FAMILY HOUSE, INC.
AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2021 AND 2020

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Consolidated Financial Statements

Opinion

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, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Family House, Inc. and Affiliates as of December 31, 2021 and 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Family House, Inc. and Affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Family House, Inc. and Affiliates' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Family House, Inc. and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Family House, Inc. and Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 and 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 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 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 15, 2022

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Current assets:		
Cash	$ 4,246,834	$ 4,651,972
Receivables:		
Contributions receivable – current portion (Note 4)	205,000	105,000
Beneficial interest in charitable trust – current portion (Note 8)	25,000	25,000
Prepaid expenses	87,301	89,447
Investments (Note 6)	15,457,036	10,477,490
Total current assets	20,021,171	15,348,909
Contributions receivable – net of current portion (Note 4)	536,246	638,159
Leverage note receivable (Note 5)	7,421,840	7,421,840
Restricted cash:		
Endowment (Note 6)	7,615	7,444
NMTC reserve (Note 3)	46,021	100,233
Property and equipment – net (Note 7)	35,708,954	37,255,361
Beneficial interest in charitable trust – net of current portion (Note 8)	140,340	166,883
Total assets	$ 63,882,187	$ 60,938,829
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 378,705	$ 226,255
Deferred revenue	422,250	337,810
PPP loans (Note 10)	-	469,570
Total current liabilities	800,955	1,033,635
Notes payable (Note 9)	10,835,831	10,826,510
Total liabilities	11,636,786	11,860,145
Net assets:		
Without donor restrictions	49,230,470	46,337,959
With donor restrictions (Note 11)	3,014,931	2,740,725
Total net assets	52,245,401	49,078,684
Total liabilities and net assets	$ 63,882,187	$ 60,938,829

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, 2021 AND 2020

	2021		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Support and revenue:			
Contributions	$ 5,006,127	$ 130,000	$ 5,136,127
Special events contributions	1,301,499	-	1,301,499
Special events revenue	882,223	-	882,223
Less: cost of special events	(307,819)	-	(307,819)
Interest on leverage note receivable (Note 5)	99,030	-	99,030
Operations financed by UCSF	1,070,607	-	1,070,607
Family stay	148,942	-	148,942
Reimbursement income (Note 13)	6,273	-	6,273
Other income	17,852	-	17,852
Unrealized gain on investments (Note 6)	1,419,558	267,662	1,687,220
Forgiveness of debt (Note 10)	871,272	-	871,272
Net assets released from restrictions	123,456	(123,456)	-
Total support and revenue	10,639,020	274,206	10,913,226
Expenses:			
Program services	6,107,511	-	6,107,511
Management and general	712,928	-	712,928
Fundraising – general	926,070	-	926,070
Total expenses	7,746,509	-	7,746,509
Change in net assets	2,892,511	274,206	3,166,717
Net assets, beginning of year	46,337,959	2,740,725	49,078,684
Net assets, end of year	$ 49,230,470	$ 3,014,931	$ 52,245,401

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, 2021 AND 2020

	2020		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Support and revenue:			
Contributions	$ 5,321,033	$ -	$ 5,321,033
Special events contributions	1,446,995	-	1,446,995
Special events revenue	73,306	-	73,306
Less: cost of special events	(171,394)	-	(171,394)
Interest on leverage note receivable (Note 5)	99,030	-	99,030
Operations financed by UCSF	1,172,162	-	1,172,162
Family stay	128,645	-	128,645
Reimbursement income (Note 13)	20,731	-	20,731
Other income	14,424	-	14,424
Unrealized gain on investments (Note 6)	685,514	147,860	833,374
Net assets released from restrictions	259,486	(259,486)	-
Total support and revenue	9,049,932	(111,626)	8,938,306
Expenses:			
Program services	6,488,363	-	6,488,363
Management and general	707,203	-	707,203
Fundraising – general	783,004	-	783,004
Total expenses	7,978,570	-	7,978,570
Change in net assets	1,071,362	(111,626)	959,736
Net assets, beginning of year	45,266,597	2,852,351	48,118,948
Net assets, end of year	$ 46,337,959	$ 2,740,725	$ 49,078,684

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, 2021 AND 2020

	2021				2020			
	Program Services	*Management and General*	*Fundraising – General*	*Total*	*Program Services*	*Management and General*	*Fundraising – General*	*Total*
Payroll and related costs	$ 2,528,001	$ 329,054	$ 582,839	$ 3,439,894	$ 2,685,839	$ 386,653	$ 501,038	$ 3,573,530
Professional fees	335,386	208,007	219,115	762,508	246,434	171,524	137,992	555,950
Program	431,295	-	-	431,295	428,395	-	-	428,395
Repairs and maintenance	320,332	6,571	-	326,903	364,061	7,430	-	371,491
Utilities	289,221	8,629	-	297,850	279,708	5,708	-	285,416
Housekeeping and household supplies	160,492	3,404	-	163,896	233,853	4,772	-	238,625
Office expenses	63,348	28,121	38,670	130,139	65,475	28,189	47,564	141,228
Insurance and taxes	79,383	5,973	-	85,356	68,095	9,798	-	77,893
Telephone	48,570	11,622	-	60,192	54,840	13,752	1,284	69,876
Advertising and marketing	-	2,100	35,012	37,112	-	-	37,773	37,773
Credit card and banking fees	-	19,224	4,503	23,727	-	-	27,110	27,110
Travel and meals	435	3,127	16,867	20,429	-	-	10,124	10,124
Other administrative expenses	46,597	44,068	29,064	119,729	53,627	38,397	20,119	112,143
Interest (Note 9)	147,401	9,210	-	156,611	147,401	3,008	-	150,409
Depreciation	1,586,858	32,385	-	1,619,243	1,833,377	37,416	-	1,870,793
Loss on retirement of property and equipment	70,192	1,433	-	71,625	27,258	556	-	27,814
Total expenses as shown on the consolidated statements of activities	6,107,511	712,928	926,070	7,746,509	6,488,363	707,203	783,004	7,978,570
Cost of special events	-	-	307,819	307,819	-	-	171,394	171,394
Total expenses	$ 6,107,511	$ 712,928	$ 1,233,889	$ 8,054,328	$ 6,488,363	$ 707,203	$ 954,398	$ 8,149,964

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, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 3,166,717	$ 959,736
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,619,243	1,870,793
Loss on retirement of property and equipment	71,625	27,814
Interest expense – permanent loan costs amortization	9,321	9,321
Unrealized (gain) loss on investments	(1,687,220)	(833,374)
Forgiveness of debt	(871,272)	-
(Increase) decrease in assets:		
Contributions receivable	1,913	319,521
Prepaid expenses	2,146	(52,880)
Beneficial interest in charitable trust	26,543	12,954
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	152,450	(178,434)
Deferred revenue	84,440	228,660
Interest payable	6,202	-
Net cash provided by operating activities	2,582,108	2,364,111
Cash flows from investing activities:		
Net change in investments	(3,292,326)	(399,809)
Purchase of property, equipment and development in progress	(144,461)	(151,759)
Net cash used in investing activities	(3,436,787)	(551,568)
Cash flows from financing activities:		
Assets acquired in prior year paid for in the current year	-	(119,535)
Proceeds from PPP loan	395,500	469,570
Net cash provided by financing activities	395,500	350,035
Net increase (decrease) in cash and restricted cash	(459,179)	2,162,578
Cash and restricted cash, beginning of year	4,759,649	2,597,071
Cash and restricted cash, end of year	$ 4,300,470	$ 4,759,649

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, 2021 AND 2020

	2021	2020
Supplementary information:		
Cash paid for interest	$ 141,088	$ 141,088
Cash	$ 4,246,834	$ 4,651,972
Restricted cash:		
Endowment	7,615	7,444
NMTC reserve	46,021	100,233
Total cash and restricted cash shown in the consolidated statements of cash flows	$ 4,300,470	$ 4,759,649

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, Community Vision Capital & Consulting (formerly known as Northern California Community Loan Fund), a California nonprofit public benefit corporation. The NMTC deal which closed in January 2015 (see Note 9) also included providing a leveraged loan to COCRF Investor 32, LLC (COCRF 32), a Delaware limited liability company (see Note 5). In 2022, Family House and Affiliates are in the process of unwinding NMTC transactions, including obtaining forgiveness of the loans, purchasing the membership interest in COCRF 32 and forgiving the leveraged loan, and dissolving FHF and FHMB.

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 restriction 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 $3,281,000 as of December 31, 2021. Family House and Affiliates have not experienced any losses in such accounts.

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 $-0- as of December 31, 2021 and 2020.

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, 2021, 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 three years or more and a value of $3,000 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

Work in Process

Family House and Affiliates incur costs during a major repair of the properties. Such costs include construction costs, as well as governmental fees, legal and consulting fees, if any. Family House and Affiliates record these costs as assets (work in process). Major repair costs are considered to be work in process until they are placed in service. Work in process is not depreciated until the completion of the development.

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 2017 through 2020 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 June 15, 2022, 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 Community Vision Capital & Consulting in advance in accordance with the lender's credit agreement. The NMTC reserve had a balance of $46,021 and $100,233 as of December 31, 2021 and 2020, respectively. The balance is expected to be released in 2022.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions Receivable

Contributions receivable is summarized as follows:

	2021	2020
Contributions receivable	$ 810,000	$ 815,000
Less: unamortized discount	(68,754)	(71,841)
	741,246	743,159
Less: current portion	(205,000)	(105,000)
Net contributions receivable	$ 536,246	$ 638,159

Future receipts are expected as follows:

2022	$ 205,000
2023	105,000
2024	100,000
2025	100,000
2026	100,000
Thereafter	200,000

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 2021 and 2020.

In 2022, Family House purchased Capital One, National Association's (CONA, the sole member of COCRF 32), membership interest in COCRF 32. Management expects to forgive the leverage note receivable in 2022 (see Note 9).

NOTE 6 – INVESTMENTS

Investments as of December 31, 2021 and 2020 are summarized as follows:

	2021		
	Non-Endowment	*Endowment*	*Total*
Funds (Level 1):			
U.S. High Quality Bonds	$ 4,225,793	$ 532,449	$ 4,758,242
U.S. Inflation Adjusted Bonds	573,929	93,010	666,939
Technology	431,282	76,880	508,162
Real Estate	278,477	51,647	330,124
U.S. Large Company Stocks	2,499,185	435,400	2,934,585
U.S. Large Company Value	1,410,612	241,615	1,652,227
U.S. Small Company Stocks	399,522	69,208	468,730
U.S. Small Company Value	795,689	140,360	936,049
Foreign Developed Country Stocks	1,908,700	309,665	2,218,365
Foreign Emerging Market Stocks	814,117	130,496	944,613
	13,337,306	2,080,730	15,418,036
Other stocks (Level 2)	39,000	-	39,000
Total	$ 13,376,306	$ 2,080,730	$ 15,457,036

	2020		
	Non-Endowment	*Endowment*	*Total*
Funds (Level 1):			
U.S. High Quality Bonds	$ 2,882,721	$ 600,078	$ 3,482,799
U.S. Inflation Adjusted Bonds	512,305	107,348	619,653
Technology	300,706	59,475	360,181
Real Estate	140,028	36,838	176,866
U.S. Large Company Stocks	1,556,756	323,767	1,880,523
U.S. Large Company Value	823,668	177,429	1,001,097
U.S. Small Company Stocks	242,920	53,985	296,905
U.S. Small Company Value	478,836	101,576	580,412
Foreign Developed Country Stocks	1,230,211	250,573	1,480,784
Foreign Emerging Market Stocks	496,100	102,170	598,270
Total	$ 8,664,251	$ 1,813,239	$ 10,477,490

Unrealized gain on investments for 2021 and 2020 was $1,687,220 and $833,374, 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).

Family House and Affiliates also has investments in other stocks with a fair value of $39,000 based on a June 30, 2021 third-party report. This 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 total fair value of investments as of December 31, 2021 and 2020, respectively, includes $2,080,730 and $1,813,239 of donor-restricted endowment funds (see Note 11) and related investment income. The donor-restricted endowment funds also include $7,615 and $7,444 of restricted cash as of December 31, 2021 and 2020, 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:

	2021	2020
Land	$ 4,324,376	$ 4,324,376
Buildings and improvements	39,453,173	39,416,271
Furniture and equipment	3,164,752	3,152,875
Site improvements	236,425	236,425
	47,178,726	47,129,947
Less: accumulated depreciation	(11,484,480)	(9,879,864)
Work in process	14,708	5,278
Total property and equipment	$ 35,708,954	$ 37,255,361

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 $165,340 and $191,883 as of December 31, 2021 and 2020, respectively.

NOTE 9 – NOTES PAYABLE

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

	2021		2020	
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 2021 and 2020.	$ -	$ 5,451,440	$ -	$ 5,451,440

	2021		2020	
Lender	*Interest Payable*	*Principal*	*Interest Payable*	*Principal*
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 2021 and 2020.	-	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 2021 and 2020.	-	1,970,400	-	1,970,400
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 2021 and 2020.	-	1,029,600	-	1,029,600
Total	-	11,051,000	-	11,051,000
Less: unamortized permanent loan costs [(1)]	-	(215,169)	-	(224,490)
Total	$ -	$ 10,835,831	$ -	$ 10,826,510

[(1)] Costs incurred in order to obtain permanent financing were $271,095 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 $9,321 annually in 2021 and 2020.

The loans were assigned to COCRF 32 in 2022, and management expects the loans to be forgiven.

NOTE 10 – PPP LOANS

Due to the uncertainty of the current economic conditions (see Note 13), Family House and Affiliates requested and received loan funds totaling $395,500 and $469,570 in 2021 and 2020, respectively, 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. Interest accrued at 1% per annum. Loan funds were 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. In 2021, the PPP loans and accrued interest were forgiven.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are summarized as follows:

	2021			
	December 31, 2020	*Contributions*	*Releases from Restrictions*	*December 31, 2021*
Endowment	$ 1,080,782	$ -	$ -	$ 1,080,782
Endowment earnings – time restricted until appropriated for expenditures	739,901	267,662	-	1,007,563
Music therapy program	728,159	-	(96,913)	631,246
Other	191,883	130,000	(26,543)	295,340
	$ 2,740,725	$ 397,662	$ (123,456)	$ 3,014,931

	2020			
	December 31, 2019	*Contributions*	*Releases from Restrictions*	*December 31, 2020*
Endowment	$ 1,080,782	$ -	$ -	$ 1,080,782
Endowment earnings – time restricted until appropriated for expenditures	698,638	147,860	(106,597)[1]	739,901
Music therapy program	861,094	-	(132,935)	728,159
Other	211,837	-	(19,954)	191,883
	$ 2,852,351	$ 147,860	$ (259,486)	$ 2,740,725

[1] The Board of Directors of Family House and Affiliates authorized the release of 6% of the total endowment fund during 2020.

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, 2021 and 2020.

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 2021 and 2020. Actual asset allocation may vary from the 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 12 – 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 $101,643 and $107,017 for the years ended December 31, 2021 and 2020, respectively.

NOTE 13 – COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

Indemnification

FHF and FHMB agree to indemnify CONA 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 $6,273 and $20,731 for the years ended December 31, 2021 and 2020, respectively.

COVID-19 Pandemic

The emergence and spread of the coronavirus (COVID-19) 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.

NOTE 14 – 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 2021 and 2020.

As of December 31, 2021 and 2020, the following financial assets could readily be made available within one year of the consolidated statements of financial position date to meet general expenditures:

	2021	2020
Cash	$ 4,246,834	$ 4,651,972
Receivables, net – current portion	205,000	105,000
Investments	15,457,036	10,477,490
Beneficial interest in charitable trust – current portion	25,000	25,000
	19,933,870	15,259,462
Less:		
Endowment investments [1]	(2,080,730)	(1,813,239)
Cash encumbered by donor:		
Music therapy program	(30,000)	-
Receivables, net – current portion encumbered by donor:		
Music therapy program	(100,000)	(100,000)
	$ 17,723,140	$ 13,346,223

(1) As of December 31, 2021 and 2020, $2,080,730 and $1,813,239, respectively, of Family House and Affiliates' investments was restricted by the donor as Endowment (see Notes 6 and 11). 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.

CONSOLIDATING INFORMATION

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

DECEMBER 31, 2021

	Family House, Inc.	*Family House, Inc. 10th Avenue*	*Family House Foundation, Inc.*	*Family House Mission Bay, Inc.*	*Total*
ASSETS					
Current assets:					
Cash	$ 3,209,992	$ 290,279	$ 460,468	$ 286,095	$ 4,246,834
Contributions receivable – current portion	205,000	-	-	-	205,000
Beneficial interest in charitable trust – current portion	25,000	-	-	-	25,000
Prepaid expenses	87,301	-	-	-	87,301
Investments	-	-	15,457,036	-	15,457,036
Total current assets	3,527,293	290,279	15,917,504	286,095	20,021,171
Contributions receivable – net of current portion	536,246	-	-	-	536,246
Leverage note receivable	-	-	7,421,840	-	7,421,840
Restricted cash:					
Endowment	-	-	7,615	-	7,615
NMTC reserve	-	-	-	46,021	46,021
Property and equipment – net	-	4,753,438	-	30,955,516	35,708,954
Beneficial interest in charitable trust – net of current portion	140,340	-	-	-	140,340
Total assets	$ 4,203,879	$ 5,043,717	$ 23,346,959	$ 31,287,632	$ 63,882,187

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

DECEMBER 31, 2021

	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	$ 352,305	$ -	$ 26,400	$ -	$ 378,705
Deferred revenue	-	422,250	-	-	422,250
Total current liabilities	352,305	422,250	26,400	-	800,955
Notes payable	-	-	-	10,835,831	10,835,831
Total liabilities	352,305	422,250	26,400	10,835,831	11,636,786
Net assets:					
Without donor restrictions	3,721,574	4,621,467	20,435,628	20,451,801	49,230,470
With donor restrictions	130,000	-	2,884,931	-	3,014,931
Total net assets	3,851,574	4,621,467	23,320,559	20,451,801	52,245,401
Total liabilities and net assets	$ 4,203,879	$ 5,043,717	$ 23,346,959	$ 31,287,632	$ 63,882,187

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

	Family House, Inc.	*Family House, Inc. 10th Avenue*	*Family House Foundation, Inc.*	*Family House Mission Bay, Inc.*	*Total*
Support and revenue:					
Contributions	$ 5,013,663	$ -	$ 122,464	$ -	$ 5,136,127
Special events contributions	1,244,685	-	56,814	-	1,301,499
Special events revenue	561,823	-	320,400	-	882,223
Less: cost of special events	(307,819)	-	-	-	(307,819)
Interest on leverage note receivable	-	-	99,030	-	99,030
Operations financed by UCSF	-	1,070,607	-	-	1,070,607
Family stay	-	148,942	-	-	148,942
Reimbursement income	6,273	-	-	-	6,273
Other income	17,745	-	5	102	17,852
Unrealized gain on investments	-	-	1,687,220	-	1,687,220
Forgiveness of debt	757,164	-	114,108	-	871,272
Total support and revenue	7,293,534	1,219,549	2,400,041	102	10,913,226
Expenses:					
Program services	3,188,850	1,283,108	77,314	1,558,239	6,107,511
Management and general	450,546	158,701	103,681	-	712,928
Fundraising – general	386,796	53,136	486,138	-	926,070
Total expenses	4,026,192	1,494,945	667,133	1,558,239	7,746,509
Change in net assets	3,267,342	(275,396)	1,732,908	(1,558,137)	3,166,717
Transfers between entities	(3,607,238)	(9,975)	3,593,406	23,807	-
Net assets, beginning of year	4,191,470	4,906,838	17,994,245	21,986,131	49,078,684
Net assets, end of year	$ 3,851,574	$ 4,621,467	$ 23,320,559	$ 20,451,801	$ 52,245,401

FAMILY HOUSE, INC. AND AFFILIATES

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF ACTIVITIES – FAMILY HOUSE, INC. ONLY

YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Support and revenue:			
Contributions	$ 4,883,663	$ 130,000	$ 5,013,663
Special events contributions	1,244,685	-	1,244,685
Special events revenue	561,823	-	561,823
Less: cost of special events	(307,819)	-	(307,819)
Reimbursement income	6,273	-	6,273
Other income	17,745	-	17,745
Forgiveness of debt	757,164	-	757,164
Total support and revenue	7,163,534	130,000	7,293,534
Expenses:			
Program services	3,188,850	-	3,188,850
Management and general	450,546	-	450,546
Fundraising – general	386,796	-	386,796
Total expenses	4,026,192	-	4,026,192
Change in net assets	3,137,342	130,000	3,267,342
Transfers between entities	(3,607,238)	-	(3,607,238)
Net assets, beginning of year	3,118,539	1,072,931	4,191,470
Net assets, end of year	$ 2,648,643	$ 1,202,931	$ 3,851,574