Stoltey & Associates
Certified Public Accountant

Hillside House
Fostering Abilities
Creating Community

# FINANCIAL STATEMENTS
**December 31, 2015**
**And For The Year Then Ended**

# HILLSIDE HOUSE

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**December 31, 2015**

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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, 2015, 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.

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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, 2015, 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 2014 financial statements, and our reports dated April 8, 2015, 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, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

Orcutt, California
March 28, 2016

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**Hillside House**
**Statement of Financial Position**
**December 31, 2015**
**(with comparative totals for 2014)**

| **Assets** | | **2015** | | **2014** |
|---|---|---|---|---|
| Current Assets: | | | | |
| Cash and equivalents | $ | 304,233 | $ | 342,411 |
| Accounts receivable (note 5) | | 348,840 | | 315,804 |
| Pledges receivables (note 5) | | 28,103 | | 64,475 |
| Prepaid expenses | | 91,767 | | 92,366 |
| Total Current Assets | | 772,943 | | 815,056 |
| Investments (note 3) | | 2,067,945 | | - |
| Beneficial interest in assets held by others (note 4) | | - | | 2,119,802 |
| Fixed Assets, Net (note 6) | | 1,422,194 | | 1,201,385 |
| **Total Assets** | $ | 4,263,082 | $ | 4,136,243 |
| **Liabilities and Net Assets** | | | | |
| Current Liabilities: | | | | |
| Accounts payable | $ | 329,370 | | 148,752 |
| Accrued expenses | | 230,827 | | 219,232 |
| Total Liabilities | | 560,197 | | 367,984 |
| Net Assets: | | | | |
| Unrestricted | | 3,453,775 | | 3,550,967 |
| Temporarily restricted (note 7) | | 249,110 | | 217,292 |
| Permanently restricted | | - | | - |
| Total Net Assets | | 3,702,885 | | 3,768,259 |
| **Total Liabilities and Net Assets** | $ | 4,263,082 | $ | 4,136,243 |

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

## Hillside House
## Statement of Activities
## Year Ended December 31, 2015
## (with comparative totals for 2014)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2015 | Total 2014 |
|---|---|---|---|---|---|
| **Operating** | | | | | |
| Public Support: | | | | | |
| Special events, gross | $ 79,107 | $ - | $ - | $ 79,107 | $ 95,925 |
| Less: Direct costs | (35,987) | - | - | (35,987) | (32,029) |
| Special events, net | 43,120 | - | - | 43,120 | 63,896 |
| Contributions | 292,569 | 92,130 | - | 384,699 | 425,516 |
| Total Public Support | 335,689 | 92,130 | - | 427,819 | 489,412 |
| Revenue: | | | | | |
| Resident fees | 4,069,251 | - | - | 4,069,251 | 3,945,832 |
| Rental income | 24,000 | - | - | 24,000 | 22,525 |
| Miscellaneous income | 61,237 | - | - | 61,237 | 3,782 |
| Total Public Support and Revenue | 4,490,177 | 92,130 | - | 4,582,307 | 4,461,551 |
| Net Assets released from restriction | 69,733 | (69,733) | - | - | - |
| Expenses: | | | | | |
| Program Services | 3,848,385 | - | - | 3,848,385 | 3,722,983 |
| Supporting services: | | | | | |
| Management and general | 530,497 | - | - | 530,497 | 516,525 |
| Fundraising | 138,697 | - | - | 138,697 | 111,398 |
| Total Supporting Services | 669,194 | - | - | 669,194 | 627,923 |
| Total Operating Expenses | 4,517,579 | - | - | 4,517,579 | 4,350,906 |
| Change in Net Assets from Operating Activities | 42,331 | 22,397 | - | 64,728 | 110,645 |
| **Nonoperating** | | | | | |
| Revenue: | | | | | |
| Investment income | (46,557) | 9,421 | - | (37,136) | 101,679 |
| Gain sale of fixed asset | - | - | - | - | 25 |
| Total Nonoperating Revenue | (46,557) | 9,421 | - | (37,136) | 101,704 |
| Expenses: | | | | | |
| Depreciation | 76,176 | - | - | 76,176 | 81,030 |
| Investment management fees | 16,790 | - | - | 16,790 | 25,899 |
| Total Nonoperating Expenses | 92,966 | - | - | 92,966 | 106,929 |
| Change in Net Assets from Nonoperating Activities | (139,523) | 9,421 | - | (130,102) | (5,225) |
| Total Change in Net Assets | (97,192) | 31,818 | - | (65,374) | 105,420 |
| Net Assets at Beginning of Year | 3,550,967 | 217,292 | - | 3,768,259 | 3,662,839 |
| Net Assets at End of Year | $ 3,453,775 | $ 249,110 | $ - | $ 3,702,885 | $ 3,768,259 |

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

**Hillside House**
**Statement of Cash Flows**
**For the Year Ended December 31, 2015**
**(with comparative totals for 2014)**

| | 2015 | 2014 |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Change in net assets | $ (65,374) | $ 105,420 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 76,176 | 81,030 |
| Unrealized gain on benefical interest in assets held by others | - | (101,414) |
| Realized and unrealized loss on investments | 132,029 | - |
| (Increase)/decrease in: | | |
| Accounts and grants receivable | (33,036) | 114,939 |
| Pledges receivable | 36,372 | (36,143) |
| Prepaid expenses | 599 | (11,183) |
| Increase/(decrease) in: | | |
| Accounts payable | 180,618 | 30,728 |
| Accrued expenses | 11,595 | (928,384) |
| Net Cash From Operating Activities | 338,979 | (745,007) |
| Cash Flows From Investing Activities | | |
| Purchases of invesments | (3,944,202) | (3,011) |
| Proceeds from sale of investrments | 3,864,030 | 25,780 |
| Purchase of fixed assets | (296,985) | (169,602) |
| Net Cash From Investing Activities | (377,157) | (146,833) |
| Net Change in Cash | (38,178) | (891,840) |
| Cash at the Beginning of Year | 342,411 | 1,234,251 |
| Cash at the End of Year | $ 304,233 | $ 342,411 |
| Supplemental Information: | | |
| Cash paid for interest | $ - | $ - |

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

**Hillside House**
**Statement of Functional Expenses**
**For the Year Ended December 31, 2015**
**(with comparative totals for 2014)**

| | Program Services Total | Supporting Services Management and General | Supporting Services Fundraising | Supporting Services Total | 2015 Total | 2014 Total |
|---|---|---|---|---|---|---|
| **Operating Expenses:** | | | | | | |
| Salaries | $ 2,275,760 | $ 350,417 | $ 89,714 | $ 440,131 | $ 2,715,891 | $ 2,588,838 |
| Payroll taxes | 185,626 | 25,743 | 6,811 | 32,554 | 218,180 | 212,651 |
| Employee benefits | 195,442 | 32,087 | 2,527 | 34,614 | 230,056 | 198,066 |
| Total Salaries and Related Expenses | 2,656,828 | 408,247 | 99,052 | 507,299 | 3,164,127 | 2,999,555 |
| Accounting | - | 18,613 | - | 18,613 | 18,613 | 16,500 |
| Advertising | - | 2,347 | 3,105 | 5,452 | 5,452 | 1,443 |
| Bad debt expense | - | 5,704 | - | 5,704 | 5,704 | 25,855 |
| Bank fees | 3,649 | 235 | 39 | 274 | 3,923 | 2,983 |
| Consulting | 81,825 | - | - | - | 81,825 | 147,156 |
| Dues | 7,214 | 465 | 78 | 543 | 7,757 | 2,942 |
| Equipment rental and maintenance | 31,789 | 2,051 | 342 | 2,393 | 34,182 | 21,036 |
| Insurance | 59,240 | 3,822 | 637 | 4,459 | 63,699 | 63,984 |
| Legal | - | 1,458 | - | 1,458 | 1,458 | 1,869 |
| Licenses and taxes | 38,253 | 2,633 | 56 | 2,689 | 40,942 | 37,524 |
| Medi-Cal QAF | 181,139 | 12,593 | - | 12,593 | 193,732 | 194,667 |
| Miscellaneous | 890 | 58 | 9 | 67 | 957 | 1,736 |
| Occupancy | 144,180 | 9,302 | 1,550 | 10,852 | 155,032 | 151,395 |
| Postage and shipping | 1,005 | 976 | 976 | 1,952 | 2,957 | 3,246 |
| Printing | 62 | 34 | 5,017 | 5,051 | 5,113 | 2,839 |
| Professional services | 18,254 | 37,580 | 23,044 | 60,624 | 78,878 | 93,880 |
| Resident food services | 147,054 | - | - | - | 147,054 | 150,923 |
| Resident personal care | 173,313 | - | - | - | 173,313 | 159,184 |
| Resident recreational activities | 29,848 | - | - | - | 29,848 | 26,457 |
| Resident transportation | 11,097 | - | - | - | 11,097 | 14,304 |
| Staff recruitment | 396 | 758 | - | 758 | 1,154 | 17,014 |
| Supplies | 41,193 | 3,633 | 2,197 | 5,830 | 47,023 | 47,164 |
| Training | 11,002 | 2,516 | 1,767 | 4,283 | 15,285 | 8,299 |
| Workers compensation insurance | 210,154 | 17,472 | 828 | 18,300 | 228,454 | 158,951 |
| Total Operating Expenses | 3,848,385 | 530,497 | 138,697 | 669,194 | 4,517,579 | 4,350,906 |
| **Nonoperating Expenses:** | | | | | | |
| Investment management fees | - | 16,790 | - | - | 16,790 | 25,899 |
| Depreciation | 71,109 | 4,343 | 724 | 5,067 | 76,176 | 81,030 |
| Total Nonoperating Expenses | 71,109 | 21,133 | 724 | 5,067 | 92,966 | 106,929 |
| Total Expenses - 2015 | $ 3,919,494 | $ 551,630 | $ 139,421 | $ 674,261 | $ 4,610,545 | |
| Total Expenses - 2014 | $ 3,798,341 | $ 520,674 | $ 112,921 | $ 633,595 | | $ 4,457,835 |

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

## (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.

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:

| Asset | Life |
|---|---|
| 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.

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, 2015. The tax years ending 2012, 2013 and 2014 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.

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, 2015.

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, 2014 in the accompanying financial statements are included to provide a basis for comparison with 2015 and present summarized totals only. Accordingly, the 2014 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, 2014, from which the summarized information was derived.

## (3) INVESTMENTS

The Organization records investments in marketable securities at fair value in the statement of financial position. As of December 31, 2015, investments consisted of the following:

| | Market Value | Cost | Unrealized Gain (Loss) |
|---|---|---|---|
| Temporary Cash held at investment Brokers | $ 221,609 | $ 221,609 | $ - |
| Fixed income mutual funds | 682,373 | 709,762 | (27,389) |
| Exchange Traded Funds | 1,163,963 | 1,226,291 | (62,328) |
| Totals | $ 2,067,945 | $ 2,157,662 | (89,717) |
| Unrealized gain at beginning of year | | | (210,576) |
| Change in unrealized gain (loss) | | | $ (300,293) |

Investment income for the year ended December 31, 2015 consisted of the following

| | |
|---|---|
| Interest income | $ 77,417 |
| Unrealized loss on investments | (300,293) |
| Realized gain on sale of investments | 185,740 |
| Investment income | $ (37,136) |

## (4) BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

As of December 31, 2014, the Organization’s had a beneficial interest in assets held by others and consisted 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

Agency Endowment Fund Agreement

The Agency Endowment Fund was exclusively invested in the Wells Fargo Long-Term Endowment Fund Pool. The portfolio's target allocation of investments was 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 provided 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 retained sole and absolute discretion over distributions from the Funds. However, the Fund Agreement allowed SBF to seek the Organization's advice concerning the timing and amounts of distributions from the Fund to the Organization. The Organization was allowed to request an extraordinary distribution from the Fund. The funding of any extraordinary distributions was the SBF's sole discretion.

Agency Focus Growth Blend Fund Agreement

The Agency Focus Growth Blend Fund was exclusively invested in the Wells Fargo Focus Growth Blend Fund. The portfolio's target allocation of funds was 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 was 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 required SBF to retain sole and absolute discretion over distributions from the Agency Focus Growth Blend Fund. SBF sought 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 were the property of SBF. SBF held 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 was not be deemed a trust fund held by SBF in a trustee capacity for the Organization.

Agency Focus Income Blend Agreement

The Agency Focus Income Blend Fund was exclusively invested in the Wells Fargo Focus Growth Income Fund. The portfolio's target allocation of funds was 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 was to act as an expendable fund and the SBF was able make distributions to the Organization out of both principal and income, of up to 100% of its assets, net of fees. Applicable law required SBF to retain sole and absolute discretion over distributions from the Agency Focus Income Blend Fund. SBF sought 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 were, at all times, be the property of SBF. SBF held 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 was not to be deemed a trust fund held by SBF in a trustee capacity for the Organization.

As of December 31, 2014, beneficial interest in assets held by others consisted of the following:

| | Market Value | Cost | Unrealized Gain(Loss) |
|---|---|---|---|
| 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 | 422,405 | 384,818 | 37,587 |
| Totals | $ 2,119,802 | $ 1,909,226 | $ 210,576 |
| Unrealized gain at beginning of year | | | (109,002) |
| Unrealized gain for year ended December 31, 2014 | | | $ 101,574 |

## (5) 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, 2015 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.

## (6) FIXED ASSETS

Fixed assets at December 31, 2015 were as follows:

| | Cost | Accumulated Depreciation | Net |
|---|---|---|---|
| Land | $ 30,000 | $ - | $ 30,000 |
| Land improvements | 148,131 | (70,796) | 77,335 |
| Buildings and improvements | 1,276,243 | (742,089) | 534,154 |
| Equipment | 818,093 | (764,494) | 53,599 |
| Furniture & equipment | 191,924 | (177,038) | 14,886 |
| Vehicles | 208,740 | (162,493) | 46,247 |
| Construction in process | 665,973 | - | 665,973 |
| Total Cost | $ 3,339,104 | $ (1,916,910) | $ 1,422,194 |

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 $665,973 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, 2015 is $76,176.

## (7) RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2015 were available for the following purposes:

| | |
|---|---|
| Resident travel | $ 1,665 |
| Freeman fund – medical expense support | 122,353 |
| Thaxton fund- staff salary support | 11,392 |
| Gorham wellness fund | 85,597 |
| Restricted for time | 28,103 |
| Total Temporarily Restricted Net Assets | $ 249,110 |

## (8) 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.

## (9) CONCENTRATIONS

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

Individual donors are primarily from Santa Barbara County.

## (10) 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, 2015:

- 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.

Fair Value Measurements at December 31, 2015 are summarized as follows:

| | Quoted Prices In Active Markets For Identical Assets |
|---|---|
| Fixed income mutual funds | $ 682,373 |
| Exchange traded funds | 1,163,963 |
| Total | $ 1,846,336 |

## (11) 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, 2015 to the Board member was $5,694.

## (12) SUBSEQUENT EVENTS

Management has evaluated events through March 28, 2016, 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.