



**HILLSIDE HOUSE, INC.  
Financial Statements  
December 31, 2017**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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, 2017, and the related statements of activities, functional expenses, and cash flows 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, 2017, 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 Hillside House's 2016 financial statements, and our report dated March 30, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Stoltey & Associates*

Orcutt, California  
April 11, 2018

**HILLSIDE HOUSE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2017 with Comparative Totals as of December 31, 2016**

<b>ASSETS</b>		
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 237,615	\$ 266,353
Accounts Receivable, net (note 4)	648,808	436,434
Pledges Receivable (note 5)	36,739	25,870
Prepaid Expenses	99,780	101,174
Total Current Assets	1,022,942	829,831
Investments (note 6)	2,020,156	1,794,674
Fixed Assets, Net (note 7)	1,487,639	1,468,983
Total Assets	<u>\$ 4,530,737</u>	<u>\$ 4,093,488</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 119,008	\$ 157,810
Accrued Expenses	242,405	227,862
Total Current Liabilities	361,413	385,672
<b>NET ASSETS</b>		
Unrestricted	3,844,069	3,449,500
Temporarily Restricted (note 10)	325,255	258,316
Permanently Restricted	-	-
Total Net Assets	4,169,324	3,707,816
Total Liabilities and Net Assets	<u>\$ 4,530,737</u>	<u>\$ 4,093,488</u>

See accompanying notes.

**HILLSIDE HOUSE, INC.**  
**STATEMENT OF ACTIVITIES**  
**December 31, 2017 with Comparative Totals for Year Ended December 31, 2016**

	2017			2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING</b>				<b>Total</b>
<b>PUBLIC SUPPORT</b>				
Special Events, Gross	\$ 142,286	\$ -	\$ -	\$ 142,286
Less: Direct Costs	(53,701)	-	-	(53,701)
Special Events, Net	88,585	-	-	88,585
Contributions & Grants	448,276	71,020	-	519,296
Total Public Support	536,861	71,020	-	607,881
<b>REVENUE</b>				
Resident Fees	4,586,985	-	-	4,586,985
Rental Income	24,000	-	-	24,000
Miscellaneous Income	27,599	-	-	27,599
Total Public Support and Revenue	5,175,445	71,020	-	5,246,465
Net Assets Released from Restriction	34,911	(34,911)	-	-
<b>EXPENSES</b>				
PROGRAM SERVICES	4,306,042	-	-	4,306,042
SUPPORTING SERVICES				
Management and General	443,202	-	-	443,202
Fundraising	163,004	-	-	163,004
Total Supporting Services	606,206	-	-	606,206
Total Operating Expenses	4,912,248	-	-	4,912,248
Change in Net Assets from Operating Activities	298,108	36,109	-	334,217
<b>NONOPERATING</b>				
<b>REVENUE</b>				
Investment Income (Note 6)	213,692	30,829	-	244,521
Total Nonoperating Revenue	213,692	30,829	-	244,521
<b>EXPENSES</b>				
Depreciation	69,191			69,191
Capital Campaign	29,000			29,000
Investment Management Fees	19,039	-	-	19,039
Total Nonoperating Expense	117,230	-	-	117,230
Change in Net Assets from Nonoperating Activities	96,462	30,829	-	127,291
Total Change in Net Assets	394,570	66,939	-	461,508
Net Assets, Beginning of Year	3,449,500	258,316	-	3,707,816
Net Assets, End of Year	\$ 3,844,070	\$ 325,255	\$ -	\$ 4,169,324

See accompanying notes.

**HILLSIDE HOUSE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**December 31, 2017 with Comparative Totals for Year Ended December 31, 2016**

	2017			2016		
	Program Services Total	Supporting Services Management & General	Fundraising	Supporting Services Total	Total Program and Supporting Services	Total Program and Supporting Services
Compensation and Related Benefits						
Salaries	\$ 2,555,593	\$ 246,592	\$ 90,235	\$ 336,827	\$ 2,892,420	\$ 2,804,696
Payroll Taxes	201,972	18,424	6,744	25,168	227,140	220,700
Employee Benefits	194,455	25,709	6,451	32,160	226,615	225,732
Total Compensation and Related Benefits	2,952,020	290,725	103,430	394,155	3,346,175	3,251,128
Other Operating Expenses						
Accounting	-	36,328	-	36,328	36,328	18,385
Advertising	4,427	6,593	882	7,475	11,902	3,464
Bank Fees	3,322	214	36	250	3,572	2,065
Bad Debt Expense	-	45,000	-	45,000	45,000	-
Consulting	103,961	-	16,260	16,260	120,221	94,394
Dues	5,908	381	64	445	6,353	8,439
Equipment Rental and Maintenance	50,622	3,266	544	3,810	54,432	22,780
Insurance	65,959	4,255	709	4,965	70,924	61,078
Legal	914	168	-	168	1,082	5,164
Licenses and Taxes	58,163	4,025	39	4,065	62,228	49,585
Medi-Cal QAF	177,487	12,339	-	12,339	189,826	189,799
Miscellaneous	528	34	6	40	568	3,394
Occupancy	164,459	10,610	1,768	12,379	176,838	154,970
Postage and Shipping	628	609	609	1,219	1,847	1,075
Printing	76	5	29	34	110	7,796
Professional Services	45,759	20,786	35,592	56,378	102,137	75,172
Resident Food Services	149,728	-	-	-	149,728	148,976
Resident Personal Care	176,081	-	-	-	176,081	156,609
Resident Recreational Activities	23,730	-	-	-	23,730	34,645
Resident Transportation	12,541	-	-	-	12,541	6,334
Staff Recruitment	775	90	-	90	865	1,967
Supplies	38,039	2,946	1,832	4,778	42,817	42,941
Training	9,279	2,688	222	2,910	12,189	14,844
Workers Compensation Insurance	261,636	2,138	980	3,118	264,754	285,544
Total Operating Expenses	4,306,042	443,202	163,004	606,206	4,912,248	4,640,548
Nonoperating Expenses						
Investment Management Fees	-	19,039	-	19,039	19,039	19,349
Depreciation	64,348	4,151	692	4,843	69,191	75,358
Capital Campaign	-	-	29,000	29,000	29,000	-
Total Nonoperating Expenses	64,348	23,190	29,692	52,882	117,230	94,707
Total Functional Expenses 2017	<u>\$ 4,370,390</u>	<u>\$ 466,392</u>	<u>\$ 192,696</u>	<u>\$ 659,088</u>	<u>\$ 5,029,478</u>	
Total Functional Expenses 2016	<u>\$ 4,203,131</u>	<u>\$ 382,373</u>	<u>\$ 149,751</u>	<u>\$ 532,124</u>		<u>\$ 4,735,255</u>

See accompanying notes.

# HILLSIDE HOUSE, INC.

## STATEMENT OF CASH FLOWS

December 31, 2017 with Comparative Totals for Year Ended December 31, 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Increase in Net Assets	\$ 461,508	\$ 4,931
Adjustments to Reconcile Increase in Net Assets to Cash Provided by (Used by) Operating Activities:		
Depreciation	69,191	75,358
Realized and Unrealized Loss (Gain)	(192,553)	6,950
Change in Operating Assets and Liabilities:		
Accounts Receivable	(212,374)	(87,594)
Contributions Receivable	(10,869)	2,233
Prepaid Expenses	1,394	(9,407)
Accounts Payable	(38,802)	(171,560)
Accrued Expenses	14,543	(2,965)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>92,038</u>	<u>(182,054)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sale of Securities	981,574	2,398,107
Purchase of Securities	(1,014,503)	(2,131,786)
Purchase of Fixed Asset	(87,847)	(122,147)
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(120,776)</u>	<u>144,174</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(28,738)	(37,880)
<b>Cash and Cash Equivalents at Beginning of Year</b>	266,353	304,233
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 237,615</u>	<u>\$ 266,353</u>

See accompanying notes.

# HILLSIDE HOUSE, INC.

## Notes to Financial Statements

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### **Note 1: Nature of Activities**

Hillside House (the Organization) is a California nonprofit corporation that 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.

### **Note 2: Summary of Significant Accounting Policies**

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the Organization are described subsequently to enhance the usefulness and understandability of the financial statements.

#### **Basis of Accounting**

The Organization prepares its financial statements using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

#### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates. Significant estimates used in the preparation of these financial statements include:

- Allocation of functional expenses
- Depreciable lives and estimated residual value of property and equipment
- Allowance for uncollectible accounts and contributions receivable

#### **Net Assets**

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

**Unrestricted Net Assets** are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes

# HILLSIDE HOUSE, INC.

## Notes to Financial Statements

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specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

**Temporarily Restricted Net Assets** are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the Organization, unless the donor provides more specific directions about the period of its use.

**Permanently Restricted Net Assets** are resources whose use by the Organization is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the Organization's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class.

### **Classification of Transactions**

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses are reported as decreases in unrestricted net assets.

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

### **Cash and Cash Equivalents**

Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature. The Organization maintains cash balances at financial institutions with branches located in Santa Barbara, California. Deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. The balances occasionally exceed those limits. Cash equivalents, other securities, and limited amounts of cash held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage account, with a limit of \$250,000 for claims of

# HILLSIDE HOUSE, INC.

## Notes to Financial Statements

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uninvested cash balances. The SIPC insurance does not protect against market losses on investments.

### **Accounts Receivable**

Accounts receivable are primarily unsecured non-interest-bearing amounts due from Medi-Cal and Medicare. Management expects to collect all accounts receivable prior to December 31, 2018. Management has recorded an allowance for doubtful accounts of \$45,000 at December 31, 2017.

### **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. Management believes all contributions receivable are collectible and thus no reserve has been reported at December 31, 2017.

### **Fixed Assets**

Fixed assets are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$5,000 or more and a useful life when acquired of more than 1 year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Furniture, Fixtures and Equipment	5 – 7 Years
Structures	40 Years
Improvements	40 Years

Fixed assets are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

### **Measure of Operations**

In its statement of activities, the Organization includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Investment income, capital campaign expenditures and depreciation expense are included as non-operating activities.

# HILLSIDE HOUSE, INC.

## Notes to Financial Statements

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### **Accounting for Contributions**

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless the use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met. At December 31, 2017 the Organization has been awarded a \$50,000 challenge grant conditional upon the Organization raising \$50,000 in matching donations no later than November 1, 2018 at which time the challenge grant will be withdrawn if the amount has not been matched. The challenge grant is restricted to the purchase of a new generator. As the challenge grant has not been met as of December 31, 2017, the grant has not been reported as revenue in the accompanying financial statements.

### **Gifts-in-Kind Contributions**

The Organization benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Organization's program operations and in its fund-raising campaigns. However, the contributed services do not meet the criteria for recognition in financial statements. GAAP allow recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills.

### **Grant Revenue**

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue is subject to review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Organization's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Organization.

### **Expense Recognition and Allocation**

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service

# HILLSIDE HOUSE, INC.

## Notes to Financial Statements

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are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited on the basis of periodic time or usage studies.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

### **Tax Status**

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), though it is subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). The Organization's tax filings for the years ending 2016, 2015 and 2014 are subject to examination by the IRS, generally for three years after they are filed. The Organization evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. Contributions to the Organization are tax deductible to donors under Section 170 of the IRC. As of December 31, 2017, the Organization had no uncertain tax positions requiring accrual. The organization is not classified as a private foundation.

### **Prior Year Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived. Certain reclassifications have been made to these amounts to conform to current year classifications.

### **Note 3: Fair Value Measurements**

The Organization reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair

# HILLSIDE HOUSE, INC.

## Notes to Financial Statements

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value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

- Level 1. Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.
- Level 2. Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets in markets that are not active;
  - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
  - 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 if observable inputs are not available.

When available, the Organization measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for some of the assets and liabilities that the Organization is required to measure at fair value.

The primary uses of fair value measures in the Organization's financial statements are the recurring measurement of investment values (Note 6).

**Note 4: Accounts Receivable**

Accounts receivable are primarily from government sources as payment for resident services. Management has recorded an allowance for doubtful accounts of \$45,000 at December 31, 2017.

**Note 5: Pledges Receivable**

Pledges receivable are recorded at the net present value of the future cash flows. All contributions are expected to be collected in the year ended December 31, 2018 and as such management has no allowance for doubtful accounts at December 31, 2017.

**Note 6: Investments**

Investments consist of the following at December 31, 2017:

# HILLSIDE HOUSE, INC.

## Notes to Financial Statements

	<b>Market Value</b>	<b>Cost</b>	<b>Unrealized</b>
Cash Equivalents	\$ 157,070	\$ 157,070	\$ -
Exchange Traded Funds - Equities	1,091,846	908,143	183,703
Exchange Traded Funds – Fixed Income	512,132	504,660	7,472
Fixed Income Mutual Funds	259,108	259,519	(411)
<b>Totals</b>	<u>\$ 2,020,156</u>	<u>\$ 1,829,392</u>	190,764
Less: Unrealized Gain, Beginning of year			<u>(28,457)</u>
<b>Change in Unrealized Gain</b>			<u>\$ 162,307</u>

As discussed in Note 3 to these financial statements, the Organization is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the marketplace the inputs to the Organization's valuation techniques. Level 1, the most observable level of inputs, is for investments measured at quoted prices in active markets for identical investments as of the December 31, 2017, including investments measured at net asset value (NAV) if the NAV is determined as the fair value per share (unit) is published, and is the basis for current transactions. Level 2 is for investments measured using inputs such as quoted prices for similar assets or quoted prices for the identical asset in inactive markets. Level 3 is for investments measured using inputs that are unobservable, and is used in situations for which there is little, if any, market activity for the investment.

The Organization uses the following ways to determine the fair value of its investments:

- *Money market funds*: Determined by the published NAV per unit at the end of the last trading day of the year, which is the basis for transactions at that date.
- *Open-end mutual funds*: Determined by the published NAV per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date.
- *Exchange-traded funds*: Determined by the published closing price on the last business day of the fiscal year.

The following table summarizes the levels in the fair value hierarchy of the Organization's investments at December 31, 2017:

	<b>Level 1</b>	<b>Total</b>
Cash Equivalents	\$ 157,070	\$ 157,070
Exchange Traded Funds - Equities	1,091,846	1,091,846
Exchange Traded Funds - Fixed Income	176,684	176,684
Fixed Income Mutual funds	594,556	594,556
<b>Totals</b>	<u>\$ 2,020,156</u>	<u>\$ 2,020,156</u>

# HILLSIDE HOUSE, INC.

## Notes to Financial Statements

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There were no significant transfers between the levels during the year. The Organization's policy is to recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the availability of fair value inputs are not recognized. At December 31, 2017, the Organization does not have any investments measured using level 2 or 3 inputs. The composition of the investment return reported in the statement of activities is as follows:

Interest and dividends	\$ 51,968
Realized gain	30,246
Unrealized gain	<u>162,307</u>
<b>Total</b>	<b><u>\$ 244,521</u></b>

**Note 7: Fixed Assets, Net**

Fixed Assets, Net at December 31, 2017, are as follows:

Land	\$ 30,000
Land Improvements	148,131
Building and Improvements	1,276,243
Machinery and Equipment	839,032
Furniture and Fixtures	211,924
Vehicles	208,740
Construction in Progress	<u>835,027</u>
Total Cost	3,549,097
Accumulated Depreciation	<u>(2,061,458)</u>
Fixed Assets, Net	<b><u>\$ 1,487,639</u></b>

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 \$812,754 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 to 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 for the year ended December 31, 2017 was \$69,191.

**Note 8: Commitments and Contingencies**

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, INC.

## Notes to Financial Statements

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The Organization's annual raffle yielded \$3,400 in gross revenue in 2017 however they failed to register the raffle with the California Attorney General's office in a timely manner. In March 2018 the Organization contacted the Attorney General's office and they granted permission to file retroactively without penalty.

**Note 9: Line of Credit**

The Organization has a \$500,000 line of credit with Montecito Bank & Trust that expires January 15, 2020. The line of credit, set up to help smooth the seasonal variability of cash flows, carries a variable interest rate based on the Wall Street Journal Prime Rate minus 0.5%. The line of credit is secured by securities held at Montecito Bank & Trust. At December 31, 2017 there was no balance due on the line of credit.

**Note 10: Restricted Net Assets**

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following amounts at December 31:

Resident travel	\$ 809
Aquatic	14,604
Generator	20,000
Hospital Beds	11,181
Freeman Fund - Medical Expense Support	138,047
Thaxton Fund - Staff Salary Support	12,906
Gorham Wellness Fund	<u>127,708</u>
<b>Total</b>	<b><u>\$325,255</u></b>

**Note 11: Concentrations**

A significant portion of the Organization's revenues is derived from government grants and contracts. Individual donors are primarily from Santa Barbara County.

**Note 12: Related Party Transaction**

A member of the Board of Directors provides dental services to residents. The fee arrangement is based on the fair market value of services provided and \$34,367 was paid for the year ended December 31, 2017.

**Note 13: Subsequent Events**

Management of the Organization has evaluated subsequent events through April 11, 2018, the date on which the financial statements were available to be issued.