FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2014 AND 2013

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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LINDQUIST
VON HUSEN
& JOYCE LLP

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

SCOTT K. SMITH

Board of Directors
Family House, Inc. and Affiliates
San Francisco, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Family House, Inc. and Affiliates, California nonprofit public benefit corporations, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated 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 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. 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 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 Email mail@lvhj.com http://www.lvhj.com
AN INDEPENDENT MEMBER FIRM OF BKR INTERNATIONAL WITH ASSOCIATES IN PRINCIPAL CITIES WORLDWIDE

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family House, Inc. and Affiliates as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lindquist, von Husen and Joyce LLP

June 30, 2015

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Current assets:		
Cash	$ 894,200	$ 705,100
Capital campaign receivable – current portion, net (Note 3)	9,366,432	1,609,279
Prepaid expenses	15,013	12,257
Total current assets	10,275,645	2,326,636
Capital campaign receivable – net of current portion (Note 3)	7,339,438	1,800,876
Investments (Note 4)	5,265,034	4,170,422
Restricted cash:		
Endowment (Note 4)	27,219	12,549
Development	6,926,055	3,436,014
Funds held in trust (Note 5)	-	2,400,000
Property held for sale (Note 6)	346,116	-
Property and equipment – net (Note 6)	5,744,212	3,550,359
Development in progress	5,395,006	1,166,472
Total assets	$ 41,318,725	$ 18,863,328
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 70,359	$ 61,660
Development costs payable	-	61,098
Deferred revenue	94,000	84,370
Total liabilities	164,359	207,128
Net assets:		
Unrestricted	15,709,726	7,985,116
Temporarily restricted (Note 7)	24,363,858	9,590,302
Permanently restricted (Note 8)	1,080,782	1,080,782
Total net assets	41,154,366	18,656,200
Total liabilities and net assets	$ 41,318,725	$ 18,863,328

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

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Support and revenue:				
Contributions	$ 8,466,665	$ 14,701,475	$ -	$ 23,168,140
Special events contributions	817,088	-	-	817,088
Special events revenue	943,174	-	-	943,174
Less: cost of special events	(448,626)	-	-	(448,626)
Interest and dividend income	2,464	-	-	2,464
Other income	135	-	-	135
Unrealized gain on investments (Note 4)	163,696	77,081	-	240,777
Net assets released from restrictions	5,000	(5,000)	-	-
Total support and revenue	9,949,596	14,773,556	-	24,723,152
Expenses:				
Program services	1,312,843	-	-	1,312,843
Management and general	287,660	-	-	287,660
Fundraising – general	221,661	-	-	221,661
Fundraising – capital campaign	402,822	-	-	402,822
Total expenses	2,224,986	-	-	2,224,986
Change in net assets	7,724,610	14,773,556	-	22,498,166
Net assets, beginning of year	7,985,116	9,590,302	1,080,782	18,656,200
Net assets, end of year	$ 15,709,726	$ 24,363,858	$ 1,080,782	$ 41,154,366

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

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2013			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Support and revenue:				
Contributions	$ 2,222,629	$ 2,039,227	$ -	$ 4,261,856
Special events contributions	627,748	-	-	627,748
Special events revenue	787,894	-	-	787,894
Less: cost of special events	(356,414)	-	-	(356,414)
Interest and dividend income	2,498	-	-	2,498
Other income	2,362	-	-	2,362
Unrealized gain on investments (Note 4)	305,532	197,509	-	503,041
Net assets released from restrictions	15,000	(15,000)	-	-
Total support and revenue	3,607,249	2,221,736	-	5,828,985
Expenses:				
Program services	1,252,181	-	-	1,252,181
Management and general	282,963	-	-	282,963
Fundraising – general	249,953	-	-	249,953
Fundraising – capital campaign	238,460	-	-	238,460
Total expenses	2,023,557	-	-	2,023,557
Change in net assets	1,583,692	2,221,736	-	3,805,428
Net assets, beginning of year	6,401,424	7,368,566	1,080,782	14,850,772
Net assets, end of year	$ 7,985,116	$ 9,590,302	$ 1,080,782	$ 18,656,200

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

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014					2013				
	Program Services	*Management and General*	*Fundraising – General*	*Fundraising – Capital Campaign*	*Total*	*Program Services*	*Management and General*	*Fundraising – General*	*Fundraising – Capital Campaign*	*Total*
Payroll and related costs	$ 757,210	$ 166,296	$ 133,710	$ 128,070	$ 1,185,286	$ 655,867	$ 183,938	$ 153,230	$ 94,084	$ 1,087,119
Housekeeping and household supplies	102,535	-	-	-	102,535	119,293	-	-	-	119,293
Repairs and maintenance	59,569	-	-	1,755	61,324	54,508	-	-	-	54,508
Utilities	67,248	-	-	2,500	69,748	71,791	-	-	-	71,791
Office expenses	18,896	27,833	2,804	15,788	65,321	28,398	35,725	13,804	9,012	86,939
Telephone	20,737	6,455	-	915	28,107	18,373	-	-	-	18,373
Professional fees	35,910	45,338	24,750	126,994	232,992	29,880	37,567	24,943	63,265	155,655
Credit card and banking fees	-	7,811	25	17,051	24,887	-	-	5,097	9,111	14,208
Advertising and marketing	-	175	7,684	42,404	50,263	-	-	15,750	-	15,750
Bad debts	-	-	-	208	208	-	-	-	(21,612)	(21,612)
Other administrative expenses	18,177	9,635	16,407	5,041	49,260	12,090	4,120	7,452	3,200	26,862
Program	79,654	-	-	-	79,654	70,163	-	-	-	70,163
Insurance and taxes	3,779	19,986	-	4,984	28,749	2,270	18,613	-	-	20,883
Fundraising	-	-	19,340	47,141	66,481	-	-	16,320	70,542	86,862
Travel and meals	5,890	4,131	16,941	9,971	36,933	5,539	3,000	13,357	10,858	32,754
Depreciation	143,238	-	-	-	143,238	152,450	-	-	-	152,450
Loss on retirement of fixed assets	-	-	-	-	-	31,559	-	-	-	31,559
Total expenses as shown on the Statement of Activities	1,312,843	287,660	221,661	402,822	2,224,986	1,252,181	282,963	249,953	238,460	2,023,557
Cost of special events	-	-	448,626	-	448,626	-	-	356,414	-	356,414
Total expenses	$ 1,312,843	$ 287,660	$ 670,287	$ 402,822	$ 2,673,612	$ 1,252,181	$ 282,963	$ 606,367	$ 238,460	$ 2,379,971

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

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 22,498,166	$ 3,805,428
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	143,238	152,450
Loss on retirement of fixed assets	-	31,559
Unrealized gain on investments	(240,777)	(503,041)
(Increase) decrease in assets:		
Contributions receivable	(13,295,715)	680,121
Prepaid expenses	(2,756)	(8,548)
Increase in liabilities:		
Accounts payable and accrued expenses	8,699	9,588
Deferred revenue	9,630	34,770
Net cash provided by operating activities	9,120,485	4,202,327
Cash flows from investing activities:		
Net change in investments	(853,835)	(598,279)
Net change in restricted cash	(3,504,711)	(1,881,902)
Funds held in trust	2,400,000	(800,000)
Purchase of property, equipment and development in progress	(6,911,741)	(985,094)
Net cash used in investing activities	(8,870,287)	(4,265,275)
Cash flows from financing activities:		
Payment of development costs	(61,098)	-
Net cash used in financing activities	(61,098)	-
Increase (decrease) in cash	189,100	(62,948)
Cash, beginning of year	705,100	768,048
Cash, end of year	$ 894,200	$ 705,100
Supplementary information:		
Noncash investing activities:		
Assets acquired by assuming current liabilities	$ -	$ 61,098

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Family House, Inc. (Family House) was formed in 1980. Its mission is to serve as a home away from home for families of children with cancer and other life-threatening illnesses by providing physical comfort and emotional support, free from financial concerns. Family House maintains residential real properties in San Francisco to accomplish this purpose, and serves over two thousand families per year.

Family House operates the following buildings, named Koret Family House, at the following locations:

> *50 Irving Street, San Francisco, CA* – Purchased in 1981 and located directly across from the University of California San Francisco Medical Center (UCSF). The residence has ten family bedrooms plus group kitchens and family rooms. The corporate offices are also at this location. Family House entered into a contract to sell this building in 2015 (see Note 6).
>
> *1234 Tenth Avenue, San Francisco, CA* – This three-story property is located near UCSF and across from Golden Gate Park. It was purchased in 2001 and two stories became operational in November 2002 with the remainder placed in service in early 2003. It has 24 family bedrooms plus group kitchens and family rooms. FH mounted a capital campaign to retire the debt and provide funds for the renovations.

In 2014, Family House formed Family House Foundation, Inc. (FHF) and Family House Mission Bay, Inc. (FHMB) (collectively, "Family House and Affiliates"), which are California nonprofit public benefit corporations that are incorporated as supporting organizations to support Family House's charitable purposes.

UCSF opened a new hospital in 2015 in the San Francisco Mission Bay area and, as part of the plan, had requested Family House in 2011 to relocate its existing facilities adjacent to the new hospital in order to continue its mission of serving as a home away from home for the families of seriously ill children being treated at UCSF. Family House's Management and Board approved the relocation of Family House's facilities and launched a capital campaign in 2011 to raise funds for the acquisition of land and construction of the new facility (the project). Construction began in 2014 and is expected to be completed in 2016.

Family House is vulnerable to inherent risks associated with revenue that is substantially dependent on contributions and public support. The continued growth and well-being of Family House is contingent upon successful achievement of its long-term revenue raising goals.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Family House and Affiliates. All significant intercompany transactions and balances, if any, have been eliminated in the consolidation.

Accounting Method

Family House and Affiliates use 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Family House records contributions receivable based on its estimate of collectibility. Should such estimate change over the next 12 months, any portion of the currently reported amounts may be deemed uncollectible.

Basis of Presentation

Family House and Affiliates report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated or transferred, whichever is earlier. 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. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as unrestricted support. Contributions restricted for the purchase of long-lived assets are reported as unrestricted support when expended.

Contributions receivable, that are expected to be collected in future years, are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the contributions are received. Amortization of the discounts, if any, is included in contribution revenue. Conditional contributions, if any, are not included as support until the conditions are substantially met.

Family House acquired certain property in prior years for nominal amounts or by charitable contribution. These assets were recorded at their estimated fair value as of the acquisition date, and these amounts may materially differ from current values.

Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature, or if they enhance a non-financial asset.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as funds provided by donors for a specified purpose which are included in temporarily restricted net assets. Family House and Affiliates occasionally maintain cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation or Securities Investor Protection Corporation limit. The uninsured cash and investments balance was approximately $6,911,000 as of December 31, 2014. Family House and FHF have not experienced any losses in such account.

Restricted Cash

Restricted cash includes donor-restricted endowment funds (see Note 4) and cash restricted for the development of the project.

Contributions Receivable

Family House 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 $30,310 and $30,102 as of December 31, 2014 and 2013, respectively.

Investments

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

Generally accepted accounting principles establish 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 Family House. Unobservable inputs, if any, reflects Family House'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 the Family House has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

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

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

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

Property and Equipment

Property and equipment is stated at cost of acquisition, construction, or fair value if donated. The costs of maintenance and repairs are 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:

Buildings and improvements	30 years
Furniture and equipment	5 years
Off-site improvements	15 years

Family House classifies property available and actively marketed for sale as property held for sale. Property held for sale is stated net of accumulated depreciation.

Development in Progress

Family House incurs costs during the pre-development and development phase of the building project undertaken. Such costs include governmental fees, legal and consulting fees needed to investigate the feasibility and arrange for the financing of the project under consideration, as well as construction costs. Family House records these costs to an asset account (development in progress) and the costs are usually recoverable from loan proceeds and contributions. Project development costs are considered to be development in progress until the project is placed in service. Development in progress is not depreciated until the completion of development.

Any funds expended on the project that do not pass beyond the predevelopment stage are recorded as expense when activity on the project ceases. Family House estimates that no portion of development in progress is unrealizable at December 31, 2014 and 2013.

Income Taxes

Family House and Affiliates are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the related California code sections.

Family House believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Family House's federal and state information returns for the years 2010 through 2013 have been filed and 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 are summarized on a functional basis in the accompanying 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.

Compensated Absences

Compensated absences are not accrued. Accounting principles generally accepted in the United States of America require that compensated absences be accrued. However, the effect of not accruing compensated absences is not materially different from the result that would have been obtained had compensated absences been accrued.

Subsequent Events

Management has evaluated subsequent events through June 30, 2015, the date on which the financial statements were available to be issued.

NOTE 3 – CAPITAL CAMPAIGN RECEIVABLE

Capital campaign receivable is summarized as follows:

	2014	2013
Capital campaign receivable	$ 16,788,849	$ 3,440,257
Less: allowance for uncollectible contributions	(30,310)	(30,102)
Less: unamortized discount	(52,669)	-
Net contributions receivable	$ 16,705,870	$ 3,410,155
Amounts due in:		
Less than one year	$ 9,366,432	$ 1,609,279
One to five years	$ 7,339,438	$ 1,800,876

Contributions due in more than one year are reflected at the present value of estimated future cash flows using an average discount rate of 1%.

NOTE 4 – INVESTMENTS

Investments at December 31, 2014 and 2013 are summarized as follows:

	2014		
	Non-Endowment	*Endowment*	*Total*
Funds:			
U.S. High Quality Bonds	$ 1,241,026	$ 533,330	$ 1,774,356
U.S. Inflation Adjusted Bonds	136,104	59,414	195,518
Foreign Bonds	231,788	102,560	334,348
Technology	197,879	72,156	270,035
Real Estate	110,405	51,907	162,312
U.S. Large Company Stocks	776,273	339,350	1,115,623
U.S. Large Company Value	214,066	93,030	307,096
U.S. Small Company Stocks	154,769	67,070	221,839
U.S. Small Company Value	150,819	63,152	213,971
Foreign Developed Country Stocks	346,533	148,729	495,262
Foreign Emerging Market Stocks	122,039	52,635	174,674
Total	$ 3,681,701	$ 1,583,333	$ 5,265,034

	2013		
	Non-Endowment	*Endowment*	*Total*
Funds:			
U.S. High Quality Bonds	$ 777,521	$ 445,986	$ 1,223,507
U.S. Inflation Adjusted Bonds	82,842	43,085	125,927
Foreign Bonds	139,426	80,436	219,862
Technology	125,910	73,147	199,057
Real Estate	68,175	39,368	107,543
Medical	64,133	-	64,133
U.S. Large Company Stocks	580,668	334,805	915,473
U.S. Large Company Value	166,321	96,042	262,363
U.S. Small Company Stocks	122,538	64,815	187,353
U.S. Small Company Value	120,164	74,995	195,159
Foreign Developed Country Stocks	322,555	188,653	511,208
Foreign Emerging Market Stocks	100,549	58,288	158,837
Total	$ 2,670,802	$ 1,499,620	$ 4,170,422

Unrealized gain on investments for 2014 and 2013 were $240,777 and $503,041, respectively.

Family House investments recorded at fair value have been categorized based upon Level 1 hierarchy of inputs in accordance with generally accepted accounting principles. See Note 2 for a discussion of Family House's policies.

The total fair value of investments as of December 31, 2014 and 2013, respectively includes $1,562,031 and $1,499,620 of donor-restricted endowment funds (see Note 8) and related investment income. The donor-restricted endowment funds also include $27,219 and $12,549 of restricted cash as of December 31, 2014 and 2013, respectively.

Family House's investment portfolio is being managed by an independent and reputable third-party investment manager.

NOTE 5 – FUNDS HELD IN TRUST

In April 2011, Family House received a conditional matching contribution from the Kalmanovitz Charitable Foundation (KCF) through the UCSF Foundation to contribute $4,000,000 for the specific purpose of building a new Family House facility in the San Francisco Mission Bay area. The contribution was to be made in five equal successive installments of $800,000 commencing in 2011 through 2015. The funds shall be paid upon proof by Family House that dollar-for-dollar grant funds have been secured or pledged from other funding sources. As of 2014, a total of $4,000,000 was matched. The matching KCF contributions were recorded during the years the matching funds were raised. As agreed, KCF initially contributed the funds to the UCSF Foundation in trust, which totaled $2,400,000 as of December 31, 2013 and is shown as funds held in trust in the accompanying Consolidated Statements of Financial Position. The funds were transferred from the UCSF Foundation in 2014. As of December 31, 2014, Family House received a total of $3,200,000 with the remaining $800,000 expected to be collected in 2015.

NOTE 6 – PROPERTY AND EQUIPMENT AND PROPERTY HELD FOR SALE

Property and equipment is summarized as follows:

	2014	2013
Land	$ 3,931,820	$ 1,256,051
Building and improvements	4,090,002	4,085,387
Furniture and equipment	434,453	431,630
Off-site improvements	7,450	7,450
	8,463,725	5,780,518
Less:		
Accumulated depreciation	(2,373,397)	(2,230,159)
Property held for sale [1]	(346,116)	-
Total property and equipment	$ 5,744,212	$ 3,550,359

[1] Family House entered into a contract to sell the building located at 50 Irving Street in 2015. The sale is expected to be completed by April 1, 2016.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are summarized as follows:

	2014			
	December 31, 2013	*Contributions*	*Releases from Restrictions*	*December 31, 2014*
Facilities maintenance	$ 5,000	$ -	$ (5,000)	$ -
Mission Bay capital campaign	9,153,915	14,701,475	-	23,855,390
Endowment earnings – time restricted until appropriated for expenditures (Note 8)	431,387	77,081	-	508,468
	$ 9,590,302	$ 14,778,556	$ (5,000)	$ 24,363,858

	2013			
	December 31, 2012	*Contributions*	*Releases from Restrictions*	*December 31, 2013*
Facilities maintenance	$ 15,000	$ 5,000	$ (15,000)	$ 5,000
Mission Bay capital campaign	7,119,688	2,034,227	-	9,153,915
Endowment earnings – time restricted until appropriated for expenditures (Note 8)	233,878	197,509	-	431,387
	$ 7,368,566	$ 2,236,736	$ (15,000)	$ 9,590,302

NOTE 8 – ENDOWMENT FUNDS

Over the years, Family House has received certain funds designated as permanently restricted. Family House established the Arthur R. Ablin Endowment Fund of Family House. The primary funding of the endowment came from an estate, of which Family House was the sole beneficiary. The endowment fund is managed by an independent and reputable third-party investment manager. As required by generally accepted accounting principles (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 Family House 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, Family House 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, if any. The remaining portion of the donor-restricted endowment fund, including endowment earnings, that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence of the Act.

In accordance with the Act, Family House 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 December 31, 2014 and 2013 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
December 31, 2012	$ -	$ 233,878	$ 1,080,782	$ 1,314,660
Investment return:				
Net unrealized appreciation	-	197,509	-	197,509
December 31, 2013	-	431,387	1,080,782	1,512,169
Investment return:				
Net unrealized appreciation	-	77,081	-	77,081
December 31, 2014	$ -	$ 508,468	$ 1,080,782	$ 1,589,250

Funds with Deficiencies

From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor or the Act requires Family House to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as decreases in unrestricted net assets. These deficiencies may result from unfavorable market fluctuations or other market conditions. There were no such deficiencies as of December 31, 2014 and 2013.

Return Objectives and Risk Parameters

The Endowment Account is intended to accumulate as much capital appreciation as possible, with the eventual goal of helping to support Family House's on-going operations while leaving the accumulated principal intact. Given this objective, investments assume a moderate to high degree of risk with diversification among different asset classes as a means of reducing risk. The Endowment Account can and will tolerate short-term portfolio volatility in an effort to achieve higher expected long-term rate of return.

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: a target asset allocation of 55% equities and 45% fixed income is adopted. Actual asset allocation may vary from target but equities and fixed income may not exceed 10% of the portfolio at market value. 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

At this time, Family House's policy is to reinvest all earnings. Family House's board of directors may determine the amount that will be used to help fund Family House's annual operations. The spending of earnings will be limited to the annual earnings of the portfolio and will not exceed seven percent (7%) of the fair value of the endowment fund. The fair value of the endowment fund will be calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three (3) years immediately proceeding the year in which the appropriation for expenditure is made.

NOTE 9 – CONDITIONAL PLEDGES

In December 2012, Family House received a $10,000,000 conditional pledge from private donors, Nancy and Stephen Grand, for the specific purpose of building a new Family House facility in the San Francisco Mission Bay area. The pledge is to be paid in five equal, successive annual installments of $2,000,000. The first installment was to be payable within 30 days after Family House has executed an acquisition agreement for the purchase of the land and has obtained $35,000,000 in assets earmarked for the new facility (inclusive of the $10,000,000 conditional pledge), $5,000,000 in reserve funds, and a fully-executed contract for the construction of the new building. The conditions were met in 2014 and Family House recognized the full amount of the pledge.

During 2014 and 2013, Family House received an additional $100,000 and $1,000,000, respectively, of conditional capital campaign pledges. Family House recognized the $1,000,000 conditional capital campaign pledge in 2014 and will recognize the remaining $100,000 pledge when the conditions are met.

NOTE 10 – RETIREMENT PLAN

Family House had established a 403b plan covering employees who work more than 25 hours a week, as defined in the plan. Employees are not required to contribute to the plan and employee contributions are immediately vested. The employer contribution to the plan is 3% of employees' annual salary, excluding bonuses, with an additional 3% matching if an employee contributes at least 3% of an employee's annual salary, excluding bonuses, to the plan. Employer contributions were $51,700 and $43,959 annually for the years ended December 31, 2014 and 2013, respectively.

SUPPLEMENTARY INFORMATION

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

DECEMBER 31, 2014

	2014			
	Family House, Inc.	*Family House Foundation, Inc.*	*Family House Mission Bay, Inc.*	*Total*
ASSETS				
Current assets:				
Cash	$ 847,903	$ 46,297	$ -	$ 894,200
Capital campaign receivable – current portion, net	9,366,432	-	-	9,366,432
Prepaid expenses	15,013	-	-	15,013
Total current assets	10,229,348	46,297	-	10,275,645
Capital campaign receivable – net of current portion	7,339,438	-	-	7,339,438
Investments (Note 4)	5,265,034	-	-	5,265,034
Restricted cash:				
Endowment (Note 4)	27,219	-	-	27,219
Development	6,926,055	-	-	6,926,055
Property held for sale (Note 6)	346,116	-	-	346,116
Property and equipment – net (Note 6)	3,068,443	-	2,675,769	5,744,212
Development in progress	5,395,006	-	-	5,395,006
Total assets	$ 38,596,659	$ 46,297	$ 2,675,769	$ 41,318,725
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	$ 66,757	$ 3,602	$ -	$ 70,359
Deferred revenue	94,000	-	-	94,000
Total liabilities	160,757	3,602	-	164,359
Net assets:				
Unrestricted	12,991,262	42,695	2,675,769	15,709,726
Temporarily restricted (Note 7)	24,363,858	-	-	24,363,858
Permanently restricted (Note 8)	1,080,782	-	-	1,080,782
Total net assets	38,435,902	42,695	2,675,769	41,154,366
Total liabilities and net assets	$ 38,596,659	$ 46,297	$ 2,675,769	$ 41,318,725

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

	2014			
	Family House, Inc.	*Family House Foundation, Inc.*	*Family House Mission Bay, Inc.*	*Total*
Support and revenue:				
Contributions	$ 23,168,140	$ -	$ -	$ 23,168,140
Special events contributions	817,088	-	-	817,088
Special events revenue	943,174	-	-	943,174
Less: cost of special events	(448,626)	-	-	(448,626)
Interest and dividend income	2,463	1	-	2,464
Other income	135	-	-	135
Unrealized gain on investments (Note 4)	240,777	-	-	240,777
Net assets released from restrictions	-	-	-	-
Total support and revenue	24,723,151	1	-	24,723,152
Expenses:				
Program services	1,269,408	43,435	-	1,312,843
Management and general	266,014	21,646	-	287,660
Fundraising – general	205,830	15,831	-	221,661
Fundraising – capital campaign	376,428	26,394	-	402,822
Total expenses	2,117,680	107,306	-	2,224,986
Change in net assets	22,605,471	(107,305)	-	22,498,166
Transfers between entities	(2,825,769)	150,000	2,675,769	-
Net assets, beginning of year	18,656,200	-	-	18,656,200
Net assets, end of year	$ 38,435,902	$ 42,695	$ 2,675,769	$ 41,154,366

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF ACTIVITIES – FAMILY HOUSE, INC. ONLY

YEAR ENDED DECEMBER 31, 2014

	2014			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Subtotal*
Support and revenue:				
Contributions	$ 8,466,665	$ 14,701,475	$ -	$ 23,168,140
Special events contributions	817,088	-	-	817,088
Special events revenue	943,174	-	-	943,174
Less: cost of special events	(448,626)	-	-	(448,626)
Interest and dividend income	2,463	-	-	2,463
Other income	135	-	-	135
Unrealized gain on investments (Note 4)	163,696	77,081	-	240,777
Net assets released from restrictions	5,000	(5,000)	-	-
Total support and revenue	9,949,595	14,773,556	-	24,723,151
Expenses:				
Program services	1,269,408	-	-	1,269,408
Management and general	266,014	-	-	266,014
Fundraising – general	205,830	-	-	205,830
Fundraising – capital campaign	376,428	-	-	376,428
Total expenses	2,117,680	-	-	2,117,680
Change in net assets	7,831,915	14,773,556	-	22,605,471
Transfers between entities	(2,825,769)	-	-	(2,825,769)
Net assets, beginning of year	7,985,116	9,590,302	1,080,782	18,656,200
Net assets, end of year	$ 12,991,262	$ 24,363,858	$ 1,080,782	$ 38,435,902