



FINANCIAL STATEMENTS
December 31, 2016
And For The Year Then Ended

HILLSIDE HOUSE

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December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Hillside House:

We have audited the accompanying financial statements of Hillside House (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, cash flows and functional expenses for the year 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 audit. We conducted our audit 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 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 Hillside House as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Hillside House's 2015 financial statements, and our reports dated March 28, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

Orcutt, California
March 30, 2017

Hillside House
Statement of Financial Position
December 31, 2016
(with comparative totals for 2015)

Assets	2016	2015
Current Assets:		
Cash and equivalents	\$ 266,353	\$ 304,233
Accounts receivable (note 4)	436,434	348,840
Pledges receivables (note 4)	25,870	28,103
Prepaid expenses	101,174	91,767
Total Current Assets	829,831	772,943
Investments (note 3)	1,794,674	2,067,945
Fixed Assets, Net (note 5)	1,468,983	1,422,194
Total Assets	\$ 4,093,488	\$ 4,263,082
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 157,810	329,370
Accrued expenses	227,862	230,827
Total Liabilities	385,672	560,197
Net Assets:		
Unrestricted	3,449,500	3,453,775
Temporarily restricted (note 6)	258,316	249,110
Permanently restricted	-	-
Total Net Assets	3,707,816	3,702,885
Total Liabilities and Net Assets	\$ 4,093,488	\$ 4,263,082

The accompanying notes are an integral part of this financial statement.

Hillside House
Statement of Activities
Year Ended December 31, 2016
(with comparative totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>	<u>Total 2015</u>
Operating					
Public Support:					
Special events, gross	\$ 85,927	\$ -	\$ -	\$ 85,927	\$ 79,107
Less: Direct costs	(40,921)	-	-	(40,921)	(35,987)
Special events, net	45,006	-	-	45,006	43,120
Contributions	287,411	51,000	-	338,411	384,699
Total Public Support	332,417	51,000	-	383,417	427,819
Revenue:					
Resident fees	4,259,965	-	-	4,259,965	4,069,251
Rental income	21,000	-	-	21,000	24,000
Miscellaneous income	18,654	-	-	18,654	61,237
Total Public Support and Revenue	4,632,036	51,000	-	4,683,036	4,582,307
Net Assets released from restriction	51,215	(51,215)	-	-	-
Expenses:					
Program Services	4,133,048	-	-	4,133,048	3,848,385
Supporting services:					
Management and general	358,503	-	-	358,503	530,497
Fundraising	148,997	-	-	148,997	138,697
Total Supporting Services	507,500	-	-	507,500	669,194
Total Operating Expenses	4,640,548	-	-	4,640,548	4,517,579
Change in Net Assets from Operating Activities	42,703	(215)	-	42,488	64,728
Nonoperating					
Revenue:					
Investment income	47,729	9,421	-	57,150	(37,136)
Gain sale of fixed asset	-	-	-	-	-
Total Nonoperating Revenue	47,729	9,421	-	57,150	(37,136)
Expenses:					
Depreciation	75,358	-	-	75,358	76,176
Investment management fees	19,349	-	-	19,349	16,790
Total Nonoperating Expenses	94,707	-	-	94,707	92,966
Change in Net Assets from Nonoperating Activities	(46,978)	9,421	-	(37,557)	(130,102)
Total Change in Net Assets	(4,275)	9,206	-	4,931	(65,374)
Net Assets at Beginning of Year	3,453,775	249,110	-	3,702,885	3,768,259
Net Assets at End of Year	<u>\$ 3,449,500</u>	<u>\$ 258,316</u>	<u>\$ -</u>	<u>\$ 3,707,816</u>	<u>\$ 3,702,885</u>

The accompanying notes are an integral part of this financial statement.

Hillside House
Statement of Cash Flows
For the Year Ended December 31, 2016
(with comparative totals for 2015)

	2016	2015
<u>Cash Flows From Operating Activities</u>		
Change in net assets	\$ 4,931	\$ (65,374)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	75,358	76,176
Realized and unrealized loss on investments	6,950	132,029
(Increase)/decrease in:		
Accounts and grants receivable	(87,594)	(33,036)
Pledges receivable	2,233	36,372
Prepaid expenses	(9,407)	599
Increase/(decrease) in:		
Accounts payable	(171,560)	180,618
Accrued expenses	(2,965)	11,595
	<u>(182,054)</u>	<u>338,979</u>
 <u>Cash Flows From Investing Activities</u>		
Purchases of investments	(2,131,786)	(3,944,202)
Proceeds from sale of investments	2,398,107	3,864,030
Purchase of fixed assets	(122,147)	(296,985)
	<u>144,174</u>	<u>(377,157)</u>
 Net Change in Cash	(37,880)	(38,178)
Cash at the Beginning of Year	<u>304,233</u>	<u>342,411</u>
 Cash at the End of Year	<u>\$ 266,353</u>	<u>\$ 304,233</u>
 <u>Supplemental Information:</u>		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.

Hillside House
Statement of Functional Expenses
For the Year Ended December 31, 2016
(with comparative totals for 2015)

	<u>Program Services Total</u>	<u>Supporting Services</u>		<u>Supporting Services Total</u>	<u>2016 Total</u>	<u>2015 Total</u>
		<u>Management and General</u>	<u>Fundraising</u>			
Operating Expenses:						
Salaries	\$ 2,471,823	\$ 241,089	\$ 91,784	\$ 332,873	\$ 2,804,696	\$ 2,715,891
Payroll taxes	196,195	17,690	6,815	24,505	220,700	218,180
Employee benefits	195,553	22,287	7,892	30,179	225,732	230,056
Total Salaries and Related Expenses	2,863,571	281,066	106,491	387,557	3,251,128	3,164,127
Accounting	-	18,385	-	18,385	18,385	18,613
Advertising	-	623	2,841	3,464	3,464	5,452
Bank fees	1,920	124	21	145	2,065	3,923
Bad debt expense	-	-	-	-	-	5,704
Consulting	94,394	-	-	-	94,394	81,825
Dues	7,849	506	84	590	8,439	7,757
Equipment rental and maintenance	21,185	1,367	228	1,595	22,780	34,182
Insurance	56,802	3,665	611	4,276	61,078	63,699
Legal	-	5,164	-	5,164	5,164	1,458
Licenses and taxes	46,336	3,198	51	3,249	49,585	40,942
Medi-Cal QAF	177,462	12,337	-	12,337	189,799	193,732
Miscellaneous	3,149	198	47	245	3,394	957
Occupancy	144,122	9,298	1,550	10,848	154,970	155,032
Postage and shipping	365	355	355	710	1,075	2,957
Printing	1,588	266	5,942	6,208	7,796	5,113
Professional services	32,119	15,587	27,466	43,053	75,172	78,878
Resident food services	148,976	-	-	-	148,976	147,054
Resident personal care	156,609	-	-	-	156,609	173,313
Resident recreational activities	34,645	-	-	-	34,645	29,848
Resident transportation	6,334	-	-	-	6,334	11,097
Staff recruitment	1,967	-	-	-	1,967	1,154
Supplies	39,005	2,682	1,254	3,936	42,941	47,023
Training	14,579	147	118	265	14,844	15,285
Workers compensation insurance	280,071	3,535	1,938	5,473	285,544	228,454
Total Operating Expenses	4,133,048	358,503	148,997	507,500	4,640,548	4,517,579
Nonoperating Expenses:						
Investment management fees	-	19,349	-	19,349	19,349	16,790
Depreciation	70,083	4,521	754	5,275	75,358	76,176
Total Nonoperating Expenses	70,083	23,870	754	24,624	94,707	92,966
Total Expenses - 2016	\$ 4,203,131	\$ 382,373	\$ 149,751	\$ 532,124	\$ 4,735,255	
Total Expenses - 2015	\$ 3,919,494	\$ 551,630	\$ 139,421	\$ 674,261		\$ 4,610,545

The accompanying notes are an integral part of this financial statement.

Hillside House
Notes to Financial Statements
December 31, 2016

(1) ORGANIZATION

Hillside House (the Organization) is a California nonprofit corporation which was incorporated in 1945 to offer residential services for people with a variety of developmental disabilities, including mental retardation, cerebral palsy, autism and epilepsy. The Organization provides a home that supports its residents' efforts to maximize their physical, cognitive, social and emotional abilities so that they can attain their highest level of independence in an environment where people are treated with dignity and respect.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with the AICPA Audit and Accounting Guide, "Not-For-Profit Organizations." The preparation of financial statements in conformity with generally accepted accounting principles 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 statement and reported amounts of revenues and expenses for each year. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein have been classified and are reported as follows:

Unrestricted net assets - Unrestricted net assets are not subject to donor-imposed stipulations. All expenses, revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments purchased with an original maturity of three months or less.

Recognition of Donor and Grant Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Hillside House
Notes to Financial Statements
December 31, 2016

All restricted support is recorded as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted in the statement of activities under the heading net assets released from restriction.

Donated Materials and Services

A substantial number of volunteers have donated their time to the Organization by serving as Board members and/or helping with implementing the Organization's programs. Only specific services requiring specialized skills may be recorded in the financial statements. The Organization did not record any donated professional services during the year.

Property and Equipment

Property and equipment which is purchased or constructed is stated at cost; assets acquired by gift or bequest are stated at fair value at the date of acquisition. The Organization uses a \$5,000 capitalization rate. The Organization uses the straight-line method for the computation of depreciation of long-lived assets according to the following schedule of useful lives:

<u>Asset</u>	<u>Life</u>
Improvements	40 Years
Structures	40 Years
Furniture fixtures and equipment	5 – 7 Years

Normal repair and maintenance expenses and equipment replacement costs are expensed as incurred.

Accounts Receivable

Accounts receivable are primarily unsecured non-interest-bearing amounts due from Medi-Cal and Medicare. Management believes all receivables are collectible in full, therefore no allowance for uncollectible receivables has been provided.

Contributions Receivable (Pledges)

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises.

Hillside House
Notes to Financial Statements
December 31, 2016

Investments and Beneficial Interest in Assets Held by Others

Investments in marketable equity and debt securities are stated at market value. All gains and losses on investments are reported as increases or decreases to unrestricted net assets unless required by donors to be reinvested in restricted net assets.

Financial Accounting Standards Board Accounting Standards Codification 820 *Fair Value Measurement*, allows for the use of a practical expedient for the estimation of fair value of investment funds held by investment companies for which the investment funds do not have a readily determinable fair value. The Organization utilizes the net asset value (NAV) as the practical expedient to value funds for which the underlying investment funds (a) do not have a readily determinable fair value and (b) prepare their consolidated financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The administrator of the funds held by the Organization, appointed by and under supervision of Santa Barbara Foundation, provides the NAV's considering variables such as the actual market exchanges, trade quotations provided by third parties, or both. The Organization reviewed the valuations provided by the funds' administrator and believes that the carrying amounts of these investments are reasonable estimates of fair value.

Income Taxes

The Organization is exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 27301d of the California Revenue and Taxation Code. The Organization would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the Internal Revenue Code). The Organization did not report any unrelated income for the year ended December 31, 2016. The tax years ending 2013, 2014 and 2015 are still open to audit for both federal and state purposes. The Organization is not considered a private foundation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Significant estimated used in preparing these financial statements include:

- Allocation of certain expenses by function
- Depreciable lives and estimated residual value of property and equipment
- Allowance for uncollectible accounts, grants, contracts and pledges receivable

It is at least reasonably possible that the significant estimates will change within the next year.

Hillside House
Notes to Financial Statements
December 31, 2016

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized by function in the Statement of Functional Expenses. Direct costs are charged directly to the appropriate program. Joint costs such as insurance and facility maintenance are allocated by using the direct costs or square footage of each program and supporting services. The allocations are based on current data.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash includes cash on hand and cash in savings bank accounts, checking bank accounts and highly liquid certificates of deposit.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment losses, if any, are recognized when estimated future cash flows (undiscounted and without interest charges) derived from such assets are less than their carrying values. Management believes no such impairment occurred during the years ended December 31, 2016.

Fair Value of Financial Instruments

The estimated fair values of the Organization's short-term financial instruments, including cash, cash equivalents, accounts receivable, pledges receivable and accounts payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The fair value of the marketable securities is based on quoted market rates. For nonmarketable investments the fair value is reported at the estimated net asset value of the funds.

Comparative Data

The amounts shown for the year ended December 31, 2015 in the accompanying financial statements are included to provide a basis for comparison with 2016 and present summarized totals only. Accordingly, the 2015 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

**Hillside House
Notes to Financial Statements
December 31, 2016**

(3) INVESTMENTS

The Organization records investments in marketable securities at fair value in the statement of financial position. As of December 31, 2016, investments consisted of the following:

	<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Temporary Cash held at investment			
Brokers	\$ 138,495	\$ 138,495	\$ -
Fixed income mutual funds	80,262	81,675	(1,413)
Exchange Traded Funds	<u>1,575,917</u>	<u>1,546,047</u>	<u>29,870</u>
Totals	<u>\$ 1,794,674</u>	<u>\$ 1,766,217</u>	<u>28,457</u>
Unrealized loss at beginning of year			<u>89,717</u>
Change in unrealized gain			<u>\$ 118,174</u>

Investment income for the year ended December 31, 2016 consisted of the following

Interest income	\$ 35,643
Unrealized gain on investments	118,174
Realized loss on sale of investments	<u>(96,667)</u>
Investment income	<u>\$ 57,150</u>

(4) ACCOUNTS RECEIVABLE AND PLEDGES RECEIVABLE

Accounts receivable are primarily from government sources and are considered to be fully collectible by management.

Pledges receivable at December 31, 2016 are expected to be collected in the year ended December 31, 2016. Management believes all pledges are collectible and thus no reserve for uncollectible pledges is reported.

**Hillside House
Notes to Financial Statements
December 31, 2016**

(5) FIXED ASSETS

Fixed assets at December 31, 2016 were as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 30,000	\$ -	\$ 30,000
Land improvements	148,131	(74,500)	73,631
Buildings and improvements	1,276,243	(766,418)	509,825
Equipment	826,886	(791,779)	35,107
Furniture & equipment	211,924	(187,342)	24,582
Vehicles	208,740	(172,228)	36,512
Construction in process	759,326	-	759,326
Total Cost	<u>\$ 3,461,250</u>	<u>\$(1,992,267)</u>	<u>\$ 1,468,983</u>

Assets classified as construction in process are not used in operations and will not be subject to depreciation until the assets are placed in service. Construction in process includes \$759,326 of costs associated with the Organization's master plan and development of the Organization's property located in Santa Barbara, California. Should the Organization decide not go forward with the project or fail to obtain the required permits, including a revised conditional use permit, the usefulness of these assets may be in doubt.

Depreciation expense reported for the year ended December 31, 2016 is \$75,358.

(6) RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2016 were available for the following purposes:

Resident travel	\$ 565
Aquatic	8,551
Freeman fund – medical expense support	122,157
Thaxton fund- staff salary support	11,392
Gorham wellness fund	<u>115,651</u>
Total Temporarily Restricted Net Assets	<u>\$ 258,316</u>

(7) COMMITMENT AND CONTINGENT LIABILITIES

The Organization receives a number of grants and contracts from various governmental agencies. These grants are subject to audit by the granting agencies as to allowable costs paid with government funds. The Organization would be liable for up to the full amount of government funds expended should costs charged to the grants be disallowed.

Hillside House
Notes to Financial Statements
December 31, 2016

The Organization has a \$500,000 line of credit with Montecito Bank & Trust which expires January 2020. The line carries a variable interest rate based on the Wall Street Journal Prime Rate plus 0.5%. The line of credit is secured by all securities held at Montecito Bank & Trust. At December 31, 2016 there was no balance due on the line of credit.

(8) CONCENTRATIONS

A significant portion of the Organization's revenues is derived from government grants and contracts.

Individual donors are primarily from Santa Barbara County.

(9) ASSETS VALUED AT FAIR VALUE

The Financial Accounting Standard Board's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Assets carried at fair value include the following as of December 31, 2016:

- Investments held in domestic and international fixed income mutual funds.
- Investments held in domestic and international exchange traded funds.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

**Hillside House
Notes to Financial Statements
December 31, 2016**

Fair Value Measurements at December 31, 2016 are summarized as follows:

	Quoted Prices In Active Markets For Identical Assets
Fixed income mutual funds	\$ 80,262
Exchange traded funds	<u>1,575,917</u>
Total	<u>\$ 1,656,179</u>

(10) RELATED PARTY TRANSACTION

A member of the Board of Trustees provides dentistry services to the residents of Hillside House. The fee arrangement is based on the fair market value of services provided. The total dentistry services paid for the year ended December 31, 2016 to the Board member was \$27,996.

(11) SUBSEQUENT EVENTS

Management has evaluated events through March 30, 2017, which is the date the financial statements were available to be issued. Management has determined, with exception of the contract discussed below, that no subsequent event requiring disclosure or significantly impacting disclosure has occurred.