

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

FINANCIAL STATEMENTS

For the Years Ended
June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
George Mark Children's House
San Leandro, California

We have audited the accompanying statements of financial position of George Mark Children's House (the House) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of George Mark Children's House as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bunker + Company LLP

November 18, 2011

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 283,280	\$ 297,549
Accounts receivable	288,912	5,801
Pledges and grants receivable	45,000	45,000
Beneficial interest in split-interest trust (Note 3)	46,604	45,153
Prepaid expenses	8,300	68,887
Other assets	-	6,254
Total current assets	<u>672,096</u>	<u>468,644</u>
Fixed assets, net of accumulated depreciation of		
\$3,389,114 in 2011 and \$3,140,878 in 2010 (Notes 1 and 6)	13,505,625	13,933,549
Ground lease contribution receivable (Note 5)	913,998	916,208
Pledges and grants receivable, net of current portion	5,000	40,000
Beneficial interest in split-interest trust, net of current portion (Note 3)	311,246	311,130
Beneficial interest in charitable remainder annuity trust (Note 4)	241,103	266,095
Deposits	-	7,474
Total assets	<u>\$ 15,649,068</u>	<u>\$ 15,943,100</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 89,832	117,610
Accrued personnel expenses	109,832	43,960
Beneficiary income payable (Note 4)	22,310	22,310
Deferred revenue	71,393	-
Notes payable (Note 8)	3,964	7,621,638
Total current liabilities	<u>297,331</u>	<u>7,805,518</u>
Beneficiary income payable, net of current portion (Note 4)	40,461	61,913
Note payable to related party (Note 7)	1,684,594	1,655,622
Notes payable, net of current portion (Note 8)	7,870,000	-
Security deposit	-	15,561
Total liabilities	<u>9,892,386</u>	<u>9,538,614</u>
Net assets:		
Unrestricted net assets	4,171,502	4,829,394
Temporarily restricted net assets (Note 10)	1,575,180	1,565,092
Permanently restricted net assets (Note 2)	10,000	10,000
Total net assets	<u>5,756,682</u>	<u>6,404,486</u>
Total liabilities and net assets	<u>\$ 15,649,068</u>	<u>\$ 15,943,100</u>

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

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 1,948,663	\$ 125,000	\$ -	\$ 2,073,663
Fundraising events	282,757	-	-	282,757
In-kind contributions	160,309	-	-	160,309
Program fees	598,437	-	-	598,437
Interest and dividend income	174	-	-	174
Net change in value of beneficial interest in charitable remainder annuity trust	-	(3,540)	-	(3,540)
Net change in value of beneficial interest in split-interest trust	-	1,567	-	1,567
Net change in ground lease	-	(2,210)	-	(2,210)
Other income	26,340	-	-	26,340
Total revenue	<u>3,016,680</u>	<u>120,817</u>	<u>-</u>	<u>3,137,497</u>
Net assets transferred and released from restrictions	<u>110,729</u>	<u>(110,729)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,127,409</u>	<u>10,088</u>	<u>-</u>	<u>3,137,497</u>
EXPENSES				
Program services	2,895,325	-	-	2,895,325
Supporting services:				
Administration	422,757	-	-	422,757
Fundraising	467,219	-	-	467,219
Total expenses	<u>3,785,301</u>	<u>-</u>	<u>-</u>	<u>3,785,301</u>
Change in net assets	<u>(657,892)</u>	<u>10,088</u>	<u>-</u>	<u>(647,804)</u>
Net assets, beginning of year	<u>4,829,394</u>	<u>1,565,092</u>	<u>10,000</u>	<u>6,404,486</u>
Net assets, end of year	<u>\$ 4,171,502</u>	<u>\$ 1,575,180</u>	<u>\$ 10,000</u>	<u>\$ 5,756,682</u>

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

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

STATEMENT OF ACTIVITIES
For the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	\$ 1,792,602	\$ 166,700	\$ -	\$ 1,959,302
Fundraising events	86,942	-	-	86,942
In-kind contributions	451,506	-	-	451,506
Program fees	397,470	-	-	397,470
Interest and dividend income	22,033	-	-	22,033
Realized and unrealized gains on investments	49,920	-	-	49,920
Net change in value of beneficial interest in charitable remainder annuity trust	-	(7,291)	-	(7,291)
Net change in value of beneficial interest in split interest trust	-	(7,066)	-	(7,066)
Rental income	93,366	-	-	93,366
Other income	4,472	-	-	4,472
Total revenue	<u>2,898,311</u>	<u>152,343</u>	<u>-</u>	<u>3,050,654</u>
Net assets transferred and released from restrictions	<u>219,025</u>	<u>(132,240)</u>	<u>(86,785)</u>	<u>-</u>
Total support and revenue	<u>3,117,336</u>	<u>20,103</u>	<u>(86,785)</u>	<u>3,050,654</u>
EXPENSES				
Program services	3,803,367	-	-	3,803,367
Supporting services:				
Administration	456,480	-	-	456,480
Fundraising	627,201	-	-	627,201
Total expenses	<u>4,887,048</u>	<u>-</u>	<u>-</u>	<u>4,887,048</u>
Change in net assets	<u>(1,769,712)</u>	<u>20,103</u>	<u>(86,785)</u>	<u>(1,836,394)</u>
Net assets, beginning of year	<u>6,599,106</u>	<u>1,544,989</u>	<u>96,785</u>	<u>8,240,880</u>
Net assets, end of year	<u>\$ 4,829,394</u>	<u>\$ 1,565,092</u>	<u>\$ 10,000</u>	<u>\$ 6,404,486</u>

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

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ (647,804)</u>	<u>\$ (1,836,394)</u>
Adjustments to reconcile change in net assets to cash flows used by operating activities:		
Depreciation and amortization	433,060	518,652
Ground lease receivable	2,210	2,000
Changes in assets and liabilities:		
Accounts receivable	(283,111)	87,717
Pledges and grants receivable	35,000	(80,000)
Prepaid expenses	60,587	5,902
Accounts payable	(27,778)	(97,195)
Accrued compensation	65,872	(66,359)
Deferred revenue	71,393	
Security deposits	(8,087)	13,433
Other assets	6,254	(2,144)
Cash flows (used) by operating activities	<u>(292,404)</u>	<u>(1,454,388)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of property and equipment	(1,741)	932,494
Purchase of property and equipment	(3,395)	(2,690)
Change in the value of trusts	<u>23,425</u>	<u>46,379</u>
Cash flows provided by investing activities	<u>18,289</u>	<u>976,183</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Notes payable	281,298	179,227
Trust liability	<u>(21,452)</u>	<u>18,778</u>
Cash flows provided by financing activities	<u>259,846</u>	<u>198,005</u>
Net increase (decrease) in cash and cash equivalents	(14,269)	(280,200)
Cash and cash equivalents, beginning of year	<u>297,549</u>	<u>577,749</u>
Cash and cash equivalents, end of year	<u>\$ 283,280</u>	<u>\$ 297,549</u>
Cash paid for interest	<u>\$ 252,366</u>	<u>\$ 374,582</u>

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

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2011

	<u>Program Services</u>	<u>Supporting Services</u>		Total
		Administration	Fundraising	
Personnel expenses	\$ 993,634	\$ 111,987	\$ 123,635	\$ 1,229,256
Payroll taxes	78,601	20,423	5,918	104,942
Benefit plans	153,604	12,975	20,442	187,021
Consulting and outside services	378,965	111,639	143,730	634,334
Accounting fees	-	57,664	-	57,664
Legal fees	-	284	4,140	4,424
Supplies	27,520	33,229	1,810	62,559
Telephone and telecommunications	11,970	7,574	-	19,544
Postage, shipping, and delivery	150	2,449	21,669	24,268
Occupancy	246,520	-	1,618	248,138
Equipment rental and maintenance	1,273	34,236	-	35,509
Depreciation	433,060	-	-	433,060
Printing and duplicating	21,235	2,672	100,439	124,346
Banking fees and charges	-	878	6,375	7,253
Dues and Licenses	4,457	5,080	13,447	22,984
Computer support and access fees	20,090	-	3,429	23,519
Travel expenses	1,484	132	-	1,616
Conferences, seminars and meetings	100	2,115	7,782	9,997
Insurance - non-employee	119,224	10,568	-	129,792
Patient care and restricted programs	35,355	-	-	35,355
Loan interest expense	291,370	-	-	291,370
Ground lease	76,713	8,852	12,785	98,350
Total Expenses	<u>\$ 2,895,325</u>	<u>\$ 422,757</u>	<u>\$ 467,219</u>	<u>\$ 3,785,301</u>

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

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2010

	<u>Program Services</u>	<u>Supporting Services</u>		Total
		Administration	Fundraising	
Personnel expenses	\$ 1,591,037	\$ 161,986	\$ 239,189	\$ 1,992,212
Payroll taxes	145,161	15,381	20,528	181,070
Benefit plans	182,921	15,384	22,529	220,834
Workers' Compensation insurance	51,145	1,550	1,282	53,977
Recruiting fees	-	8,940	-	8,940
HR and payroll services	580	12,292	-	12,872
Professional fees - clinical	155,530	-	-	155,530
Professional fundraising services	-	-	116,385	116,385
Outside contractors	152,219	55,654	74,172	282,045
Accounting fees	-	35,000	-	35,000
Donated professional services	238,555	80,495	31,105	350,155
Supplies	96,856	740	1,452	99,048
Telephone and telecommunications	15,550	-	1,748	17,298
Postage, shipping, and delivery	2,654	711	9,835	13,200
Bulk mail and mailing services	-	-	10,248	10,248
Small furniture and equipment purchases	5,960	-	318	6,278
Software and software maintenance	10,452	70	15,065	25,587
Printing and duplicating	3,375	277	14,678	18,330
Rent, parking, and other occupancy	73,473	-	-	73,473
Utilities	61,234	438	-	61,672
Building maintenance and repairs	7,256	-	2,175	9,431
Equipment rental and lease	40,439	-	1,835	42,274
Equipment maintenance and repair	15,117	-	-	15,117
Depreciation and amortization	518,652	16,173	-	534,825
Travel expenses	11,329	104	3,628	15,061
Permits and licenses	5,826	419	-	6,245
Insurance - non-employee	58,977	2,035	-	61,012
Bank and credit card charges	10	7,343	134	7,487
Loan interest expense	280,558	32,372	46,760	359,690
Ground lease	76,713	8,852	12,786	98,351
Miscellaneous expense	1,788	264	1,349	3,401
	<u>1,788</u>	<u>264</u>	<u>1,349</u>	<u>3,401</u>
Total Expenses	<u>\$ 3,803,367</u>	<u>\$ 456,480</u>	<u>\$ 627,201</u>	<u>\$ 4,887,048</u>

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

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 primarily supported through grants and contributions from the general public. Services are provided regardless of a family's ability to pay. The operation of the House is dependent upon its ability to cover costs through fundraising, as insurance reimbursements compensate only a small percentage of care. The Board of Directors serves without compensation.

The House began providing services to children and their families in March 2004. As anticipated, during this start-up period cash receipts have been insufficient to offset cash disbursements. Deficits have been funded through notes payable to a related party (Note 7).

In March 2010, the House temporarily ceased operations at which time most of the employees were laid-off. The House reopened in October 2010.

Basis of Presentation - Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally imposed restrictions:

Unrestricted net assets - Net assets that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

Temporarily restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishments that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, (b) from other asset enhancements and diminishments that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Endowment Funds - In August 2008, a new accounting standard was created which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). California adopted UPMIFA on January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. A key component of the standard is a requirement to classify the portion of investment return from donor-restricted endowment funds that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The required disclosures are set forth in Note 2.

Method of Accounting - The financial statements of the House are prepared using the accrual basis of accounting, which reflects income as earned and expenses as incurred.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements - In September 2006, new accounting standards were created which establish a framework for reporting fair value and expand disclosures about fair value measurements, effective for years beginning after November 15, 2007. The House adopted these standards, thereby measuring the fair value of its cash and cash equivalents, investments, and liabilities under a three-level hierarchy, as follows:

Level 1: Quoted market prices for identical assets or liabilities to which an entity has access at the measurement date.

Level 2: Inputs and information other than quoted market indices included in Level 1 that are observable for the assets or liability, either directly or indirectly. Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets;
- b. Quoted prices for identical or similar assets in markets that are not active;
- c. Observable inputs other than quoted prices for the asset or liability;
- d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The House's carrying amounts of its assets and liabilities approximate fair value under Level 1 for the year ended June 30, 2011 and 2010.

Restricted fund investments consist solely of permanently restricted funds and were approximately \$10,000 at June 30, 2011 and 2010. Permanently restricted funds are funds that have been contributed to the House for which only interest earned may be used by the House.

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Cash and Cash Equivalents - Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date. For the purpose of the statements of cash flows, cash and cash equivalents include cash restricted 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.

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. Management has determined that no reserve against accounts receivable was required at June 30, 2011 and 2010.

Grants Receivable - The House receives grants from various private and community foundations that are recorded when the conditions of the grant are met. Grants receivable due beyond one accounting cycle are generally recorded at their net present value using the yield of a similar-maturity U.S. Treasury bill.

Revenue Recognition

Promises to Give - Promises to give are recorded when the promise to give is made. Promises to give due beyond one account cycle are recorded at their net present value using the yield of a similar-maturity 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 promises to give. 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 are recognized when the donor makes a promise to give to the House that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Donated Services, Materials and Equipment - Contributed services and costs are assessed at the fair value of the services received. The contributions of services and costs are recognized and recorded if the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and services, and (c) these services would typically need to be purchased if not provided by donation. Donated services were approximately \$62,000 and \$330,000 for the years ended June 30, 2011 and 2010, respectively.

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 were \$98,000 and approximately \$122,000 for the years ended June 30, 2011 and 2010, respectively.

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.

Property, Equipment and Improvements - The Organization records property, equipment and improvements at cost of acquisition, or, if donated, at estimated fair value on the date of gift. Assets acquired by capital leases are carried at their present values on their acquisition dates. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments with a cost in excess of \$1,000 and with an estimated useful life beyond one year are capitalized. Depreciation is recognized using the straight line method over useful lives of the assets. Leasehold improvements are amortized using the straight line method over the shorter of the lease term or the estimated useful life of the asset. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts, and any gain or loss is reflected in the statement of activities.

Estimated useful lives by major class of depreciable asset are as follows:

Buildings and improvements	5 - 40 years
Equipment, furniture, and fixtures	7 - 10 years
Computers and software	2 - 5 years

Income Taxes - The House is exempt from Federal and State taxes under Section 501(c) (3) of the Internal Revenue Service Code and Section 23701d of the California Revenue and Taxation Code, and is considered by the IRS to be an organization other than a private foundation.

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.

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

NOTE 2 ENDOWMENT FUNDS

Endowments consist of various individual funds established for specific purposes and include only donor-restricted funds. At June 30, 2011, permanently restricted net assets consist of endowment funds required to be retained permanently by explicit donor stipulation.

Interpretation of Relevant Law - The Board of Directors of the House 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 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, 2011 and 2010, interest or gains on permanently restricted net assets may be expended for:

	2011	2010
Operations	\$ 5,000	\$ 5,000
Music Endowment	5,000	5,000
	\$ 10,000	\$ 10,000

During 2009, the restriction on the Sanctuary Fund was released by the donors. Accordingly, at June 30, 2010, \$86,785 of permanently restricted net assets were reclassified to unrestricted net assets in the accompanying statement of activities.

Changes in Endowment Net Assets for the Year Ended June 30, 2011 and 2010:

Endowment net assets, June 30, 2009	\$ 96,785
Investment return	-
Total	96,785
Net assets released from restriction	(86,785)
Contributions	-
Endowment net assets, June 30, 2010	10,000
Contributions	-
Endowment net assets, June 30, 2011	\$ 10,000

GEORGE MARK CHILDREN'S HOUSE
(A California Nonprofit Public Benefit Organization)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

NOTE 2 ENDOWMENT FUNDS (Continued)

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 the donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The House expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

NOTE 3 BENEFICIAL INTEREST IN SPLIT-INTEREST TRUST

The House is a beneficiary in 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 the 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:

Current portion of beneficial interest in split-interest trust	\$ 46,604
Noncurrent portion of beneficial interest in split-interest trust	<u>311,246</u>
	<u>\$ 357,850</u>

The evaluation of future cash flows was based upon 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%

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NOTE 4 BENEFICIAL INTEREST IN CHARITABLE REMAINDER ANNUITY TRUST

The House is the corpus beneficiary of a charitable remainder annuity trust. Under the terms of the trust agreement, a life income is provided for the income beneficiary of the trust in the amount of 8% of the trust assets annually. During the year ended June 30, 2010, the trust was modified from a charitable remainder unitrust to a charitable remainder annuity trust, and the life income provided for the beneficiary increased to 8% from 6%. The House is the beneficiary of the remaining trust corpus at the death of the income beneficiary. The House has recorded the present value of its future expected cash disbursements from the trust to the income beneficiary as an obligation on the accompanying statement of financial position, as follows:

	2011	2010
Current portion of beneficiary income payable	\$ 22,310	\$ 22,310
Noncurrent portion of beneficiary income payable	40,461	61,913
	\$ 62,771	\$ 84,223

For the years ended June 30, 2011 and 2010, the estimated value of the trust is approximately \$241,000 and 266,000, respectively. Income and expenses related to the trust are recorded as a change in the charitable trust account on the accompanying statement of activities. The trust asset value decreased by approximately \$25,000 for the year ended June 30, 2011. The trust asset value increased approximately \$11,000 for the year ended June 30, 2010.

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

Discount rate used to calculate the present value of future cash flows	4%
Actuarial life expectancy of income beneficiary at June 30, 2011 in years	3

See Note 13, Subsequent Events, for additional information on the status of this trust.

NOTE 5 GROUND LEASE CONTRIBUTION RECEIVABLE

In June 1998, the House entered into a fifty-year lease with the County of Alameda (the 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 1999, 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.

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NOTE 5 GROUND LEASE CONTRIBUTION RECEIVABLE (Continued)

Annually, the amount of the contribution receivable is reduced by the discount, shown as follows:

<u>June 30,</u>	
2012	\$ 2,442
2013	2,698
2014	2,982
2015	3,295
2016	3,641
Thereafter	<u>898,940</u>
	<u>\$ 913,998</u>

NOTE 6 FIXED ASSETS

At June 30, 2011 and 2010, property and equipment consisted of the following:

	<u>2011</u>	<u>2010</u>
Buildings and improvements	\$ 16,498,259	\$ 16,498,259
Leasehold improvements	-	183,083
Equipment, furniture, and fixtures	341,036	337,641
Vehicles	<u>55,444</u>	<u>55,444</u>
	16,894,739	17,074,427
Less accumulated depreciation	<u>(3,389,114)</u>	<u>(3,140,878)</u>
	<u>\$ 13,505,625</u>	<u>\$ 13,933,549</u>

Depreciation expense was \$433,060 and \$518,652 for the years ended 2011 and 2010, respectively.

NOTE 7 RELATED PARTY TRANSACTIONS

Note Payable - On July 22, 2005, the House entered into an unsecured promissory note and loan agreement (the Agreement) with the Kathleen N. Hull Trust (the Hull Trust) with interest at 4.15% per annum. On June 30, 2009 the House entered into a new note that superseded the existing note. The remaining principal due was \$1,684,594 with an interest rate of 4%. All interest and principal was due on January 1, 2011 but subsequent to the year ended June 30, 2010, the note was extended to January 1, 2012. Accrued interest payable of approximately \$33,000 at June 30, 2010 is included with accrued expenses. Subsequent to the year ended June 30, 2011, the note was extended to June 1, 2013. Interest expense on this note was approximately \$67,000 for the years ended June 30, 2011 and 2010. See Note 13, Subsequent Events for additional information on the status of this Note Payable.

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NOTE 8 NOTES PAYABLE TO BANK

During the year ended June 30, 2011, a credit facility consisting of five separate notes payable was established with First Republic Bank.

Loan 1: \$350,000 working capital line of credit, with a one-year term, due in March 2012, interest rate is Prime plus 1%, with a floor of 4%. This loan is collateralized by a personal guarantee of a related party, a Board member. At June 30, 2011, \$3,964 had been drawn down from the line.

Loan 2: \$1,500,000 interest only, with a two-year term, due in March 2013, interest rate is 2.6%. This loan is collateralized by a CD equal to the amount of the loan. The CD is owned by a related party, a Board member.

Loans 3, 4, 5: Total \$6,370,000, all with a 20-year term, due in March 2031, interest rate is 4.5% fixed for the first 5 years; interest only for 5 years; interest rate adjusts monthly 1.9% over the 1 month LIBOR commencing in year 6; a floor of 4.0% and a ceiling of 9.95%. This is followed by 10 years of monthly principal payments of \$4,667. The interest rate is adjusted monthly 1.9% over the 1 month LIBOR, a floor of 4% and a ceiling of 9.95% The loans are collateralized by a personal guarantee and three real estate properties owned by a related party, a Board member.

Principal maturities of the loans are as follows:

2012	\$ 3,964
2013	1,500,000
Thereafter	<u>6,370,000</u>
	<u>\$ 7,873,964</u>

In August 2008, a credit facility consisting of three separate notes payable was established with Fremont Bank. These notes were paid off in full as of April, 2011. The purpose of this facility was to repay a portion of the debt due to the Hull Trust and to provide ongoing financing for the operating needs of the House. The notes were structured as follows:

Due June 30, 2010:

Facility A	\$ 1,500,000
Facility B	5,500,000
Facility C	<u>621,638</u>
	<u>\$ 7,621,638</u>

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NOTE 9 EQUIPMENT LEASE OBLIGATION PAYABLE

The House leases various pieces of office equipment through 2016. The remaining minimum lease payments due are as follows:

<u>June 30,</u>	
2012	\$ 44,742
2013	42,047
2014	39,324
2015	39,324
2016	<u>36,047</u>
	<u>\$ 201,484</u>

Lease expense for the years ended June 30, 2011 and 2010 was \$35,509 and \$42,274, respectively.

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2011 and 2010 are available for use and are classified as to their purpose and/or time restrictions as follows:

	<u>2011</u>	<u>2010</u>
Beneficial interest in split-interest trust	\$ 357,850	\$ 356,283
Beneficial interest in charitable remainder annuity trust	178,332	181,872
Ground lease	913,998	916,208
Child Life program	-	13,757
Documentary film	-	1,220
Sobrato	-	70,000
New business model	-	22,000
Washington Hospital	125,000	-
Miscellaneous	-	3,752
	<u>\$ 1,575,180</u>	<u>\$ 1,565,092</u>

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NOTE 11 NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets are released for donor-designated program expenses incurred during the year. Net assets released from restrictions during the years ended June 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Child Life program	\$ 13,757	\$ 26,210
Bereavement	-	2,340
Hydrotherapy	-	19,090
Documentary film	1,220	7,500
Patient family trip	-	600
Family sponsorship	-	200
Respite care	-	25,000
Nursing care	-	500
Transfer Beneficial Trust	-	50,800
Sobrato	70,000	-
New business model	22,000	-
Miscellaneous	3,752	-
	<u>\$ 110,729</u>	<u>\$ 132,240</u>

NOTE 12 OFFICE RENTAL

In addition to the 50-year ground lease commitment at \$1 per annum discussed in Note 7, the House leased office space in San Francisco under an agreement that expired in September 2010. The lease agreement was not renewed.

Office rent expense for the years ended June 30, 2011 and 2010 was \$15,446 and \$73,743, respectively.

NOTE 13 SUBSEQUENT EVENTS

In October 2011, the income beneficiary of the Charitable Remainder Annuity Trust (Note 4) passed away and the House received the remaining corpus of the Trust, approximately \$241,000.

In September, 2011 the House received notice that the Hull Trust intends to forgive the amount of its promissory note and all accrued interest in the year ending June 30, 2012. See Note 7 Related Party Transactions.

Management has evaluated all subsequent events through the Auditor's Report date, the date the financial statements were available to be issued.