GEORGE MARK CHILDREN'S HOUSE

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017
WITH INDEPENDENT AUDITORS' REPORT THEREON

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

GEORGE MARK CHILDREN'S HOUSE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
June 30, 2018 and 2017

As the first free-standing pediatric palliative care center in the United States, George Mark Children's House offers comprehensive, compassionate, life-affirming care to children facing a life-limiting diagnosis. Services are available to medically eligible families regardless of ethnicity, gender identity, sexual orientation, or religion.

Mission

The mission of George Mark Children's House is to provide the highest quality of care and to minimize suffering by addressing the physical, emotional, spiritual and psychosocial needs of the entire family. In doing so, we strive to achieve the best quality of life possible from the moment of admission onward, through strong collaboration between families, the child's physician(s), and our interdisciplinary team.

Vision

Our vision is to make a difference in the lives of children with a life-limiting diagnosis and their families. We increase access to care by advocating for pediatric palliative care benefits, and by serving as a model to other communities seeking to implement a pediatric palliative care approach.

Additional Information

George Mark Children's House focuses on relieving the suffering, pain and stress of illness for children with a potentially life-limiting diagnosis. Recent evidence shows that palliative care improves outcomes by increasing the family's confidence in managing care at home, thereby reducing unnecessary emergency department visits and readmissions.

The criterion for admission is the diagnosis of a potentially life-limiting illness, or a life-threatening complication of an illness or medical condition. For children with frequent hospitalizations or emergency department visits, or ongoing medical interventions, George Mark can help prevent readmissions, shorten hospitalizations and teach families to safely manage their child's care at home.

Our interdisciplinary team collaborates closely with families to maximize quality-of-life. The team includes pediatricians, a psychologist, nurses and nursing assistants, social workers, a child life specialist, a pediatric aquatics specialist and volunteers.

We have nine licensed beds, and feature eight beautifully themed patient bedrooms with an extra bed for the caregiver, a private bathroom and a door opening to our lovely gardens. We also have music, art, play and activity rooms, a therapy pool, a non-denominational sanctuary, and a family-style dining room for meals.

GEORGE MARK CHILDREN'S HOUSE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
George Mark Children's House

We have audited the accompanying financial statements of George Mark Children's House (a California nonprofit public benefit corporation) which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities and changes in net assets, cash flows and functional expenses 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of George Mark Children's House as of June 30, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Regalia & Associates

Danville, California
February 15, 2019

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 659,494	$ 500,045
Accounts receivable, net of allowance of $30,000 at June 30, 2018 and 2017, respectively	77,167	272,155
Pledges and grants receivable	87,500	120,339
Beneficial interest in split-interest trust	35,200	41,200
Prepaid expenses and deferred charges	91,416	55,628
Total current assets	950,777	989,367
Property and equipment, net	10,717,685	11,152,614
Ground lease contribution receivable	890,463	895,451
Beneficial interest in split-interest trust, net of current portion	202,700	237,900
Prepaid loan fees and other assets	90,200	41,630
Total assets	**$ 12,851,825**	**$ 13,316,962**
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 193,552	$ 183,942
Accrued personnel expenses	251,766	223,973
Deferred revenue	134,400	72,896
Notes payable to bank - current portion	1,645,000	1,400,000
Total current liabilities	2,224,718	1,880,811
Note payable to related party	1,130,000	1,130,000
Notes payable to bank	5,810,000	5,810,000
Total liabilities	9,164,718	8,820,811
Net assets		
Unrestricted net assets	2,150,512	2,931,129
Temporarily restricted net assets	1,526,595	1,555,022
Permanently restricted net assets	10,000	10,000
Total net assets	3,687,107	4,496,151
Total liabilities and net assets	**$ 12,851,825**	**$ 13,316,962**

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Contributions and grants	$ 2,092,666	$ 400,807	$ -	$ 2,493,473
Fundraising events	465,572	-	-	465,572
In-kind contributions	148,150	-	-	148,150
Program fees	876,117	-	-	876,117
Change in value of beneficial interest				
in split-interest trust	-	(41,200)	-	(41,200)
Net change in ground lease	-	(541)	-	(541)
Other income	12,606	-	-	12,606
Total revenue	3,595,111	359,066	-	3,954,177
Assets transferred and released				
from restrictions	387,493	(387,493)	-	-
Total revenue and support	3,982,604	(28,427)	-	3,954,177
Expenses				
Program services	3,473,019	-	-	3,473,019
Supporting services				
Administration	662,570	-	-	662,570
Fundraising	627,632	-	-	627,632
Total expenses	4,763,221	-	-	4,763,221
Decrease in net assets	(780,617)	(28,427)	-	(809,044)
Net assets at beginning of the year	2,931,129	1,555,022	10,000	4,496,151
Net assets at end of the year	**$2,150,512**	**$1,526,595**	**$ 10,000**	**$3,687,107**

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Contributions and grants	$ 2,409,631	$ 317,617	$ -	$ 2,727,248
Fundraising events	444,597	-	-	444,597
In-kind contributions	151,214	-	-	151,214
Program fees	1,241,758	-	-	1,241,758
Change in value of beneficial interest in split-interest trust	-	(18,800)	-	(18,800)
Net change in ground lease	-	(3,485)	-	(3,485)
Other income	19,889	-	-	19,889
Total revenue	4,267,089	295,332	-	4,562,421
Net assets transferred and released from restrictions	196,809	(196,809)	-	-
Total revenue and support	4,463,898	98,523	-	4,562,421
Expenses				
Program services	3,492,199	-	-	3,492,199
Supporting services				
Administration	622,191	-	-	622,191
Fundraising	617,865	-	-	617,865
Total expenses	4,732,255	-	-	4,732,255
Increase (decrease) in net assets	(268,357)	98,523	-	(169,834)
Net assets at beginning of the year	3,199,486	1,456,499	10,000	4,665,985
Net assets at end of the year	**$2,931,129**	**$1,555,022**	**$ 10,000**	**$4,496,151**

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Decrease in net assets	$ (809,044)	$ (169,834)
Adjustments to reconcile decrease in net assets to net cash provided by (used for) for operating activities		
Depreciation	434,929	436,478
Amortization	1,624	1,624
Bad debt expense	-	30,738
Net change in ground lease	4,988	3,485
Change in value of beneficial interest in split-interest trust	-	18,800
Decrease (increase) in assets:		
Accounts receivable	194,988	(187,706)
Pledges and grants receivable	32,839	(112,839)
Beneficial interest in split-interest trust	41,200	(9,624)
Prepaid expenses and deferred charges	(35,788)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	9,610	43,665
Accrued personnel expenses	27,793	65,453
Deferred revenue	61,504	(8,487)
Net cash provided by (used for) operating activities	(35,357)	111,753
Cash flows from investing activities:		
Purchase of property and equipment	-	(30,154)
Acquisition of investments, net	(50,194)	(72)
Net cash used for investing activities	(50,194)	(30,226)
Cash flows from financing activities:		
Borrowings under notes payable to bank	570,000	-
Principal payments on notes payable to bank	(325,000)	(50,000)
Net cash provided by (used for) financing activities	245,000	(50,000)
Net increase in cash and cash equivalents	159,449	31,527
Cash and cash equivalents at the beginning of the year	500,045	468,518
Cash and cash equivalents at the end of the year	**$ 659,494**	**$ 500,045**
Additional cash flow information:		
State registration taxes paid	**$ 150**	**$ 150**
Interest paid	**$ 279,739**	**$ 218,377**

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services	Supporting Services		Total
		Administration	Fundraising	
Personnel expenses	$ 1,606,157	$ 444,460	$ 350,737	$ 2,401,354
Payroll taxes	101,196	26,540	19,793	147,529
Employee benefits	429,619	76,148	21,896	527,663
Accounting fees	-	8,180	-	8,180
Banking fees and charges	-	27,560	17,438	44,998
Communications	45,934	-	-	45,934
Conferences, seminars and meetings	15,535	3,839	928	20,302
Consulting and outside services	79,117	18,190	94,347	191,654
Depreciation and amortization	436,553	-	-	436,553
Dues and licenses	26,410	20,120	3,484	50,014
Equipment rental and maintenance	25,505	-	80,880	106,385
Fundraising-auction gifts and prizes	-	-	4,360	4,360
Insurance	54,628	-	-	54,628
Legal fees	10,381	-	-	10,381
Loan interest expense	301,968	1,771	-	303,739
Miscellaneous	-	7,200	100	7,300
Occupancy and ground lease	282,767	-	-	282,767
Postage, shipping and delivery	859	491	2,722	4,072
Printing	-	9,427	26,043	35,470
Supplies	56,390	18,644	4,904	79,938
	$ 3,473,019	**$ 662,570**	**$ 627,632**	**$ 4,763,221**

George Mark Children's House
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program	Supporting Services		
	Services	**Administration**	**Fundraising**	**Total**
Personnel expenses	$ 1,654,769	$ 374,880	$ 277,822	$ 2,307,471
Payroll taxes	98,971	21,555	19,625	140,151
Employee benefits	385,038	94,541	32,479	512,058
Accounting fees	-	30,247	-	30,247
Bad debt expense	-	30,738	-	30,738
Banking fees and charges	-	1,882	12,270	14,152
Communications	64,787	-	-	64,787
Conferences, seminars and meetings	3,862	2,857	-	6,719
Consulting and outside services	72,870	13,828	144,549	231,247
Depreciation and amortization	438,102	-	-	438,102
Dues and licenses	30,383	16,037	-	46,420
Equipment rental and maintenance	26,572	-	63,753	90,325
Fundraising-auction gifts and prizes	-	-	4,982	4,982
Insurance	53,837	-	-	53,837
Loan interest expense	303,453	121	-	303,574
Miscellaneous	-	6,720	-	6,720
Occupancy and ground lease	306,604	-	-	306,604
Postage, shipping and delivery	2,583	428	9,092	12,103
Printing	-	12,571	45,319	57,890
Supplies	50,368	15,786	7,974	74,128
	$ 3,492,199	**$ 622,191**	**$ 617,865**	**$ 4,732,255**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

George Mark Children's House (the "House"), incorporated as the George Mark Children's Fund in December 1996, is a not-for-profit organization formed to provide short-term residential respite, transitional, and end of life care for children with life limiting or terminal illnesses, and their families. All care is guided by the principles of palliative care. The House is located in San Leandro, California.

The activities of the House are supported through grants, contributions from the general public and from insurance reimbursement for patient care. The operation of the House is dependent upon its ability to cover costs through fundraising, as insurance reimbursements compensate for only a portion of the expenses of patient care. The Board of Directors (the "Board") serves without compensation as an oversight body for the House,

The House began providing services to children and their families in March 2004. Since inception, operating deficits have been funded through contributions from, and notes payable to, a related party (see Note 9).

Basis of Presentation

The financial statements of the House are presented on the accrual basis of accounting, whereby revenue is recognized as earned and expenses are recognized as incurred. Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally-imposed restrictions:

Unrestricted: Those net assets and activities which represent the portion of expendable funds available to support Foundation operations. The Board of Directors may designate a portion of these net assets for specific purposes.

Temporarily Restricted: Those net assets and activities which are donor-restricted for: (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified time period; or (d) acquisition of long-lived assets.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of: (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The accompanying financial statements are presented in accordance with the requirements of *Accounting Standards Codification -- 958 Not-for-Profit Entities ("ASC 958").*

Endowment Funds

Endowments consist of various individual funds established for specific purposes and include only donor-restricted endowment funds. At June 30, 2018 and 2017, permanently-restricted net assets consist of endowment funds required to be retained permanently by explicit donor stipulation. Temporarily-restricted net assets at those dates consist of endowment funds subject to both donor-stipulated time restrictions and to donor-stipulated purpose restrictions. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include money market accounts and certificates of deposit with original maturities of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents include cash restricted for client loans and by donor.

Accounts Receivable

Accounts receivable represents uncollateralized obligations, which are stated at the amount billed. Accounts receivable are due under normal trade terms requiring payment upon receipt. Unpaid receivables do not accrue interest. Payments of receivables are allocated to specific invoices identified on the payer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The House uses the allowance method to account for uncollectible accounts receivable. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding receivables at the end of the year. In the accompanying statements of financial position, accounts receivable are presented net of reserves of $30,000 and $30,000 at June 30, 2018 and 2017, respectively.

Fair Values of Financial Instruments

Various methods and assumptions were used to estimate the fair value of each class of financial instruments. Cash and cash equivalents are valued at their carrying amount due to their short maturities. Investments are reported at fair value based on quoted market prices. Debt is valued at rates currently available to the House for issuances with similar terms and remaining maturities. Notes payable bear interest at prevailing market rates and the difference between the fair values and the carrying amounts of noncurrent debt at June 30, 2018 and 2017, was not material to the financial position of the House. Other financial instruments consist primarily of trade accounts receivable and accounts payable whose carrying value approximates fair value.

Property and Equipment

Property and equipment are recorded at cost, or, if donated, at the estimated fair market value on the date of the gift. Assets acquired by capital leases are carried at their present values on their acquisition dates. Depreciation on buildings and equipment is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized on the straight-line basis over the shorter of the lease term or the estimated useful life of the asset. The costs of maintenance, repairs, and minor renewals are charged to expense when incurred. The costs of additions and major renewals in excess of $1,000 are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts, and a gain or loss is reflected in the statement of activities.

Estimated lives by major class of depreciable assets are as follows: (a) Buildings and improvements: 5 - 40 years; Equipment, furniture, and fixtures: 7 - 10 years; and Computers and software: 2 - 5 years.

Recent Accounting Pronouncements

Several updates promulgated through the *Accounting Series Updates* issued by the Financial Accounting Standards Board will have an impact on the preparation and formatting of exempt organization financial statements, including (a) Update 2016-18—*Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments* effective for

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fiscal years beginning after December 15, 2018; (b) Update 2016-14—*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* effective for annual financial statements issued for fiscal years beginning after December 15, 2017; (c) Update 2016-12—*Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* effective for annual financial statements issued for fiscal years beginning after December 15, 2016; and (d) Update 2016-02—*Leases (Topic 842)* effective for fiscal years beginning after December 15, 2019. These updates will require (a) changes to the presentation of assets with donor-imposed restrictions on the statement of financial position and on the statement of activities, (b) enhanced disclosures concerning financial assets, (c) expanded presentation of expenses by both natural classification and functional classification, (d) utilization of the direct method in the preparation of the statement of cash flows, (e) enhanced disclosures regarding certain leases, (f) proper revenue recognition for "exchange" transactions, and (g) disclosure of the method of allocation of expenses among program and support functions.

Revenue Recognition

Promises to Give - Promises to give are recorded when the promise to give is made. Promises to give due beyond one accounting cycle are recorded at their net present value using the yield on an appropriate U.S. Treasury Bill. The interest portion earned in future periods is recorded as a contribution in the period earned.

The House uses the allowance method to account for uncollectible pledges. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding promises at the end of the year.

Contributions - Contributions, which include unconditional promises to give (pledges), are recorded as revenues in the period received or promised in accordance with the requirements of ASC 958. Conditional contributions are recorded when the donor-specified conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

The House reports contributions in the temporarily- or permanently-restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the accompanying statement of activities.

Donated Services, Materials and Equipment – The House records contribution revenue for certain services received at the fair market value of those services, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated goods, materials and equipment are recorded as contributions at their estimated values on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the House reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Donated goods, materials, and equipment amounted to $148,150 and $151,214 during the years ended June 30, 2018 and 2017, respectively.

Investment Income - Income earned and realized and unrealized capital gains and losses on unrestricted investment transactions are included as income in the year earned. Investment income earned on net assets permanently restricted is recorded as temporarily restricted. As expenditures are made which meet donor restrictions, income is transferred from the temporarily restricted to unrestricted categories.

Fundraising Income and Program Fees – Revenue from fundraising events is recorded upon the occurrence of the event. Program fees are recorded as revenue upon the delivery of the services for which the fees are received.

Income Taxes

Financial statement presentation follows the recommendations of *ASC 740*, Income Taxes. Under ASC 740, the House is required to report information regarding its exposure to various tax positions taken by the House and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that the House has adequately evaluated its current tax positions and has concluded that as of June 30, 2018 and 2017, the House does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

The House has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that the House continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. The House may periodically receive unrelated business income requiring the House to file separate tax returns under federal and state statutes. Under such conditions, the House will calculate, accrue and remit the applicable taxes.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis, by major program, in the statement of activities. Accordingly, based upon management estimates, certain costs have been allocated among locations and supporting services that have benefited.

Fair Value Measurements

FASB ASC 820 *Fair Value Measurement* defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under FASB ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings or other comprehensive income when they occur. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the House considers the principal or most advantageous market in which the House would transact and the market-based risk measurement or assumptions that market participants' would use in pricing the assets or liability, such as inherent risk, transfer restrictions and credit risk.

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on "unobservable inputs," such as a company's own estimates and pricing models.

The House's carrying amounts of its noncash assets and liabilities approximate fair value under Levels 2 and 3 at June 30, 2018 and 2017 as disclosed in footnote 14.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30:

		2018		2017
Checking	$	212,323	$	125,252
Money market		446,952		374,687
Petty cash and other		219		106
Total cash and cash equivalents	$	659,494	$	500,045

Funds on deposit in money market accounts bear interest at the rates ranging from 0.02% to 0.06% per annum at June 30, 2018 and 2017.

3. RECEIVABLES

Receivables consist of the following at June 30:

		2018		2017
Accounts receivable	$	107,167	$	302,155
Allowance for doubtful accounts		(30,000)		(30,000)
Accounts receivable, net	$	77,167	$	272,155
Pledges and grants receivable	$	87,500	$	120,339

Bad debt expense amounted to $30,738 for the year ended June 30, 2017. There was no bad debt expense for the year ended June 30, 2018. Management has evaluated the receivables as of June 30, 2018 and 2017 and determined that an allowance for doubtful accounts of $30,000 and $30,000, respectively, will be sufficient to absorb the estimated loss exposure inherent in the portfolio.

4. ENDOWMENT FUNDS

Endowments consist of various individual funds established for specific purposes and include only donor-restricted funds required to be retained permanently by explicit donor stipulation.

Interpretation of Relevant Law

The Board has adopted the requirements of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The House classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with

4. ENDOWMENT FUNDS (CONTINUED)

the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund, if any, that is not classified in permanently restricted net assets, is classified as unrestricted net assets.

Endowment Net Asset Composition by Type of Fund

At June 30, 2018 and 2017, investment income (including realized and unrealized gains) on permanently-restricted net assets may be expended for:

Operations	$	5,000
Music Endowment		5,000
	$	10,000

Changes in Endowment Net Assets for the Years Ended June 30, 2018 and 2017

Endowment net assets at June 30, 2016	$	10,000
Contributions		-
Endowment net assets at June 30, 2017		10,000
Contributions		-
Endowment net assets at June 30, 2018	$	10,000

Return Objectives and Risk Parameters

The House has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the House must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce reasonable results while assuming a moderate level of investment risk. The House expects its endowment funds, over time, to provide an average rate of return of consistent with current market conditions.

Strategies Employed for Achieving Objectives

Investments amounted to $52,040 and $1,846 as of June 30, 2018 and 2017, respectively, are included with prepaid loan fees and other assets on the statements of financial position and consist of amounts held in an investment account managed by a third party administrator. It is the policy of the House to rely on a total return strategy in which investment returns are achieved through current yields (interest income).

5. BENEFICIAL INTEREST IN SPLIT-INTEREST TRUST

The House is a beneficiary of an unconditional irrevocable complex trust with a split-interest (the "Trust"). Each year the Trust distributes 11% of the fair market value of the Trust's available assets to its beneficiaries. As one of the beneficiaries, the House receives 25% of the annual distribution, which will continue until the value of the assets of the Trust fall below $100,000. At that time, the remaining assets will be liquidated and the House will receive 25% of such liquidation proceeds. The House has recorded the present value of its future expected cash receipts in the accompanying statement of financial position as follows:

	2018	2017
Current portion of beneficial interest in split-interest trust	$ 35,200	$ 41,200
Noncurrent portion of beneficial interest in split-interest trust	202,700	237,900
	$ 237,900	$ 279,100

The evaluation of future cash flows is based on the following assumptions:

Earnings rate used to calculate income from available assets	2%
Discount rate used to calculate the present value of future cash flows	4%

6. GROUND LEASE CONTRIBUTION RECEIVABLE

In June 1998, the House entered into a fifty-year lease with the County of Alameda ("County") for the land upon which the House has constructed its pediatric hospice. The lease provides for an annual rent of $1, and further provides that should the County terminate the lease, it must compensate the House for the fair value of the real property improvements, as defined, located on the property, or must provide other compatible compensation as described in the lease agreement.

In 1998, a professional appraisal determined that the fair value of the land was $930,000 and the fair value of the rent was $98,350 per year. The appraisal assumed a discount rate of 10.5% annually. In 1998, the House recorded an in-kind donation of $930,000 and a contribution receivable over 50 years for the same amount. Annually, the House records an in-kind donation of $98,350, representing the fair value of the rent contributed by the County, with a corresponding amount recorded as rent expense.

Annually, the amount of the contribution receivable and the amount of the in-kind rent donation are reduced by the discount, which totaled $4,988 and $4,025 for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018, the net change in ground lease will amount to (1) $4,915 for the year ending June 30, 2019; (2) $5,431 for the year ending June 30, 2020; (3) $6,001 for the year ending June 30, 2021; (4) $6,632 for the year ending June 30, 2022; (5) $7,328 for the year ending June 30, 2022; and (6) $860,156 thereafter.

7. PREPAID EXPENSES AND DEFERRED CHARGES

Included with prepaid expenses and deferred charges are prepaid loan fees of $48,715 at June 30, 2018 and 2017. These loan fees were capitalized in a prior fiscal year and are being amortized over the life of the loan. Accumulated amortization amounted to $10,555 and $8,931 at June 30, 2018 and 2017, respectively, and amortization expense amounted to $1,624 and $1,624 for the years ended June 30, 2018 and 2017, respectively.

8. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

		2018		2017
Buildings and improvements	$	16,569,973	$	16,569,973
Equipment, furniture, and fixtures		453,988		453,988
Vehicles		55,444		55,444
		17,079,405		17,079,405
Less accumulated depreciation		(6,361,720)		(5,926,791)
Property and equipment, net	$	10,717,685	$	11,152,614

Depreciation expense amounted to $434,929 and $436,478 for the years ended June 30, 2018 and 2017, respectively.

9. RELATED PARTY TRANSACTIONS

Contributions – Members of the Board of Directors contributed $223,563 and $166,294 to the House during the years ended June 30, 2018 and 2017, respectively.

Note Payable – Dr. Kathleen Hull, Founder of the House and a member of the Board of Directors, has provided ongoing funding for operational purposes. The total amount loaned to the House amounted to $1,130,000 as of June 30, 2018 and 2017. This debt, memorialized in a note payable, bears interest at the rate of 2.0% per annum, and has been informally extended to December 31, 2019. Interest expense on this debt amounted to $24,000 and $23,000 for the years ended June 30, 2018 and 2017, respectively.

10. NOTES PAYABLE TO BANK

The House has established a borrowing relationship with First Republic Bank consisting of separate credit facilities. In a prior year, the House secured a revolving line of credit with a total available balance of $350,000. In addition to this line of credit, other borrowings made by the House from First Republic Bank have been memorialized as notes payable. All of these liabilities are itemized on the following page.

10. NOTES PAYABLE TO BANK (CONTINUED)

Loan 1: $3,150,000 term note, dated March 31, 2011, bearing interest at a variable rate with a minimum rate of 4.50% per annum. The note requires interest-only payments until April 30, 2021. Thereafter, monthly principal and interest payments of $26,250 are required until March 31, 2031, at which time the note is due in full. This debt is secured by all assets of the House and by certain real estate and other assets of Dr. Hull.

Loan 2: $2,660,000 note, dated March 31, 2011, bearing interest at a variable rate with a minimum rate of 4.50% per annum. The note requires interest-only payments until April 30, 2021. Thereafter, monthly principal and interest payments of $22,167 are required until March 31, 2031, at which time the note is due in full. This debt is secured by all assets of the House and by certain real estate and other assets of Dr. Hull.

Loan 3: $1,320,000 note, dated April 29, 2016, bearing interest at a rate of 3.00% per annum. The note requires interest only payments through May 31, 2019 (the extended maturity date), at which time the note is due in full. This debt is secured by all assets of the House and by certain real estate and other assets of Dr. Hull.

Loan 4: $350,000 line of credit (with an outstanding balance of $325,000 at June 30, 2018), dated May 16, 2018, bearing interest at the prime rate plus 1.00% per annum with a minimum rate of 4.00% per annum. The note requires interest only payments through May 31, 2019 (the maturity date), at which time the balance is due. This debt is secured by all assets of the House and by certain real estate and other assets of Dr. Hull.

At June 30, 2018, principal maturities for all outstanding bank debt instruments are as follows:

Fiscal Year Ending June 30, 2019	$	1,645,000
Fiscal Year Ending June 30, 2031 and thereafter		5,810,000
	$	7,455,000

Interest expense for all loans amounted to $303,739 and $303,573 for the years ended June 30, 2018 and 2017, respectively.

11. CONCENTRATION OF CREDIT RISK

Financial Instruments - Financial instruments, which potentially subject the House to a concentration of credit risk, principally consist of cash and short-term investments. The House invests temporary cash in money market securities or other cash equivalents in amounts that may, at times, exceed federally insured limits. Periodically, the House may have funds on deposit with a financial institution in excess of the $250,000 FDIC-insured limit. The House has not experienced any losses in those accounts and believes it is not exposed to any significant credit risk.

11. CONCENTRATION OF CREDIT RISK (continued)

Support - The House receives significant financial support from its founder and Board member, Dr. Kathleen Hull. Cessation or interruption of this support could have serious adverse consequences to the House.

12. NET ASSETS

Unrestricted Net Assets
Unrestricted net assets of $2,150,512 and $2,931,129 at June 30, 2018 and 2017, respectively, represent the cumulative retained surpluses from operating activities since the organization's inception.

Temporarily Restricted Net Assets
The House recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Temporarily restricted net assets consist of the following at June 30:

	2018	2017
Beneficial interest in split-interest trust	$ 237,900	$ 279,100
Ground lease	796,560	895,451
Other use-restricted gifts	492,135	380,471
	$ 1,526,595	$ 1,555,022

During the years ended June 30, 2018 and 2017, contributions of temporarily restricted net assets amounted to $400,807 and $317,617, respectively. During the years ended June 30, 2018 and 2017, the House released $387,493 and $196,809, respectively, from temporarily restricted net assets to unrestricted net assets.

Permanently Restricted Net Assets
Permanently restricted net assets amounted to $10,000 at June 30, 2018 and 2017. All of the endowment funds, classified as permanently restricted net assets, represent donor contributions that are subject to restrictions of gift instruments requiring that the principal balances be maintained in perpetuity. The House has been instructed by the original donor that such endowment is intended to generate income for the upkeep of the sanctuary building and for general operating activities of the organization.

13. ADVERTISING EXPENSE

Advertising costs are expensed as incurred. Advertising and marketing expense amounted to $5,111 and $3,332 for the years ended June 30, 2018 and 2017, respectively, and is included with printing on the statement of functional expenses.

14. FAIR VALUE MEASUREMENTS

Composition of assets utilizing fair value measurements at June 30, 2018 is as follows:

	Total	Level 1	Level 2	Level 3
Accounts receivable	$ 77,167	$ -	$ 77,167	$ -
Investments (included in Prepaid)	52,040	52,040	-	-
Pledges and grants receivable	87,500	-	87,500	-
Split-interest trust	237,900	-	35,200	202,700
Ground lease receivable	890,463	-	-	890,463
	$ 1,345,070	$ 52,040	$ 199,867	$ 1,093,163

Composition of assets utilizing fair value measurements at June 30, 2017 is as follows:

	Total	Level 1	Level 2	Level 3
Accounts receivable	$ 272,155	$ -	$ 272,155	$ -
Investments (included in Prepaid)	1,846	1,846	-	-
Pledges and grants receivable	120,339	-	120,339	-
Split-interest trust	279,100	-	41,200	237,900
Ground lease receivable	895,451	-	-	895,451
	$ 1,568,891	$ 1,846	$ 433,694	$ 1,133,351

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on "unobservable inputs," such as a company's own estimates and pricing models.

Assets Classified as Level 3

The significant unobservable inputs used in the fair value measurement of the entity's asset-backed gifts (split-interest trust and ground lease receivable) are the estimated future values of the underlying assets. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques principally include present value formulas which incorporate certain rate of return assumptions.

15. COMPENSATED ABSENCES (ACCRUED PAYROLL AND BENEFITS)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, the House is required to record a liability for the estimated amounts of compensation and related benefits under existing employment laws. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statements of financial position based on employee compensation rates. Accrued payroll liabilities (including accrued wages and vacation) amounted to $251,766 and $223,973 at June 30, 2018 and 2017, respectively.

16. OTHER COMMITMENTS AND CONTINGENCIES

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future program activities, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate the House to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond the House's control, such as generosity of donors and general economic conditions, (c) Employment contracts and service agreements with outside contractors, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments or contingencies have been properly addressed, appropriate amounts have been accrued (where necessary), and there will not be any resolution with a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting organizations.

17. SUBSEQUENT EVENTS

In compliance with ASC 855, *Subsequent Events*, the House has evaluated subsequent events through February 15, 2019, the date the financial statements were available to be issued. In the opinion of management, there are no subsequent events which need to be disclosed.