FAMILY HOUSE, INC.
AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2019 AND 2018

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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LINDQUIST
VON HUSEN
& JOYCE LLP

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, 2019 and 2018, 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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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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Family House, Inc. and Affiliates adopted the new accounting guidance required by accounting principles generally accepted in the United States of America on revenue recognition and presentation of the consolidated statement of cash flows. The change in accounting principle on the consolidated statement of cash flows has been applied retrospectively to the prior period presented. Our opinion is not modified with respect to this matter.

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, Consolidating Schedule of Activities, and Schedule of Activities – Family House, Inc. Only 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

July 20, 2020

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Current assets:		
Cash	$ 2,430,719	$ 3,569,007
Receivables:		
Contributions receivable – current portion (Note 4)	195,000	-
Capital campaign receivable, net (Note 4)	-	22,323
Other – unrestricted	141,096	262,139
Beneficial interest in charitable trust – current portion (Note 8)	25,000	-
Prepaid expenses	36,567	27,667
Investments (Note 6)	9,244,307	6,541,327
Total current assets	12,072,689	10,422,463
Contributions receivable – net of current portion (Note 4)	726,584	-
Leverage note receivable (Note 5)	7,421,840	7,421,840
Restricted cash:		
Endowment (Note 6)	12,089	9,310
NMTC reserve (Note 3)	154,263	208,059
Property and equipment – net (Note 7)	39,002,209	40,793,254
Beneficial interest in charitable trust – net of current portion (Note 8)	179,837	-
Other	-	27,371
Total assets	$ 59,569,511	$ 58,882,297
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 524,224	$ 523,653
Deferred revenue	109,150	109,150
Total current liabilities	633,374	632,803
Notes payable (Note 9)	10,817,189	10,807,868
Total liabilities	11,450,563	11,440,671
Net assets:		
Without donor restrictions	45,266,597	45,766,576
With donor restrictions (Note 10)	2,852,351	1,675,050
Total net assets	48,118,948	47,441,626
Total liabilities and net assets	$ 59,569,511	$ 58,882,297

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, 2019 AND 2018

	2019		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Support and revenue:			
Contributions	$ 2,784,876	$ 1,072,931	$ 3,857,807
Special events contributions	1,843,818	-	1,843,818
Special events revenue	881,779	-	881,779
Less: cost of special events	(649,368)	-	(649,368)
Interest on leverage note receivable (Note 5)	99,030	-	99,030
Operations financed by UCSF	1,015,718	-	1,015,718
Family stay	226,242	-	226,242
Reimbursement income (Note 12)	25,245	-	25,245
Other income	27,017	-	27,017
Unrealized gain on investments (Note 6)	938,068	267,478	1,205,546
Net assets released from restrictions	163,108	(163,108)	-
Total support and revenue	7,355,533	1,177,301	8,532,834
Expenses:			
Program services	6,458,843	-	6,458,843
Management and general	758,585	-	758,585
Fundraising – general	627,561	-	627,561
Fundraising – capital campaign	10,523	-	10,523
Total expenses	7,855,512	-	7,855,512
Change in net assets	(499,979)	1,177,301	677,322
Net assets, beginning of year	45,766,576	1,675,050	47,441,626
Net assets, end of year	$ 45,266,597	$ 2,852,351	$ 48,118,948

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, 2019 AND 2018

	2018		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Support and revenue:			
Contributions	$ 2,979,617	$ 58,083	$ 3,037,700
Special events contributions	1,397,660	-	1,397,660
Special events revenue	907,444	-	907,444
Less: cost of special events	(518,258)	-	(518,258)
Interest on leverage note receivable (Note 5)	99,030	-	99,030
Operations financed by UCSF	536,244	-	536,244
Family stay	116,909	-	116,909
Reimbursement income (Note 12)	113,737	-	113,737
Other income	38,523	-	38,523
Unrealized loss on investments (Note 6)	(338,983)	(116,552)	(455,535)
Net assets released from restrictions	1,019,452	(1,019,452)	-
Total support and revenue	6,351,375	(1,077,921)	5,273,454
Expenses:			
Program services	5,283,754	-	5,283,754
Management and general	613,298	-	613,298
Fundraising – general	607,931	-	607,931
Fundraising – capital campaign	24,004	-	24,004
Total expenses	6,528,987	-	6,528,987
Change in net assets	(177,612)	(1,077,921)	(1,255,533)
Net assets, beginning of year	45,944,188	2,752,971	48,697,159
Net assets, end of year	$ 45,766,576	$ 1,675,050	$ 47,441,626

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, 2019 AND 2018

	2019					2018				
	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	$ 2,411,628	$ 451,777	$ 445,804	$ -	$ 3,309,209	$ 1,976,075	$ 275,869	$ 470,735	$ -	$ 2,722,679
Housekeeping and household supplies	244,817	4,996	-	-	249,813	301,137	6,146	-	-	307,283
Repairs and maintenance	272,399	5,559	-	-	277,958	238,902	4,631	-	-	243,533
Utilities	252,791	5,159	-	-	257,950	237,130	4,839	-	-	241,969
Office expenses	31,263	48,024	13,172	-	92,459	38,550	43,053	12,313	-	93,916
Telephone	48,519	7,773	624	-	56,916	42,712	9,494	-	-	52,206
Professional fees	315,532	148,924	60,145	-	524,601	166,570	181,929	44,609	14,257	407,365
Credit card and banking fees	-	-	29,350	-	29,350	-	-	15,820	1,207	17,027
Advertising and marketing	-	1,220	27,412	-	28,632	-	9,088	15,682	-	24,770
Bad debts	-	-	-	10,523	10,523	-	-	-	8,540	8,540
Other administrative expenses	53,534	21,853	20,988	-	96,375	39,436	29,831	15,746	-	85,013
Program	451,216	-	-	-	451,216	187,231	-	-	-	187,231
Insurance and taxes	90,628	5,140	-	-	95,768	77,135	9,215	-	-	86,350
Travel and meals	529	11,507	30,066	-	42,102	1,033	2,949	33,026	-	37,008
Interest	147,401	3,008	-	-	150,409	219,681	4,483	-	-	224,164
Depreciation	1,849,314	37,741	-	-	1,887,055	1,758,162	31,771	-	-	1,789,933
Loss on retirement of property and equipment	289,272	5,904	-	-	295,176	-	-	-	-	-
Total expenses as shown on the consolidated statements of activities	6,458,843	758,585	627,561	10,523	7,855,512	5,283,754	613,298	607,931	24,004	6,528,987
Cost of special events	-	-	649,368	-	649,368	-	-	518,258	-	518,258
Total expenses	$ 6,458,843	$ 758,585	$ 1,276,929	$ 10,523	$ 8,504,880	$ 5,283,754	$ 613,298	$ 1,126,189	$ 24,004	$ 7,047,245

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, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 677,322	$ (1,255,533)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,887,055	1,789,933
Loss on retirement of property and equipment	295,176	-
Interest expense – permanent loan costs amortization	9,321	50,356
Unrealized (gain) loss on investments	(1,205,546)	455,535
(Increase) decrease in assets:		
Contributions receivable	(778,218)	1,944,401
Prepaid expenses	(8,900)	20,659
Beneficial interest in charitable trust	(204,837)	-
Other assets	27,371	76,155
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(118,964)	376,313
Deferred revenue	-	109,150
Net cash provided by operating activities	579,780	3,566,969
Cash flows from investing activities:		
Net change in investments	(1,497,434)	183,034
Purchase of property, equipment and development in progress	(271,651)	(1,501,050)
Net cash used in investing activities	(1,769,085)	(1,318,016)
Cash flows from financing activities:		
Assets acquired in prior year paid for in the current year	-	(65,693)
Repayment of notes payable	-	(3,170,000)
Net cash used in financing activities	-	(3,235,693)
Net decrease in cash and restricted cash	(1,189,305)	(986,740)
Cash and restricted cash, beginning of year	3,786,376	4,773,116
Cash and restricted cash, end of year	$ 2,597,071	$ 3,786,376

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, 2019 AND 2018

	2019	2018
Supplementary information:		
Cash paid for interest	$ 141,088	$ 173,808
Noncash investing activity:		
Assets acquired by assuming current liabilities	$ 119,535	$ -
Cash	$ 2,430,719	$ 3,569,007
Restricted cash:		
Endowment	12,089	9,310
NMTC reserve	154,263	208,059
Total cash and restricted cash shown in the consolidated statements of cash flows	$ 2,597,071	$ 3,786,376

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 1981. 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:

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

1234 Tenth Avenue, San Francisco, CA – This four-story property is located near UCSF and across from Golden Gate Park. It has 35 family bedrooms plus group kitchens and family rooms. 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 in June 2018. The building became operational on July 11, 2018. In accordance with the terms of the memorandum of understanding with UCSF, the cost of the rehabilitation was funded on a reimbursement basis with proceeds of contributions from UCSF to Family House. Likewise, any portion of operating costs in excess of amounts received from families for their stay are subsidized by UCSF.

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 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 9) also includes providing a leveraged loan to COCRF Investor 32, LLC (COCRF 32), a Delaware limited liability company (see Note 5).

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

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 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 two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

- Net assets without donor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of Family House and Affiliates.

- Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires – that is, when a stipulated time restrictions ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as *net assets released from restrictions*. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

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 recognized when the donor makes a promise to give; that is, in substance, an unconditional promise. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 support without donor restrictions. Contributions restricted for the purchase of long-lived assets are reported as support without donor restriction 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.

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 and Restricted Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Restricted 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 net assets with donor restrictions, including donor-restricted endowment funds (see Note 6) and the NMTC reserve (see Note 3). 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 $1,227,000 as of December 31, 2019. Family House and Affiliates have not experienced any losses in such accounts.

Family House and Affiliates adopted the new accounting guidance required by accounting principles generally accepted in the United States of America and changed their presentation of the consolidated statements of cash flows. As a result, the 2018 consolidated statement of cash flows has been restated to include cash and restricted cash.

Contributions and Capital Campaign 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 $-0- and $1,129 as of December 31, 2019 and 2018, 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, 2019, management believes the leverage note to COCRF 32 is fully collectible and, as such, no allowance for loan losses is necessary.

Investments

In accordance with accounting principles generally accepted in the United States of America, 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.

Accounting principles generally accepted in the United States of America 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. Assets with a useful life of one year or more and a value of $500 or more are capitalized. 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

Split-interest Agreement

FHI is named as a beneficiary of a split-interest agreement. FHI records its beneficial interest in charitable trust under the split-interest agreement as a contribution if it is irrevocable, unconditional, and measurable. Beneficial interests are recorded at fair value and are reported separately in the consolidated statements of financial position. The contribution revenue from the split-interest agreement is included in contributions with donor restrictions in the accompanying consolidated statements of activities.

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 2015 through 2018 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 program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributed to more than one program or supporting function that require consistent allocation on a reasonable basis. Expenses that are allocated based on estimates of employees' time incurred are: payroll and related costs and other administrative expenses. Expenses that are allocated based on the allocated square footage of the Mission Bay building are: housekeeping and household supplies, repairs and maintenance, utilities, interest and depreciation.

Subsequent Events

Management has evaluated subsequent events through July 20, 2020, the date on which the consolidated financial statements were available to be issued.

NOTE 3 – NMTC RESERVE

FHMB is required to maintain a reserve for interest on the NCCLF Sub-CDE XI, LLC QLICI loans (see Note 9) 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 $154,263 and $208,059 as of December 31, 2019 and 2018, respectively.

NOTE 4 – CONTRIBUTIONS AND CAPITAL CAMPAIGN RECEIVABLE

Contributions Receivable

Contributions receivable is summarized as follows:

	2019	2018
Contributions receivable	$ 995,000	$ -
Less: unamortized discount	(73,416)	-
	921,584	-
Less: current portion	(195,000)	-
Net contributions receivable	$ 726,584	$ -

Future receipts are expected as follows:

2020	$ 195,000
2021	100,000
2022	100,000
2023	100,000
2024	100,000
Thereafter	400,000

Capital Campaign Receivable

Capital campaign receivable is summarized as follows:

	2019	2018
Capital campaign receivable	$ -	$ 23,452
Less: allowance for uncollectible contributions	-	(1,129)
Net capital campaign receivable	$ -	$ 22,323

NOTE 5 – LEVERAGE NOTE RECEIVABLE

Using proceeds from the NMTC loans (see Note 9), 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 2019 and 2018.

Principal receipts on the leverage note receivable for the next five years are estimated as follows:

2020	$ -
2021	-
2022	367,567
2023	372,218
2024	377,210

NOTE 6 – INVESTMENTS

Investments as of December 31, 2019 and 2018 are summarized as follows:

	2019		
	Non-Endowment	*Endowment*	*Total*
Funds:			
U.S. High Quality Bonds	$ 2,372,726	$ 550,577	$ 2,923,303
U.S. Inflation Adjusted Bonds	415,773	95,495	511,268
Foreign Bonds	197,515	39,199	236,714
Technology	237,344	56,332	293,676
Real Estate	147,454	38,979	186,433
U.S. Large Company Stocks	1,311,693	497,635	1,809,328
U.S. Large Company Value	740,825	-	740,825
U.S. Small Company Stocks	206,222	49,301	255,523
U.S. Small Company Value	412,716	100,682	513,398
Foreign Developed Country Stocks	1,103,056	260,427	1,363,483
Foreign Emerging Market Stocks	331,652	78,704	410,356
Total	$ 7,476,976	$ 1,767,331	$ 9,244,307

	2018		
	Non-Endowment	*Endowment*	*Total*
Funds:			
U.S. High Quality Bonds	$ 1,719,756	$ 542,674	$ 2,262,430
U.S. Inflation Adjusted Bonds	297,201	101,556	398,757
Foreign Bonds	137,651	49,658	187,309
Technology	156,180	53,611	209,791
Real Estate	100,033	30,691	130,724
U.S. Large Company Stocks	807,965	268,388	1,076,353
U.S. Large Company Value	450,170	149,729	599,899
U.S. Small Company Stocks	132,313	40,913	173,226
U.S. Small Company Value	253,580	85,235	338,815
Foreign Developed Country Stocks	655,826	217,376	873,202
Foreign Emerging Market Stocks	222,996	67,825	290,821
Total	$ 4,933,671	$ 1,607,656	$ 6,541,327

Unrealized gain (loss) on investments for 2019 and 2018 was $1,205,546 and $(455,535), respectively.

Family House and Affiliates' investments recorded at fair value have been categorized based upon Level 1 hierarchy of inputs in accordance with accounting principles generally accepted in the United States of America (see Note 2).

The total fair value of investments as of December 31, 2019 and 2018, respectively, includes $1,767,331 and $1,607,656 of donor-restricted endowment funds (see Note 10) and related investment income. The donor-restricted endowment funds also include $12,089 and $9,310 of restricted cash as of December 31, 2019 and 2018, 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:

	2019	2018
Land	$ 4,324,376	$ 4,324,376
Buildings and improvements	39,350,503	39,314,259
Furniture and equipment	3,138,386	3,120,268
Site improvements	236,425	236,425
	47,049,690	46,995,328
Less: accumulated depreciation	(8,047,481)	(6,202,074)
Total property and equipment	$ 39,002,209	$ 40,793,254

NOTE 8 – BENEFICIAL INTEREST IN CHARITABLE TRUST

FHI is a beneficiary to a charitable lead trust. In accordance with the terms of the trust agreement, the trustees, third parties, shall distribute an amount of $25,000 annually to FHI through 2029. FHI's beneficial interest in charitable trust recorded at fair value has been categorized based upon Level 2 hierarchy of inputs in accordance with accounting principles generally accepted in the United States of America (see Note 2). The balance was $204,837 and $-0- as of December 31, 2019 and 2018, respectively.

NOTE 9 – NOTES PAYABLE

As part of the financing for the Mission Bay project, FHMB obtained NMTC loans and a revolving loan (repaid in 2018). The notes are secured by the property and consist of the following:

	2019		2018	
Lender	*Interest Payable*	*Principal*	*Interest Payable*	*Principal*
<u>*NMTC loans:*</u>				
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 2019 and 2018.	$ -	$ 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 2019 and 2018.	-	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 2019 and 2018.	-	1,970,400	-	1,970,400

	2019		2018	
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 2019 and 2018.	-	1,029,600	-	1,029,600
Total	-	11,051,000	-	11,051,000
Less: unamortized permanent loan costs (1)	-	(233,811)	-	(243,132)
Total	$ -	$ 10,817,189	$ -	$ 10,807,868

(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. Permanent loan costs in the amount of $123,017 were fully amortized and written off as part of the repayment of the Northern Trust Company revolving loan. Interest expense for amortization of permanent loan costs was $9,321 and $50,356 in 2019 and 2018, respectively.

The Northern Trust Company revolving loan, in the maximum amount of $23,000,000, bore variable interest rate and required monthly interest-only payments. The loan was paid in full in 2018. Interest expense was $32,720 in 2018.

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

2020	$ -
2021	-
2022	416,561
2023	421,495
2024	426,889

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are summarized as follows:

	2019			
	December 31, 2018	*Contributions*	*Releases from Restrictions*	*December 31, 2019*
Endowment	$ 1,080,782	$ -	$ -	$ 1,080,782
Endowment earnings – time restricted until appropriated for expenditures	536,185	267,478	(105,025)[1]	698,638
Music therapy program	23,083	861,094	(23,083)	861,094
Other	35,000	211,837	(35,000)	211,837
	$ 1,675,050	$ 1,340,409	$ (163,108)	$ 2,852,351

	2018			
	December 31, 2017	*Contributions / Loss*	*Releases from Restrictions*	*December 31, 2018*
10th Avenue rehabilitation	$ 915,294	$ -	$ (915,294)	$ -
Endowment	1,080,782	-	-	1,080,782
Endowment earnings – time restricted until appropriated for expenditures	756,895	(116,552)	(104,158)[1]	536,185
Music therapy program	-	23,083	-	23,083
Other	-	35,000	-	35,000
	$ 2,752,971	$ (58,469)	$ (1,019,452)	$ 1,675,050

[1] The Board of Directors of Family House and Affiliates authorized the release of 6% of the total endowment fund during 2019 and 2018.

Endowment

Over the years, Family House and Affiliates have received certain funds with donor restrictions. 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 accounting principles generally accepted in the United States of America, 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 net assets with donor restrictions: (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, is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by Family House and Affiliates 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 Family House and Affiliates 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 Family House and Affiliates.
(g) The investment policies of Family House and Affiliates.

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 accounting principles generally accepted in the United States of America, deficiencies of this nature are reported as decreases in net assets without donor restrictions. These deficiencies may result from unfavorable market fluctuations or other market conditions. There were no such deficiencies as of December 31, 2019 and 2018.

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 was adopted in 2019 and 2018. 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 established a 403b plan covering employees who work more than 30 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 $93,726 and $91,237 for the years ended December 31, 2019 and 2018, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Indemnification

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.

Reimbursement Income

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 is such company's policy to reimburse for the types of services that Family House provides to families. Total amount of lodging reimbursement received was $25,245 and $113,737 for the years ended December 31, 2019 and 2018, respectively.

NOTE 13 – LIQUIDITY AND AVAILABILITY

Family House and Affiliates regularly monitor liquidity required to meet their operating needs and other contractual commitments, while also striving to maximize the investment of their available funds. Family House and Affiliates have various sources of liquidity at its disposal, including cash and cash equivalents and equity securities.

In addition to financial assets available to meet general expenditures over the next 12 months, Family House and Affiliates operate with a balanced budget and anticipate collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statements of cash flows, which identify the sources and uses of cash and restricted cash and show positive cash generated by operations for 2019 and 2018.

As of December 31, 2019 and 2018, the following financial assets could readily be made available within one year of the consolidated statements of financial position date to meet general expenditures:

	2019	2018
Cash	$ 2,430,719	$ 3,569,007
Receivables, net – current portion	336,096	284,462
Investments	9,244,307	6,541,327
Beneficial interest in charitable trust – current portion	25,000	-
	12,036,122	10,394,796
Less:		
Endowment investments [1]	(1,767,331)	(1,607,656)
Cash encumbered by donor:		
Music therapy program	(34,510)	(23,083)
Other	(7,000)	(35,000)
Receivables, net – current portion encumbered by donor:		
Music therapy program	(100,000)	-
	$ 10,127,281	$ 8,729,057

[1] As of December 31, 2019 and 2018, $1,767,331 and $1,607,656, respectively, of Family House and Affiliates' investments was restricted by the donor as Endowment (see Notes 6 and 10). These donor-restricted endowment funds are not currently available for general expenditure. Prudent investment management, however, is considered to ensure the preservation of the funds for future use, which is outlined in Family House and Affiliates' Investment Guidelines and overseen by the BOD Investment Committee.

NOTE 14 – SUBSEQUENT EVENTS

The emergence and spread of the coronavirus (COVID-19) during 2020 has affected businesses and economic activities in the U.S. and beyond. The extent of the impact of COVID-19 on Family House and Affiliates' operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on supply chains, service providers, and business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time. Due to the uncertainty of the current economic conditions, Family House and Affiliates requested and received loan funds totaling $469,570 from the Paycheck Protection Program (PPP), a program authorized under the CARES Act and the PPP Flexibility Act, to support ongoing operations and to retain workers and maintain payroll. Loan funds are fully guaranteed by the Small Business Administration and eligible for forgiveness if used on eligible costs for a covered period of 8-weeks after loan disbursement, including the requirement to maintain staff and compensation levels. Family House and Affiliates may choose to extend the covered period to 24-weeks after loan disbursement. Any unforgiven funds will be due by May 2022. Family House and Affiliates may renegotiate the loan terms to extend the maturity date to May 2025.

SUPPLEMENTARY INFORMATION

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

DECEMBER 31, 2019

	2019				
	Family House, Inc.	*Family House, Inc. 10th Avenue*	*Family House Foundation, Inc.*	*Family House Mission Bay, Inc.*	*Total*
ASSETS					
Current assets:					
Cash	$ 1,649,782	$ 149,040	$ 307,260	$ 324,637	$ 2,430,719
Receivables:					
Contributions receivable – current portion	195,000	-	-	-	195,000
Other – unrestricted	-	141,096	-	-	141,096
Beneficial interest in charitable trust – current portion	25,000	-	-	-	25,000
Prepaid expenses	36,567	-	-	-	36,567
Investments	-	-	9,244,307	-	9,244,307
Total current assets	1,906,349	290,136	9,551,567	324,637	12,072,689
Contributions receivable – net of current portion	726,584	-	-	-	726,584
Leverage note receivable	-	-	7,421,840	-	7,421,840
Restricted cash:					
Endowment	-	-	12,089	-	12,089
NMTC reserve	-	-	-	154,263	154,263
Property and equipment – net	-	5,227,533	-	33,774,676	39,002,209
Beneficial interest in charitable trust – net of current portion	179,837	-	-	-	179,837
Total assets	$ 2,812,770	$ 5,517,669	$ 16,985,496	$ 34,253,576	$ 59,569,511

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

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

DECEMBER 31, 2019

	2019				
	Family House, Inc.	*Family House, Inc. 10th Avenue*	*Family House Foundation, Inc.*	*Family House Mission Bay, Inc.*	*Total*
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued expenses	$ 195,491	$ 174,008	$ 35,190	$ 119,535	$ 524,224
Deferred revenue	-	109,150	-	-	109,150
Total current liabilities	195,491	283,158	35,190	119,535	633,374
Notes payable	-	-	-	10,817,189	10,817,189
Total liabilities	195,491	283,158	35,190	10,936,724	11,450,563
Net assets:					
Without donor restrictions	1,544,348	5,234,511	15,170,886	23,316,852	45,266,597
With donor restrictions	1,072,931	-	1,779,420	-	2,852,351
Total net assets	2,617,279	5,234,511	16,950,306	23,316,852	48,118,948
Total liabilities and net assets	$ 2,812,770	$ 5,517,669	$ 16,985,496	$ 34,253,576	$ 59,569,511

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

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	2019				
	Family House, Inc.	*Family House, Inc. 10th Avenue*	*Family House Foundation, Inc.*	*Family House Mission Bay, Inc.*	*Total*
Support and revenue:					
Contributions	$ 3,586,422	$ -	$ 271,385	$ -	$ 3,857,807
Special events contributions	1,843,818	-	-	-	1,843,818
Special events revenue	881,779	-	-	-	881,779
Less: cost of special events	(649,368)	-	-	-	(649,368)
Interest on leverage note receivable	-	-	99,030	-	99,030
Operations financed by UCSF	-	1,015,718	-	-	1,015,718
Family stay	-	226,242	-	-	226,242
Reimbursement income	25,245	-	-	-	25,245
Other income	26,219	-	632	166	27,017
Unrealized gain on investments	-	-	1,205,546	-	1,205,546
Total support and revenue	5,714,115	1,241,960	1,576,593	166	8,532,834
Expenses:					
Program services	2,980,268	1,321,056	130,285	2,027,234	6,458,843
Management and general	380,044	177,916	139,433	61,192	758,585
Fundraising – general	217,941	36,293	373,276	51	627,561
Fundraising – capital campaign	-	-	10,523	-	10,523
Total expenses	3,578,253	1,535,265	653,517	2,088,477	7,855,512
Change in net assets	2,135,862	(293,305)	923,076	(2,088,311)	677,322
Transfers between entities	(1,219,472)	4,328	620,561	594,583	-
Net assets, beginning of year	1,700,889	5,523,488	15,406,669	24,810,580	47,441,626
Net assets, end of year	$ 2,617,279	$ 5,234,511	$ 16,950,306	$ 23,316,852	$ 48,118,948

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

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF ACTIVITIES – FAMILY HOUSE, INC. ONLY

YEAR ENDED DECEMBER 31, 2019

	2019		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Support and revenue:			
Contributions	$ 2,513,491	$ 1,072,931	$ 3,586,422
Special events contributions	1,843,818	-	1,843,818
Special events revenue	881,779	-	881,779
Less: cost of special events	(649,368)	-	(649,368)
Reimbursement income	25,245	-	25,245
Other income	26,219	-	26,219
Net assets released from restrictions	58,083	(58,083)	-
Total support and revenue	4,699,267	1,014,848	5,714,115
Expenses:			
Program services	2,980,268	-	2,980,268
Management and general	380,044	-	380,044
Fundraising – general	217,941	-	217,941
Total expenses	3,578,253	-	3,578,253
Change in net assets	1,121,014	1,014,848	2,135,862
Transfers between entities	(1,219,472)	-	(1,219,472)
Net assets, beginning of year	1,642,806	58,083	1,700,889
Net assets, end of year	$ 1,544,348	$ 1,072,931	$ 2,617,279

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