	119,237	-
S&P 500 growth	57,401	57,401	-
Large value	79,626	79,626	-
Commodities broad-basket	13,587	13,587	-
Foreign large blend	41,656	41,656	-
Diversified emerging market	28,907	28,907	-
Real estate	31,832	31,832	-
Total investments	$ 638,784	$ 638,784	$ -

	Balance as of June 30, 2018	*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	$ 220,516	$ -	$ 220,516
Beneficial interest in assets held by the Foundation – unrestricted	557,248	-	557,248
Total beneficial interest in assets held by the Foundation	$ 777,764	$ -	$ 777,764

	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	$ -	$ -
Beneficial interest in assets held by the Foundation – unrestricted	532,870	-	532,870
Total beneficial interest in assets held by the Foundation	$ 740,862	$ -	$ 532,870

Investment income, which includes unrealized and realized gains or losses, interest and dividend income on investments, net of fees, was $66,537 and $102,643 at June 30, 2018 and 2017, respectively, and is included in investment and interest income in the consolidated statements of activities.

During the year ended June 30, 2013, Lifehouse, Inc. transferred 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 $557,248 and $532,870, respectively, and permanently restricted funds were $220,516 and $207,992, as of June 30, 2018 and 2017, respectively.

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

NOTE 6 – LINE OF CREDIT

Lifehouse, Inc. maintains a line of credit, held with a local bank for up to $800,000, of which $-0- was outstanding as of June 30, 2018 and 2017. Advances on the credit line carry an interest rate of prime plus ¾%. As of June 30, 2018, the rate was 5.25%. The line of credit expires on February 5, 2019.

NOTE 7 – NOTES PAYABLE

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

	2018		2017	
	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 $9,748 and $9,934 in 2018 and 2017, respectively.	$ -	$ 241,116	$ -	$ 245,862
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 $6,870 and $7,045 for 2018 and 2017, respectively.	-	180,599	-	185,363
Total	-	421,715	-	431,225
Less: current portion	-	(9,887)	-	(9,512)
Long-term portion	$ -	$ 411,828	$ -	$ 421,713

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

2019	$ 9,887
2020	10,277
2021	10,683
2022	11,104
2023	11,542

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, 2018 and 2017 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
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
Contribution	-	-	1,500	1,500
Investment income (loss), net of expenses	-	12,525	-	12,525
June 30, 2018	$ -	$ 52,544	$ 191,216	$ 243,760

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, 2018 and 2017.

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		1,705	Agreement and rent determined per HUD regulations.
899 Northgate Drive		14,339	96-month lease expiring March 2020. Annual increases of 3% plus pro rata share of operating expenses.
Rohnert Park		814	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:

2019	$ 185,025
2020	143,157
2021	1,370
2022	-
2023	-
	$ 329,552

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes:

	2018			
	June 30, 2017	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2018*
Program:				
Autism work	$ -	$ 79,464	$ (79,464)	$ -
Repairs and maintenance	42,250	83,046	(53,100)	72,196
Investment income (loss) – endowment	40,019	12,525	-	52,544
Bequest for specific care	384,858	2,829	(131)	387,556
Film Grant and Technology Center	94,483	8,000	(75,555)	26,928
Wheelchair accessible van purchase	59,445	275	(59,720)	-
Marketing	-	80,000	(33,007)	46,993
Other	3,408	16,264	(12,073)	7,599
	$ 624,463	$ 282,403	$ (313,050)	$ 593,816

	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

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, 2018 and 2017 was $227,531 and $165,532, 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 $48,596 and $51,042 during 2018, respectively, and $48,195 and $50,406 during 2017, 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. No interest payments were received for the year ended June 30, 2018.

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, 2018, 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 16, 2018.

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 16, 2018