FAMILY HOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2010 AND 2009

FAMILY HOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of Family House, Inc., a California nonprofit public benefit corporation, as of December 31, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Family House, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Family House, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family House, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Lindquist, von Husen and Joyce LLP

July 7, 2011

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AN INDEPENDENT MEMBER FIRM OF BKR INTERNATIONAL WITH ASSOCIATES IN PRINCIPAL CITIES WORLDWIDE

FAMILY HOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Current assets:		
Cash	$ 549,537	$ 792,338
Prepaid expenses	26,120	7,117
Total current assets	575,657	799,455
Restricted cash (Note 3)	27,285	92,232
Investments (Note 3)	2,512,211	1,976,990
Property and equipment – net (Note 4)	3,862,058	3,887,489
Total assets	$ 6,977,211	$ 6,756,166
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 37,679	$ 39,839
Deferred revenue	45,350	49,700
Total current liabilities	83,029	89,539
Net assets:		
Unrestricted	5,679,744	5,566,572
Temporarily restricted (Note 5)	133,656	19,273
Permanently restricted (Note 6)	1,080,782	1,080,782
Total net assets	6,894,182	6,666,627
Total liabilities and net assets	$ 6,977,211	$ 6,756,166

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

FAMILY HOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Support and revenue:				
Contributions	$ 792,454	$ 17,746	$ -	$ 810,200
Special events contributions	270,018	-	-	270,018
Special events revenue	582,944	-	-	582,944
Less: cost of special events	(275,207)	-	-	(275,207)
Interest and dividend income	6,170	-	-	6,170
Realized and unrealized gain on investments	136,944	114,779	-	251,723
Net assets released from restrictions	18,142	(18,142)	-	-
Total support and revenue	1,531,465	114,383	-	1,645,848
Expenses:				
Program services	1,034,423	-	-	1,034,423
Management and general	205,593	-	-	205,593
Fundraising	178,277	-	-	178,277
Total expenses	1,418,293	-	-	1,418,293
Change in net assets	113,172	114,383	-	227,555
Net assets, beginning of year	5,566,572	19,273	1,080,782	6,666,627
Net assets, end of year	$ 5,679,744	$ 133,656	$ 1,080,782	$ 6,894,182

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

FAMILY HOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2009			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Support and revenue:				
Contributions	$ 767,244	$ 18,142	$ -	$ 785,386
Special events contributions	187,435	-	-	187,435
Special events revenue	496,587	-	-	496,587
Less: cost of special events	(214,181)	-	-	(214,181)
Interest and dividend income	12,283	-	-	12,283
Realized and unrealized gain on investments	385,465	1,131	-	386,596
Net assets released from restrictions	30,000	(30,000)	-	-
Total support and revenue	1,664,833	(10,727)	-	1,654,106
Expenses:				
Program services	992,708	-	-	992,708
Management and general	201,236	-	-	201,236
Fundraising	159,222	-	-	159,222
Total expenses	1,353,166	-	-	1,353,166
Change in net assets	311,667	(10,727)	-	300,940
Net assets, beginning of year	5,254,905	30,000	1,080,782	6,365,687
Net assets, end of year	$ 5,566,572	$ 19,273	$ 1,080,782	$ 6,666,627

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

FAMILY HOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				*2009*			
	Program Services	*Management and General*	*Fundraising*	*Total*	*Program Services*	*Management and General*	*Fundraising*	*Total*
Payroll and related costs	$ 514,657	$ 136,749	$ 113,366	$ 764,772	$ 497,904	$ 132,493	$ 109,546	$ 739,943
Operating and maintenance	181,604	-	-	181,604	172,936	-	-	172,936
Utilities	71,931	-	-	71,931	60,645	-	-	60,645
Administrative	57,247	50,424	-	107,671	55,543	49,010	-	104,553
Program	40,754	-	-	40,754	37,023	-	-	37,023
Insurance and taxes	15,323	2,925	-	18,248	17,383	2,925	-	20,308
Fundraising	13,452	-	64,911	78,363	-	-	49,676	49,676
Depreciation	139,455	15,495	-	154,950	151,274	16,808	-	168,082
Total expenses as shown on the Statement of Activities	1,034,423	205,593	178,277	1,418,293	992,708	201,236	159,222	1,353,166
Cost of special events	-	-	275,207	275,207	-	-	214,181	214,181
Total expenses	$ 1,034,423	$ 205,593	$ 453,484	$ 1,693,500	$ 992,708	$ 201,236	$ 373,403	$ 1,567,347

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

FAMILY HOUSE, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 227,555	$ 300,940
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	154,950	168,082
Realized and unrealized gain on investments	(251,723)	(386,596)
(Increase) decrease in assets:		
Contributions receivable	-	1,600
Prepaid expenses	(19,003)	(2,846)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,160)	(14,583)
Deferred revenue	(4,350)	49,700
Net cash provided by operating activities	105,269	116,297
Cash flows from investing activities:		
Net change in investments	(283,498)	42,168
Net change in restricted cash	64,947	(92,232)
Purchase of property and equipment	(129,519)	(64,627)
Net cash used in investing activities	(348,070)	(114,691)
Increase (decrease) in cash	(242,801)	1,606
Cash, beginning of year	792,338	790,732
Cash, end of year	$ 549,537	$ 792,338

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Family House, Inc. (FH) 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. FH maintains residential real properties in San Francisco to accomplish this purpose, and serves over two thousand families per year.

FH 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 UCSF. The residence has ten family bedrooms plus group kitchens and family rooms. The corporate offices are also at this location.

1234 Tenth Avenue, San Francisco, CA – This three-story property is located near the hospital 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

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

Basis of Presentation

FH reports information regarding its 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. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. 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.

FH 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.

Contributions Receivable

FH records an allowance for doubtful collections based on a review of outstanding receivables, historical collection information, and existing economic conditions. No allowance for doubtful collections was recognized in 2010 and 2009, 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 FH. Unobservable inputs, if any, reflects FH’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 FH 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 fixtures	5 years

Development in Progress

FH 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. FH 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. FH estimates that no portion of development in progress is unrealizable at December 31, 2010 and 2009 (see Note 7).

Income Taxes

FH is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the related California code sections.

FH 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. FH's federal and state information returns for the years 2006 through 2009 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 Statements of Activities and Statements of Functional Expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

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.

Reclassification

Certain amounts previously reported in the 2009 financial statements were reclassified to conform to the 2010 presentation for comparative purposes.

Subsequent Events

Management has evaluated subsequent events through July 7, 2011, the date on which the financial statements were available to be issued.

NOTE 3 – INVESTMENTS

Investments at December 31, 2010 and 2009 are summarized as follows:

	2010	*2009*
Funds	$ 1,557,146	$ 949,157
Individual equities	955,065	1,027,833
Total investments	$ 2,512,211	$ 1,976,990

Realized and unrealized gain on investments for 2010 and 2009 were $251,723 and $386,596, respectively.

FH 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 FH's policies.

The total fair value of investments as of December 31, 2010 and 2009, respectively includes $1,169,407 and $989,681 of donor-restricted endowment funds (see Note 6) and related investment income. The donor restricted endowment funds also include $27,285 and $92,232 of restricted cash as of December 31, 2010 and 2009, respectively.

The following presents investments by category at fair value as of December 31, 2010:

	Non-Endowment	*Endowment*	*Total*
Funds:			
Intermediate-term bond index funds	$ 269,763	$ 249,391	$ 519,154
Short-term investment-grade fund admiral funds	221,647	202,296	423,943
International equity funds	212,039	228,706	440,745
Small/mid-capitalization index funds	94,912	78,392	173,304
Total	798,361	758,785	1,557,146
Individual equities:			
Common stock – energy	48,137	37,641	85,778
Common stock – materials	10,979	8,115	19,094
Common stock – industrials	64,792	45,500	110,292
Common stock – consumer discretionary	76,821	53,547	130,368
Common stock – consumer staples	32,269	24,210	56,479
Common stock – health care	88,977	69,346	158,323
Common stock – financials	62,300	52,297	114,597
Common stock – information technology	128,704	96,305	225,009
Common stock – telecommunications	31,464	23,661	55,125
Total	544,443	410,622	955,065
Total	$ 1,342,804	$ 1,169,407	$ 2,512,211

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2010	*2009*
Land	$ 1,256,051	$ 1,256,051
Buildings and improvements	4,030,810	4,006,550
Furniture and equipment	412,888	330,129
Off-site improvements	7,450	7,450
	5,707,199	5,600,180
Less: accumulated depreciation	(1,867,641)	(1,712,691)
	3,839,558	3,887,489
Pre-development costs	22,500	-
Total property and equipment	$ 3,862,058	$ 3,887,489

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are summarized as follows:

	2010	*2009*
Cash received restricted for:		
Facilities maintenance	$ -	$ 4,933
Program services	17,746	3,459
Strategic planning	-	9,750
Endowment earnings – time restricted until appropriated for expenditures	115,910	1,131
Total	$ 133,656	$ 19,273

NOTE 6 – ENDOWMENT FUNDS

Over the years, FH has received certain funds designated as permanently restricted. FH established the Arthur R. Ablin Endowment Fund of Family House. The primary funding of the endowment came from an estate, of which FH was the sole beneficiary. 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, FH 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, 2010 and 2009 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
December 31, 2008	$ -	$ -	$ -	$ 1,080,782
Investment return (loss):				
Net unrealized appreciation	-	1,131	-	1,131
December 31, 2009	-	1,131	1,080,782	1,081,913
Investment return (loss):				
Net unrealized appreciation	-	114,779	-	114,779
December 31, 2010	$ -	$ 115,910	$ 1,080,782	$ 1,196,692

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, 2010 and 2009.

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 70% equities and 30% fixed income is adopted. Actual asset allocation may vary from target but equities may not exceed 75% 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 7 – SUBSEQUENT EVENTS

FH was informed by UCSF that in 2015, UCSF will open a new hospital in the San Francisco Mission Bay area and has requested FH 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. FH's Management and Board approved the relocation of FH's facilities and has launched a capital campaign in 2011 to raise funds for the acquisition of land and construction of the new facility.

In April 2011, FH received a pledge from the Kalmanovitz Charitable Foundation (KCF) 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 is to be made in five equal installments of $800,000 commencing in 2011through 2015. The funds shall be paid upon proof by FH that dollar-for dollar grant funds have been secured or pledged from other funding sources for each of the five annual pledge payments by KCF and it appears that the first year's matching condition has been met. KCF's obligation to make the annual payments shall cease in the event that the dollar-for-dollar funding requirement has not been met in full. However, KCF shall make a payment in each of the years that dollar-for-dollar funding has not been obtained up to the amount of the funds actually raised or pledged not to exceed $800,000 per year.

FH also received a verbal pledge of $1,000,000 from Dr. and Mrs. Ablin for the capital campaign. In January 2011, the donors paid $100,000 towards the pledge.