



**FINANCIAL STATEMENTS**  
December 31, 2014  
And For The Year Then Ended

# HILLSIDE HOUSE

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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, 2014, 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, 2014, 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 2013 financial statements, and our reports dated June 25, 2014, 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, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Stoltey & Associates*

Los Olivos, California  
April 8, 2015

**Hillside House**  
**Statement of Financial Position**  
**December 31, 2014**  
**(with comparative totals for 2013)**

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Current Assets:		
Cash and equivalents	\$ 342,411	\$ 1,234,251
Accounts and other receivables (notes 4 )	380,279	459,075
Prepaid expenses	92,366	81,183
	815,056	1,774,509
Beneficial interest in assets held by others (note 3)	2,119,802	2,041,157
Fixed Assets, Net (note 5)	1,201,385	1,112,813
	4,136,243	4,928,479
<b>Total Assets</b>	<b>\$ 4,136,243</b>	<b>\$ 4,928,479</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts payable	\$ 148,752	118,024
Accrued expenses	219,232	1,147,616
	367,984	1,265,640
Net Assets:		
Unrestricted	3,550,967	3,442,948
Temporarily restricted (note 6)	217,292	219,891
Permanently restricted	-	-
	3,768,259	3,662,839
Total Net Assets	3,768,259	3,662,839
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,136,243</b>	<b>\$ 4,928,479</b>

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

**Hillside House**  
**Statement of Activities**  
**Year Ended December 31, 2014**  
(with comparative totals for 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2014</u>	<u>Total 2013</u>
<b>Operating</b>					
Public Support:					
Special events, gross	\$ 95,925	\$ -	\$ -	\$ 95,925	\$ 82,095
Less: Direct costs	(32,029)	-	-	(32,029)	(34,775)
Special events, net	63,896	-	-	63,896	47,320
Contributions	222,671	202,845	-	425,516	408,131
Total Public Support	286,567	202,845	-	489,412	455,451
Revenue:					
Resident fees	3,945,832	-	-	3,945,832	3,838,128
Total Public Support and Revenue	4,232,399	202,845	-	4,435,244	4,293,579
Net Assets released from restriction	214,865	(214,865)	-	-	-
Expenses:					
Program Services	3,722,983	-	-	3,722,983	3,604,675
Supporting services:					
Management and general	514,656	-	-	514,656	486,409
Fundraising	111,398	-	-	111,398	118,122
Total Supporting Services	626,054	-	-	626,054	604,531
Total Operating Expenses	4,349,037	-	-	4,349,037	4,209,206
Change in Net Assets from Operating Activities	98,227	(12,020)	-	86,207	84,373
<b>Nonoperating</b>					
Revenue:					
Rental income	22,525	-	-	22,525	25,250
Investment income	66,359	9,421	-	75,780	150,038
Gain sale of fixed asset	25	-	-	25	2,255
Miscellaneous income	3,782	-	-	3,782	33,755
Total Nonoperating Revenue	92,691	9,421	-	102,112	211,298
Expenses:					
Depreciation	81,030	-	-	81,030	86,570
Legal	1,869	-	-	1,869	454
Total Nonoperating Expenses	82,899	-	-	82,899	87,024
Change in Net Assets from Nonoperating Activities	9,792	9,421	-	19,213	124,274
Total Change in Net Assets	108,019	(2,599)	-	105,420	208,647
Net Assets at Beginning of Year	3,442,948	219,891	-	3,662,839	3,415,603
Net Assets at End of Year	\$ 3,550,967	\$ 217,292	\$ -	\$ 3,768,259	\$ 3,624,250

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

**Hillside House**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2014**  
**(with comparative totals for 2013)**

	<b>2014</b>	<b>2013</b>
<u>Cash Flows From Operating Activities</u>		
Change in net assets	\$ 105,420	\$ 247,236
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	81,030	86,569
Unrealized gain on beneficial interest in assets held by others	(101,414)	(38,589)
(Increase)/decrease in:		
Accounts and grants receivable	78,796	211,532
Prepaid expenses	(11,183)	6,949
Increase/(decrease) in:		
Accounts payable	30,728	51,315
Accrued expenses	(928,384)	744,387
	<u>(745,007)</u>	<u>1,309,399</u>
<u>Cash Flows From Investing Activities</u>		
Contribution to beneficial interest in assets held by others	(3,011)	(152,717)
Distributions from beneficial interest in assets held by others	25,780	57,158
Purchase of fixed assets	(169,602)	(256,181)
	<u>(146,833)</u>	<u>(351,740)</u>
Net Change in Cash	(891,840)	957,659
Cash at the Beginning of Year	1,234,251	276,592
	<u>1,234,251</u>	<u>276,592</u>
Cash at the End of Year	<u>\$ 342,411</u>	<u>\$ 1,234,251</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, 2014**  
**(with comparative totals for 2013)**

	<b>Program Services Total</b>	<b>Supporting Services</b>		<b>Supporting Services Total</b>	<b>2014 Total</b>	<b>2013 Total</b>
		<b>Management and General</b>	<b>Fundraising</b>			
<b>Operating Expenses:</b>						
Salaries	\$ 2,191,872	\$ 324,892	\$ 72,074	\$ 396,966	\$ 2,588,838	\$ 2,545,757
Payroll taxes	182,082	24,902	5,667	30,569	212,651	210,693
Employee benefits	177,137	20,681	248	20,929	198,066	209,076
<b>Total Salaries and Related Expenses</b>	<b>2,551,091</b>	<b>370,475</b>	<b>77,989</b>	<b>448,464</b>	<b>2,999,555</b>	<b>2,965,526</b>
Accounting	-	16,500	-	16,500	16,500	31,104
Advertising	-	1,122	321	1,443	1,443	1,724
Bad debt expense	-	25,855	-	25,855	25,855	53,419
Bank fees	2,774	179	30	209	2,983	27,110
Consulting	147,156	-	-	-	147,156	61,258
Dues	2,736	177	29	206	2,942	5,617
Equipment rental and maintenance	19,564	1,262	210	1,472	21,036	16,058
Insurance	59,505	3,839	640	4,479	63,984	65,842
Licenses and taxes	35,075	2,429	20	2,449	37,524	43,740
Medi-Cal QAF	182,014	12,653	-	12,653	194,667	189,164
Miscellaneous	1,614	105	17	122	1,736	2,351
Occupancy	140,797	9,084	1,514	10,598	151,395	158,320
Postage and shipping	1,104	1,071	1,071	2,142	3,246	2,382
Printing	1,371	89	1,379	1,468	2,839	2,776
Professional services	16,364	52,431	25,085	77,516	93,880	93,274
Resident food services	150,923	-	-	-	150,923	135,323
Resident personal care	159,184	-	-	-	159,184	134,143
Resident recreational activities	26,457	-	-	-	26,457	16,940
Resident transportation	14,304	-	-	-	14,304	12,625
Staff recruitment	17,014	-	-	-	17,014	488
Supplies	39,943	4,463	2,758	7,221	47,164	45,774
Training	6,761	1,490	48	1,538	8,299	11,105
Workers compensation insurance	147,232	11,432	287	11,719	158,951	133,143
<b>Total Expenses Operating Expenses</b>	<b>3,722,983</b>	<b>514,656</b>	<b>111,398</b>	<b>626,054</b>	<b>4,349,037</b>	<b>4,209,206</b>
<b>Nonoperating Expenses:</b>						
Depreciation	75,358	4,862	810	5,672	81,030	86,570
Legal	-	1,156	713	1,869	1,869	454
<b>Total Expenses Nonoperating Expenses</b>	<b>75,358</b>	<b>6,018</b>	<b>1,523</b>	<b>7,541</b>	<b>82,899</b>	<b>87,024</b>
<b>Total Expenses - 2014</b>	<b>\$ 3,798,341</b>	<b>\$ 520,674</b>	<b>\$ 112,921</b>	<b>\$ 633,595</b>	<b>\$ 4,431,936</b>	
<b>Total Expenses - 2013</b>	<b>\$ 3,685,185</b>	<b>\$ 492,057</b>	<b>\$ 118,988</b>	<b>\$ 611,045</b>		<b>\$ 4,296,230</b>

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



**Hillside House**  
**Notes to Financial Statements**  
**December 31, 2014**

**(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.

**Hillside House**  
**Notes to Financial Statements**  
**December 31, 2014**

Recognition of Donor and Grant Restrictions

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

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 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

**Hillside House**  
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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.

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, 2014. The tax years ending 2011, 2012 and 2013 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

**Hillside House**  
**Notes to Financial Statements**  
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It is at least reasonably possible that the significant estimates will change within the next year.

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, 2014.

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.

**(3) BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS**

The Organization's has a beneficial interest in assets held by others and consist exclusively of funds held at Santa Barbara Foundation (SBF) under three Agency Fund Agreements:

- Agency Endowment Fund Agreement
- Agency Focus Growth Blend Fund Agreement
- Agency Focus Income Blend Fund Agreement

**Hillside House**  
**Notes to Financial Statements**  
**December 31, 2014**

Agency Endowment Fund Agreement

The Agency Endowment Fund is exclusively invested in the Wells Fargo Long-Term Endowment Fund Pool. The portfolio's target allocation of investments is as follows:

Cash	2.0%
Fixed income	11.5%
US equity	25.0%
International equity	15.0%
Public real estate	4.0%
Hedge funds	10.0%
Private equities & real estate	13.5%

The Agency Endowment Fund Agreement provides for the distribution of funds to be in accordance with the Santa Barbara Foundation's spending policy for its endowed funds and consistent with the applicable provisions of the California Prudent Management of Institutional Funds Act (UPMIFA). In accordance with California State law, Santa Barbara Foundation retains sole and absolute discretion over distributions from the Funds. However, the Fund Agreement allows SBF to seek the Foundation's advice concerning the timing and amounts of distributions from the Fund to the Organization. The Organization also may request an extraordinary distribution from the Fund. The funding of any extraordinary distributions is the SBF's sole discretion.

Agency Focus Growth Blend Fund Agreement

The Agency Focus Growth Blend Fund is exclusively invested in the Wells Fargo Focus Growth Blend Fund. The portfolio's target allocation of funds is as follows:

Cash	7.0%
Investment grade fixed income	20.5%
US equity	32.0%
International equity	21.5%
Public real estate	6.0%

The purpose of the Agency Focus Growth Blend Fund is to act as an expendable fund and the SBF may make distributions to the Organization out of both principal and income, of up to 100% of its assets, net of fees. Applicable law requires SBF to retain sole and absolute discretion over distributions from the Agency Focus Growth Blend Fund. SBF seeks the Organization's advice concerning the timing and amounts of distributions from the Agency Focus Growth Blend Fund to the Organization. The assets of the Agency Focus Growth Blend Fund will, at all times, be the property of SBF. SBF holds the assets of the Agency Focus Growth Blend Fund in its corporate capacity as a component fund of SBF under Treasury Regulation Section 1.170A-9(e)(11) and the Agency Focus Growth Blend Fund will not be deemed a trust fund held by SBF in a trustee capacity for the Organization.

**Hillside House  
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December 31, 2014**

Agency Focus Income Blend Agreement

The Agency Focus Income Blend Fund is exclusively invested in the Wells Fargo Focus Growth Income Fund. The portfolio's target allocation of funds is as follows:

Cash	12.0%
Investment grade fixed income	41.5%
Other fixed income	13.0%
US equity	17.5%
International equity	12.5%
Public real estate	3.5%

The purpose of the Agency Focus Income Blend Fund is to act as an expendable fund and the SBF may make distributions to the Organization out of both principal and income, of up to 100% of its assets, net of fees. Applicable law requires SBF to retain sole and absolute discretion over distributions from the Agency Focus Income Blend Fund. SBF seeks the Organization's advice concerning the timing and amounts of distributions from the Agency Focus Income Blend Fund to the Organization. The assets of the Agency Focus Income Blend Fund will, at all times, be the property of SBF. SBF holds the assets of the Agency Focus Income Blend Fund in its corporate capacity as a component fund of SBF under Treasury Regulation Section 1.170A-9(e)(11) and the Agency Focus Income Blend Fund will not be deemed a trust fund held by SBF in a trustee capacity for the Organization.

As of December 31, 2015, beneficial interest in assets held by others consisted of the following:

	<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Gain(Loss)</u>
Beneficiary interest in:			
SBF long-term			
Endowment Fund	\$ 818,203	\$ 756,715	\$ 61,488
SBF Focus Growth			
Blend Fund	879,194	767,693	111,501
SBF Focus Income			
Blend Fund	<u>422,405</u>	<u>384,818</u>	<u>37,587</u>
Totals	<u>\$ 2,119,802</u>	<u>\$ 1,909,226</u>	<u>\$ 210,576</u>
Unrealized gain at December 31, 2013			<u>(109,002)</u>
Unrealized gain for year ended December 31, 2014			<u>\$ 101,574</u>

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December 31, 2014**

For the year ended December 31, 2014 investment income consisted of the following amounts:

Interest income	\$ 105
Investment fees	<u>(25,899)</u>
Subtotal	(25,794)
Unrealized change in value of assets held by others	<u>101,574</u>
	<u>\$ 75,780</u>

**(4) ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES**

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

Other receivables at December 31, 2014 are expected to be collected in the year ended December 31, 2015. Management believes all pledges are collectible and thus no reserve for uncollectible pledges is reported.

**(5) FIXED ASSETS**

Fixed assets at December 31, 2014 were as follows:

Land	\$ 30,000
Land improvements	148,131
Buildings and improvements	1,175,269
Equipment	818,093
Furniture & equipment	191,924
Vehicles	160,057
Construction in process	<u>518,646</u>
Total Cost	3,042,120
Accumulated depreciation	<u>(1,840,735)</u>
Fixed Assets, Net	<u>\$ 1,201,385</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 \$518,646 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, 2014 is \$81,030.

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December 31, 2014**

**(6) RESTRICTED NET ASSETS**

Temporarily restricted net assets as of December 31, 2014 were available for the following purposes:

Equipment	\$ 25,658
Freeman fund – medical expense support	112,761
Resident travel	2,020
Thaxton fund- staff salary support	11,246
Gorham wellness fund	65,019
Vaccine fund	<u>588</u>
Total Temporarily Restricted Net Assets	<u>\$ 217,292</u>

**(7) 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.

**(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, 2014:



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Notes to Financial Statements  
December 31, 2014**

- Beneficial interest in the Santa Barbara Foundation Endowment Fund which is invested in the Wells Fargo Endowment Fund Pool, Wells Fargo Fixed Income Blend Pool and Wells Fargo Growth Blend Pool.

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.

Fair Value Measurements at December 31, 2014 are summarized as follows:

	Quoted Prices In Active Markets For Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Beneficiary interest in assets held by others	\$ -	\$ 2,119,802	\$ -
Total	<u>\$ -</u>	<u>\$ 2,119,802</u>	<u>\$ -</u>

The table below presents the information about the fair value measurements that use significant other observable inputs (Level 2):

Beneficial Interest in assets held by others

Balance at December 31, 2013	\$ 2,041,157
Additions	3,011
Distributions	(25,780)
Unrealized gains	<u>101,414</u>
Balance at December 31, 2014	<u>\$ 2,119,802</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, 2014 to the Board member was \$20,632.

A member of the Board of Trustees provides consulting services to Hillside House relating to the proposed building project. The fee arrangement is based on the fair market value of services provided. The total consulting services paid for the year ended December 31, 2014 to the Board member was \$19,012.

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A member of the Board of Trustees provides leadership and organizational coaching services to Hillside House. The fee arrangement is based on the fair market value of services provided. The total coaching services paid for the year ended December 31, 2014 to the Board member was \$1,000.

**(11) SUBSEQUENT EVENTS**

Management has evaluated events through April 8, 2015, which is the date the financial statements were available to be issued. Management has determined that no subsequent event requiring disclosure or significantly impacting disclosure has occurred.