FAMILY HOUSE, INC.
AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2017 AND 2016

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family House, Inc. and Affiliates as of December 31, 2017 and 2016, 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.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the Consolidating Schedule of Financial Position and the Consolidating Schedule of Activities is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Lindquist, von Husen and Joyce LLP

June 19, 2018

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash	$ 3,584,220	$ 3,108,701
Receivables:		
Capital campaign receivable – current portion, net (Note 4)	1,978,863	2,512,467
Other – unrestricted	250,000	540,866
Prepaid expenses	48,326	9,910
Restricted cash:		
Development	916,464	-
Total current assets	6,777,873	6,171,944
Capital campaign receivable – net of current portion (Note 4)	-	2,002,618
Leverage note receivable (Note 5)	7,421,840	7,421,840
Investments (Note 6)	7,179,896	6,705,312
Restricted cash:		
Endowment (Note 6)	10,910	11,487
NMTC reserve (Note 3)	261,522	314,635
Property and equipment – net (Note 7)	39,643,047	41,035,588
Development in progress	1,504,783	-
Other	103,526	179,681
Total assets	$ 62,903,397	$ 63,843,105
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 213,033	$ 287,056
Development costs payable	65,693	-
Notes payable – current portion (Note 8)	2,370,000	4,520,876
Total current liabilities	2,648,726	4,807,932
Notes payable – net of current portion (Note 8)	11,557,512	11,936,279
Total liabilities	14,206,238	16,744,211
Net assets:		
Unrestricted	45,944,188	45,398,072
Temporarily restricted (Note 9)	1,672,189	620,040
Permanently restricted (Note 10)	1,080,782	1,080,782
Total net assets	48,697,159	47,098,894
Total liabilities and net assets	$ 62,903,397	$ 63,843,105

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, 2017 AND 2016

	2017			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Support and revenue:				
Contributions	$ 4,038,095	$ 915,294	$ -	$ 4,953,389
Special events contributions	931,778	-	-	931,778
Special events revenue	681,716	-	-	681,716
Less: cost of special events	(499,865)	-	-	(499,865)
Interest on leverage note receivable (Note 5)	99,030	-	-	99,030
Reimbursement income (Note 12)	91,693	-	-	91,693
Other income	4,845	-	-	4,845
Unrealized gain on investments (Note 6)	686,727	234,099	-	920,826
Net assets released from restrictions	97,244	(97,244)	-	-
Total support and revenue	6,131,263	1,052,149	-	7,183,412
Expenses:				
Program services	4,602,176	-	-	4,602,176
Management and general	548,610	-	-	548,610
Fundraising – general	431,173	-	-	431,173
Fundraising – capital campaign	3,188	-	-	3,188
Total expenses	5,585,147	-	-	5,585,147
Change in net assets	546,116	1,052,149	-	1,598,265
Net assets, beginning of year	45,398,072	620,040	1,080,782	47,098,894
Net assets, end of year	$ 45,944,188	$ 1,672,189	$ 1,080,782	$ 48,697,159

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, 2017 AND 2016

	2016			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Support and revenue:				
Contributions	$ 2,783,887	$ -	$ -	$ 2,783,887
Special events contributions	1,025,820	-	-	1,025,820
Special events revenue	702,941	-	-	702,941
Less: cost of special events	(555,159)	-	-	(555,159)
Interest on leverage note receivable (Note 5)	99,030	-	-	99,030
Other income	1,142	-	-	1,142
Unrealized loss on investments (Note 6)	358,292	128,641	-	486,933
Gain on sale of property (Note 7)	3,462,661	-	-	3,462,661
Net assets released from restrictions	7,505,126	(7,505,126)	-	-
Total support and revenue	15,383,740	(7,376,485)	-	8,007,255
Expenses:				
Program services	3,796,905	-	-	3,796,905
Management and general	463,631	-	-	463,631
Fundraising – general	412,708	-	-	412,708
Fundraising – capital campaign	299,656	-	-	299,656
Total expenses	4,972,900	-	-	4,972,900
Change in net assets	10,410,840	(7,376,485)	-	3,034,355
Net assets, beginning of year	34,987,232	7,996,525	1,080,782	44,064,539
Net assets, end of year	$ 45,398,072	$ 620,040	$ 1,080,782	$ 47,098,894

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, 2017 AND 2016

	2017					2016				
	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	$ 1,673,537	$ 244,697	$ 310,636	$ -	$ 2,228,870	$ 1,205,143	$ 280,146	$ 242,805	$ 28,468	$ 1,756,562
Housekeeping and household supplies	193,224	3,813	-	-	197,037	279,802	5,711	-	720	286,233
Repairs and maintenance	166,110	3,390	-	-	169,500	100,562	3,859	-	-	104,421
Utilities	180,680	3,939	-	-	184,619	152,743	3,117	-	-	155,860
Office expenses	42,681	59,907	20,114	-	122,702	4,434	37,532	50,286	21,965	114,217
Telephone	42,507	4,537	10	-	47,054	34,943	2,137	-	457	37,537
Professional fees	164,459	92,096	71,470	6,250	334,275	226,914	43,560	59,552	220,688	550,714
Credit card and banking fees	-	15,667	711	2,015	18,393	-	11	7,058	10,595	17,664
Advertising and marketing	-	4,389	11,296	-	15,685	1,831	-	18,340	13,915	34,086
Bad debts	-	1,256	-	(5,077)	(3,821)	-	-	-	(5,331)	(5,331)
Other administrative expenses	1,668	61,102	3,622	-	66,392	1,563	55,050	5,272	2,315	64,200
Program	123,983	-	-	-	123,983	351,695	-	-	-	351,695
Insurance and taxes	68,477	9,338	-	-	77,815	59,221	7,561	-	800	67,582
Travel and meals	88	4,790	13,314	-	18,192	3,589	-	29,395	5,064	38,048
Interest	303,479	6,193	-	-	309,672	309,940	5,488	-	-	315,428
Depreciation	1,641,283	33,496	-	-	1,674,779	1,064,525	19,459	-	-	1,083,984
Total expenses as shown on the Statement of Activities	4,602,176	548,610	431,173	3,188	5,585,147	3,796,905	463,631	412,708	299,656	4,972,900
Cost of special events	-	-	499,865	-	499,865	-	-	555,159	-	555,159
Total expenses	$ 4,602,176	$ 548,610	$ 931,038	$ 3,188	$ 6,085,012	$ 3,796,905	$ 463,631	$ 967,867	$ 299,656	$ 5,528,059

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, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 1,598,265	$ 3,034,355
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,674,779	1,083,984
Interest expense – permanent loan cost amortization	50,357	50,357
Unrealized gain on investments	(920,826)	(486,933)
Gain on sale of property	-	(3,462,661)
(Increase) decrease in assets:		
Contributions receivable	2,827,088	3,019,418
Prepaid expenses	(38,416)	(4,323)
Other assets	76,155	(179,681)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(74,023)	138,187
Net cash provided by operating activities	5,193,379	3,192,703
Cash flows from investing activities:		
Net change in investments	446,242	(312,875)
Net change in restricted cash	(862,774)	180,788
Payment for property, equipment and development in progress	(1,721,328)	(11,711,539)
Net proceeds from sale of property and equipment	-	811,070
Net cash used in investing activities	(2,137,860)	(11,032,556)
Cash flows from financing activities:		
Proceeds from notes payable	-	8,750,000
Repayment of notes payable	(2,580,000)	-
Net cash provided by (used in) financing activities	(2,580,000)	8,750,000
Net increase in cash	475,519	910,147
Cash, beginning of year	3,108,701	2,198,554
Cash, end of year	$ 3,584,220	$ 3,108,701
Supplementary information:		
Cash paid for interest	$ 259,315	$ 265,071
Noncash investing activities:		
Assets acquired by assuming current liabilities	$ 65,693	$ -
Notes payable settled at the sale of property	$ -	$ 3,000,000
Reclassification of development in progress to permanent loan costs	$ -	$ 394,202

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 three thousand families per year.

Family House operates the following buildings at the following locations:

<u>540 Mission Bay, San Francisco, CA</u> – Construction of the five-story building was completed in April 2016 and it is located just blocks from the UCSF Benioff Children's Hospital in Mission Bay. The residence has 80 bedrooms plus group kitchens, an exercise room and family rooms. The corporate offices of Family House are also at this location.

<u>1234 Tenth Avenue, San Francisco, CA</u> – This four-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. As of May 2016, operations have been moved to the Mission Bay building. In January 2017, a memorandum of understanding was signed with UCSF to repurpose the property into a home for adult patients and their families. Rehabilitation of the property commenced in 2017 and was substantially completed during June 2018. Per the terms of the memorandum of understanding with UCSF, the cost of the rehabilitation is funded on a reimbursement basis with the proceeds of contributions from UCSF to Family House.

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 Mission Bay project). Construction of the Mission Bay project, which was named The Nancy and Stephen Grand Family House, began in 2014. Construction was substantially completed in April 2016.

As part of the financing for the Mission Bay project, 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. These new entities allowed Family House to obtain new markets tax credit (NMTC) financing through loans from the Northern California Community Loan Fund NMTC Sub-CDE XI, LLC (NCCLF Sub-CDE XI), a California limited liability company sponsored by its parent CDE, Northern California Community Loan Fund (NCCLF), a California nonprofit public benefit corporation. The NMTC deal which closed in January 2015 (see Note 8) also includes providing a leveraged loan to COCRF Investor 32, LLC (COCRF 32), a Delaware limited liability company.

Family House and Affiliates are vulnerable to risks associated with revenue that is substantially dependent on contributions and public support. The continued growth and well-being of Family House and Affiliates are contingent upon successful achievement of the organization's revenue raising goals.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Principles of Consolidation</u>

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 and Affiliates record contributions receivable based on their estimate of collectability. 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.

Family House receives reimbursement from a state program and some private insurance companies for reimbursement of the cost of a family's stay at Family House. Family House cannot reasonably estimate these reimbursements. Therefore, they are recorded as revenue when received.

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, and the NMTC reserve. 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 $4,102,000 as of December 31, 2017. Family House and Affiliates have not experienced any losses in such account.

Restricted Cash

Restricted cash includes donor-restricted endowment funds (see Note 4), cash restricted for the development of the project, and the NMTC reserve (see Note 3).

Contributions Receivable

Family House and Affiliates record 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 $1,129 and $6,206 as of December 31, 2017 and 2016, respectively.

Interest on Note Receivable

Interest on the leverage note to COCRF 32 is calculated using the simple-interest method on principal amount outstanding. Family House and Affiliates accrue interest on the leverage note at the stated rate of interest. If, however, Family House and Affiliates believe that there is a reasonable chance that such interest is not collectible, Family House and Affiliates cease to accrue such interest and may deem as uncollectible any income recorded for interest that has already been accrued.

Note Receivable

The leverage note receivable from COCRF 32 is stated at unpaid principal amount and adjusted for an allowance for loan losses, if any.

Allowance for Loan Losses

Management's determination of the level of the allowance for loan losses rests upon various judgments and assumptions, including current and projected economic conditions, the value of the underlying collateral, continuing review of the loans, and evaluation of credit risk. Because of uncertainties associated with these judgments and assumptions, it is reasonably possible that management's estimate of loan losses and the related allowance may change materially in the near-term. The allowance is increased or decreased by a provision (recapture) for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. As of December 31, 2017, management believes the leverage note to COCRF 32 is fully collectible and, as such, no allowance for loan losses is necessary.

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 and Affiliates. Unobservable inputs, if any, reflects Family House and Affiliates' 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 Family House and Affiliates have 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
Site improvements	15 years

Development in Progress

Family House and Affiliates incur construction costs during the rehabilitation of the building. These costs are recorded to an asset account (development in progress), and 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.

Permanent Loan Costs

Costs incurred in order to obtain permanent financing are stated at cost and amortized on a straight-line basis into interest expense over the term of the loan. Permanent loan costs are reported as a direct deduction from the face amount of the related debt.

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 and Affiliates believe that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the financial statements. Family House and Affiliates' federal and state information returns for the years 2013 through 2016 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 19, 2018, the date on which the financial statements were available to be issued. As detailed in Note 1, the rehabilitation of the 10th Avenue property was substantially completed during June 2018.

NOTE 3 – NMTC RESERVE

FHMB is required to maintain a reserve for interest on the NCCLF Sub-CDE XI, LLC QLICI loans (see Note 8) and to fund reimbursements of operating expenses paid by NCCLF in advance in accordance with the lender's credit agreement. The NMTC reserve had a balance of $261,522 and $314,635 as of December 31, 2017 and 2016, respectively.

NOTE 4 – CAPITAL CAMPAIGN RECEIVABLE

Capital campaign receivable is summarized as follows:

	2017	2016
Capital campaign receivable	$ 1,991,030	$ 4,532,329
Less: allowance for uncollectible contributions	(1,129)	(6,206)
Less: unamortized discount	(11,038)	(11,038)
Net contributions receivable	$ 1,978,863	$ 4,515,085
Amounts due in:		
Less than one year	$ 1,978,863	$ 2,512,467
One to five years	$ -	$ 2,002,618

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 5 – LEVERAGE NOTE RECEIVABLE

Using proceeds from the NMTC loans (see Note 8), FHF provided a $7,421,840 leverage note to COCRF 32 in January 2015. The note bears simple interest at 1.3343% per annum on a 360-day basis. COCRF 32 shall pay FHF interest only quarterly from March 10, 2015 through December 10, 2021. Commencing on March 10, 2022, COCRF 32 shall pay FHF principal and interest quarterly, due in full on January 28, 2040. Interest income was $99,030 annually in 2017 and 2016.

NOTE 6 – INVESTMENTS

Investments at December 31, 2017 and 2016 are summarized as follows:

	2017		
	Non-Endowment	*Endowment*	*Total*
Funds:			
U.S. High Quality Bonds	$ 1,631,735	$ 598,840	$ 2,230,575
U.S. Inflation Adjusted Bonds	286,534	103,115	389,649
Foreign Bonds	134,122	48,385	182,507
Technology	161,815	59,575	221,390
Real Estate	101,807	37,436	139,243
U.S. Large Company Stocks	963,954	352,883	1,316,837
U.S. Large Company Value	553,637	202,965	756,602
U.S. Small Company Stocks	152,485	57,284	209,769
U.S. Small Company Value	301,327	110,412	411,739
Foreign Developed Country Stocks	727,177	261,015	988,192
Foreign Emerging Market Stocks	241,292	92,101	333,393
Total	$ 5,255,885	$ 1,924,011	$ 7,179,896

	2016		
	Non-Endowment	*Endowment*	*Total*
Funds:			
U.S. High Quality Bonds	$ 1,533,948	$ 555,530	$ 2,089,478
U.S. Inflation Adjusted Bonds	166,715	60,961	227,676
Foreign Bonds	129,564	46,741	176,305
Technology	196,303	70,905	267,208
Real Estate	96,632	35,531	132,163
U.S. Large Company Stocks	1,014,121	362,090	1,376,211
U.S. Large Company Value	287,586	105,167	392,753
U.S. Small Company Stocks	209,780	74,445	284,225
U.S. Small Company Value	212,320	76,268	288,588
Foreign Developed Country Stocks	660,773	233,235	894,008
Foreign Emerging Market Stocks	193,936	68,462	262,398
Stock funds	314,299	-	314,299
Total	$ 5,015,977	$ 1,689,335	$ 6,705,312

Unrealized gain (loss) on investments for 2017 and 2016 were $920,826 and $486,933, respectively.

Family House and Affiliates 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 and Affiliates' policies.

The total fair value of investments as of December 31, 2017 and 2016, respectively includes $1,924,011 and $1,689,335 of donor-restricted endowment funds (see Note 8) and related investment income. The donor-restricted endowment funds also include $10,910 and $11,487 of restricted cash as of December 31, 2017 and 2016, respectively.

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

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2017	2016
Land	$ 4,324,376	$ 4,324,376
Building and improvements	36,929,645	36,867,185
Furniture and equipment	2,564,742	2,344,964
Site improvements	236,425	236,425
	44,055,188	43,772,950
Less: accumulated depreciation	(4,412,141)	(2,737,362)
Total property and equipment [1]	$ 39,643,047	$ 41,035,588

[1] Family House sold the building located at 50 Irving Street in April 2016 for a gain of $3,462,661. The proceeds of the sale were used to fund the Mission Bay development.

NOTE 8 – NOTES PAYABLE

As part of the financing for the Mission Bay project, FHMB obtained NMTC loans and a revolving loan. The notes are secured by the property and consist of the following:

	2017		2016	
Lender	*Interest Payable*	*Principal*	*Interest Payable*	*Principal*
NMTC loans:				
NCCLF Sub-CDE XI QLICI Loan A (NCCLF Sub-CDE Loan A), bears simple interest at 1.3798% per annum on a 360-day basis. Payments of interest only are payable quarterly from March 1, 2015 through December 1, 2021. Commencing on March 1, 2022, payments of principal and interest will be payable quarterly, due in full on January 28, 2045. Interest expense was $75,219 annually in 2017 and 2016.	$ -	$ 5,451,440	$ -	$ 5,451,440
NCCLF Sub-CDE XI QLICI Loan B (NCCLF Sub-CDE Loan B), bears simple interest at 1.3798% per annum on a 360-day basis. Payments of interest only are payable quarterly from March 1, 2015 through December 1, 2021. Commencing on March 1, 2022, payments of principal and interest will be payable quarterly, due in full on January 28, 2045. Interest expense was $35,869 annually in 2017 and 2016.	-	2,599,560	-	2,599,560
COCRF SUBCDE 25, LLC QLICI Loan A (COCRF 25 Loan A), bears simple interest at 1% per annum on a 360-day basis. Payments of interest only are payable quarterly from March 1, 2015 through December 1, 2021. Commencing on March 1, 2022, payments of principal and interest will be payable quarterly, due in full on January 28, 2045. Interest expense was $19,704 annually in 2017 and 2016.	-	1,970,400	-	1,970,400

	2017		2016	
Lender	*Interest Payable*	*Principal*	*Interest Payable*	*Principal*
COCRF SUBCDE 25, LLC QLICI Loan B (COCRF 25 Loan B), bears simple interest at 1% per annum on a 360-day basis. Payments of interest only are payable quarterly from March 1, 2015 through December 1, 2021. Commencing on March 1, 2022, payments of principal and interest will be payable quarterly, due in full on January 28, 2045. Interest expense was $10,296 annually in 2017 and 2016.	-	1,029,600	-	1,029,600
<u>*Revolving loan:*</u>				
The Northern Trust Company revolving loan, in the maximum amount of $23,000,000, bears simple interest at either: (i) the LIBOR rate plus Spread or (ii) the Substitute Rate plus the Substitute Spread per annum on a 360-day basis (3.39% in 2016). Payments of interest are payable monthly. Commencing on July 1, 2016, payments of principal in the amount of Designated Pledges, as defined in the loan agreement, will be payable monthly through the Fifth Anniversary, or January 27, 2020, provided the principal shall not be greater than $7,000,000 on such date. Commencing on January 28, 2020, payments of principal in an amount equal to the quotient of the principal balance on the Fifth Anniversary divided by 300 shall be payable monthly, due in full on January 31, 2022. Interest expense was $118,227 and $123,983 in 2017 and 2016, respectively.	-	3,170,000	-	5,750,000
Total	-	14,221,000	-	16,801,000
Less: unamortized permanent loan costs [1]	-	(293,488)	-	(343,845)
Net	-	13,927,512	-	16,457,155
Less: current portion	-	(2,370,000)	-	(4,520,876)
Long-term portion	$ -	$ 11,557,512	$ -	$ 11,936,279

[1] Costs incurred in order to obtain permanent financing were $ 394,202 and are amortized on a straight-line basis into interest expense over the term of the loans. Interest expense for amortization of permanent loan costs was $50,357 annually in 2017 and 2016.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are summarized as follows:

	2017			
	December 31, 2016	*Contributions / Loss*	*Releases from Restrictions*	*December 31, 2017*
10th Avenue rehabilitation	$ -	$ 915,294	$ -	$ 915,294
Endowment earnings – time restricted until appropriated for expenditures (Note 10)	620,040	234,099	(97,244)	756,895
	$ 620,040	$ 1,149,393	$ (97,244)	$ 1,672,189

	2016			
	December 31, 2015	*Contributions / Loss*	*Releases from Restrictions*	*December 31, 2016*
Mission Bay capital campaign	$ 7,505,126	$ -	$ (7,505,126)	$ -
Endowment earnings – time restricted until appropriated for expenditures (Note 10)	491,399	128,641	-	620,040
	$ 7,996,525	$ 128,641	$ (7,505,126)	$ 620,040

NOTE 10 – ENDOWMENT FUNDS

Over the years, Family House and Affiliates have received certain funds designated as permanently restricted. Family House and Affiliates 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 and Affiliates 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 and Affiliates consider 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, 2017 and 2016 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
December 31, 2015	$ -	$ 491,398	$ 1,080,782	$ 1,572,180
Investment return:				
Net unrealized appreciation	-	128,642	-	128,642
December 31, 2016	-	620,040	1,080,782	1,700,822
Investment return:				
Net unrealized appreciation	-	234,099	-	234,099
Releases from restrictions [1]	-	(97,244)	-	(97,244)
December 31, 2017	$ -	$ 756,895	$ 1,080,782	$ 1,837,677

[1] The Board of Directors of Family House and Affiliates authorized the release of 6% of the total endowment fund during 2017.

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 and Affiliates 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, 2017 and 2016.

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 and Affiliates' 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 in 2017 and 2016. 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 and Affiliates' policy is to reinvest all earnings. Family House and Affiliates' board of directors may determine the amount that will be used to help fund Family House and Affiliates' 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 following the year in which the appropriation for expenditure is made.

NOTE 11 – RETIREMENT PLAN

Family House and Affiliates 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 $81,620 and $63,720 annually for the years ended December 31, 2017 and 2016, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

FHF and FHMB agree to indemnify Capital One, National Association, the sole member of COCRF 32, with respect to any recapture or disallowance of NMTCs.

Through a contribution from a board member, Family House became a limited partner in ValueAct Capital Partners, L.P. (the Partnership) and received a distribution from the Partnership of $200,000 in 2017. This amount was recorded as contribution revenue in 2017. Family House's net investment in the Partnership is $-0- at December 31, 2017.

Starting 2017, Family House is able to bill California Children's Services (CCS), a state program for children with certain diseases or health problems, and some private insurance companies for reimbursement of the cost of a family's stay at Family House. Reimbursement from CCS is funded on a county-by county basis and is dependent upon each county's reimbursement rate and the nature of a family's stay at the Family House facility. Private insurance companies may reimburse Family House if it's the company's policy to reimburse for the types of services that Family House provides its families. Total amount of lodging reimbursement received during 2017 was $91,693.

SUPPLEMENTARY INFORMATION

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

DECEMBER 31, 2017

	Family House, Inc.	*Family House, Inc. 10th Avenue*	*Family House Foundation, Inc.*	*Family House Mission Bay, Inc.*	*Total*
ASSETS					
Current assets:					
Cash	$ 783,962	$ -	$ 2,737,595	$ 62,663	$ 3,584,220
Receivables:					
Capital campaign receivable – current portion, net (Note 4)	-	-	1,978,863	-	1,978,863
Other – unrestricted	250,000	-	-	-	250,000
Prepaid expenses	48,326	-	-	-	48,326
Restricted cash:					
Development	-	916,464	-	-	916,464
Total current assets	1,082,288	916,464	4,716,458	62,663	6,777,873
Capital campaign receivable – net of current portion (Note 4)	-	-	-	-	-
Leverage note receivable (Note 5)	-	-	7,421,840	-	7,421,840
Investments (Note 6)	-	-	7,179,896	-	7,179,896
Restricted cash:					
Endowment (Note 6)	-	-	10,910	-	10,910
NMTC reserve (Note 3)	-	-	-	261,522	261,522
Property and equipment – net (Note 7)	2,827,534	-	-	36,815,513	39,643,047
Development in progress	-	1,504,783	-	-	1,504,783
Other assets	-	-	-	103,526	103,526
Total assets	$ 3,909,822	$ 2,421,247	$ 19,329,104	$ 37,243,224	$ 62,903,397
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued expenses	$ 182,913	$ -	$ 30,120	$ -	$ 213,033
Development costs payable	-	65,693	-	-	65,693
Notes payable – current portion (Note 8)	-	-	2,370,000	-	2,370,000
Total current liabilities	182,913	65,693	2,400,120	-	2,648,726
Notes payable – net of current portion (Note 8)	-	-	758,965	10,798,547	11,557,512
Total liabilities	182,913	65,693	3,159,085	10,798,547	14,206,238
Net assets:					
Unrestricted	3,726,909	1,440,260	14,332,342	26,444,677	45,944,188
Temporarily restricted (Note 9)	-	915,294	756,895	-	1,672,189
Permanently restricted (Note 10)	-	-	1,080,782	-	1,080,782
Total net assets	3,726,909	2,355,554	16,170,019	26,444,677	48,697,159
Total liabilities and net assets	$ 3,909,822	$ 2,421,247	$ 19,329,104	$ 37,243,224	$ 62,903,397

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Family House, Inc.	*Family House, Inc. 10th Avenue*	*Family House Foundation, Inc.*	*Family House Mission Bay, Inc.*	*Total*
Support and revenue:					
Contributions	$ 2,013,336	$ 2,354,384	$ 585,669	$ -	$ 4,953,389
Special events contributions	918,514	-	13,264	-	931,778
Special events revenue	650,916	-	30,800	-	681,716
Less: cost of special events	(499,865)	-	-	-	(499,865)
Interest on leverage note receivable (Note 5)	-	-	99,030	-	99,030
Reimbursement income (Note 12)	91,693	-	-	-	91,693
Other income	3,657	1,170	17	1	4,845
Unrealized gain on investments (Note 6)	-	-	920,826	-	920,826
Total support and revenue	3,178,251	2,355,554	1,649,606	1	7,183,412
Expenses:					
Program services	2,548,457	-	263,151	1,790,568	4,602,176
Management and general	423,045	-	92,677	32,888	548,610
Fundraising – general	176,443	-	254,730	-	431,173
Fundraising – capital campaign	6,758	-	(3,570)	-	3,188
Total expenses	3,154,703	-	606,988	1,823,456	5,585,147
Change in net assets	23,548	2,355,554	1,042,618	(1,823,455)	1,598,265
Transfers between entities	(252,371)	-	(71,333)	323,704	-
Net assets, beginning of year	3,955,732	-	15,198,734	27,944,428	47,098,894
Net assets, end of year	$ 3,726,909	$ 2,355,554	$ 16,170,019	$ 26,444,677	$ 48,697,159