



HILLSIDE

Fostering Abilities • Creating Community

HILLSIDE HOUSE, INC.
Financial Statements
December 31, 2018



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, 2018, 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, 2018, 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 2017 financial statements, and our report dated April 11, 2018, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

Orcutt, California
February 21, 2020

HILLSIDE HOUSE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018
With Comparative Totals for 2017

ASSETS		
	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 609,599	\$ 237,615
Investments (note 3)	1,640,485	1,741,495
Accounts Receivable, net (note 1)	452,708	648,808
Contributions Receivable (note 4)	49,402	36,739
Prepaid Expenses	73,578	99,780
	<u>2,825,772</u>	<u>2,764,437</u>
Total Current Assets		
Investments Restricted for Long-Term Purpose (note 3)	258,678	278,661
Fixed Assets, Net (note 5)	1,650,081	1,487,639
Total Non-Current Assets	<u>1,908,759</u>	<u>1,766,300</u>
Total Assets	<u>\$ 4,734,531</u>	<u>\$ 4,530,737</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 215,198	\$ 119,008
Accrued Expenses	208,782	242,405
Line of Credit (note 6)	-	-
Total Liabilities	<u>423,980</u>	<u>361,413</u>
NET ASSETS		
Without Donor Restriction	3,840,192	3,844,069
With Donor Restriction (note 7)	470,359	325,255
Total Net Assets	<u>4,310,551</u>	<u>4,169,324</u>
Total Liabilities and Net Assets	<u>\$ 4,734,531</u>	<u>\$ 4,530,737</u>

See accompanying notes.

HILLSIDE HOUSE, INC.
STATEMENTS OF ACTIVITIES
For Year Ended December 31, 2018
with Comparative Totals for December 31, 2017

	2018			2017
	Without Donor Restriction	With Donor Restriction	Total	Total
OPERATING				
PUBLIC SUPPORT				
Special Events, Gross	\$ 126,785	\$ -	\$ 126,785	\$ 142,286
Less: Direct Costs	(34,162)	-	(34,162)	(53,701)
Special Events, Net	92,623	-	92,623	88,585
Contributions and Grants	386,382	207,085	593,467	519,296
Total Public Support	479,005	207,085	686,090	607,881
REVENUE				
Resident Fees	4,649,613	-	4,649,613	4,586,985
Rental Income	24,000	-	24,000	24,000
Investment Income	(122,137)	-	(122,137)	225,482
Miscellaneous Income	23,508	-	23,508	27,599
Total Public Support and Revenue	5,053,989	207,085	5,261,074	5,471,947
Net Assets Released from Restriction	61,981	(61,981)	-	-
EXPENSES				
PROGRAM SERVICES	4,461,515	-	4,461,515	4,370,390
SUPPORTING SERVICES				
Management and General	500,908	-	500,908	447,353
Fundraising	157,424	-	157,424	192,696
Total Supporting Services	658,332	-	658,332	640,049
Total Operating Expenses	5,119,847	-	5,119,847	5,010,439
Change in Net Assets	(3,877)	145,104	141,227	461,508
Net Assets, Beginning of Year	3,844,069	325,255	4,169,324	3,707,816
Net Assets, End of Year	\$ 3,840,192	\$ 470,359	\$ 4,310,551	\$ 4,169,324

See accompanying notes.

HILLSIDE HOUSE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For Year Ended December 31, 2018
with Comparative Totals as of December 31, 2017

	2018			Supporting Services Total	Total Program and Supporting Services	2017 Total Program and Supporting Services
	Program Services Total	Supporting Services				
		Management & General	Fundraising			
Compensation and Related Benefits						
Salaries	\$ 2,642,821	\$ 272,348	\$ 106,903	\$ 379,251	\$ 3,022,072	\$ 2,892,420
Employee Benefits	219,044	38,353	14,054	52,407	271,451	228,409
Payroll Taxes	372,727	20,831	7,814	28,645	401,372	491,894
Total Compensation and Related Benefits	<u>3,234,592</u>	<u>331,532</u>	<u>128,771</u>	<u>460,303</u>	<u>3,694,895</u>	<u>3,612,723</u>
Other Operating Expenses						
Legal	-	-	-	-	-	1,082
Accounting	-	39,563	-	39,563	39,563	36,328
Professional Fundraiser	-	-	22,291	22,291	22,291	72,482
Other Professional Fees	99,989	16,078	-	16,078	116,067	100,504
Advertising	1,792	2,668	357	3,025	4,817	11,902
Office Expenses	49,819	4,248	1,008	5,256	55,075	38,390
Information Technology	61,890	3,993	665	4,658	66,548	47,647
Occupancy	281,737	18,176	3,029	21,205	302,942	281,807
Travel	-	2,863	-	2,863	2,863	3,790
Conferences	-	116	-	116	116	1,171
Interest	-	298	-	298	298	268
Depreciation	53,021	3,420	570	3,990	57,011	69,191
Insurance	65,913	4,252	709	4,961	70,874	70,923
Resident Services	405,125	-	-	-	405,125	383,091
Medi-Cal QAF Fees	193,655	13,463	-	13,463	207,118	189,826
Bad Debt	-	60,000	-	60,000	60,000	45,000
Resident Transportation	10,846	-	-	-	10,846	9,239
Miscellaneous	3,136	238	24	262	3,398	35,073
Total Other Operating Expenses	<u>1,226,923</u>	<u>169,376</u>	<u>28,653</u>	<u>198,029</u>	<u>1,424,952</u>	<u>1,397,714</u>
Total Functional Expenses 2018	<u>\$ 4,461,515</u>	<u>\$ 500,908</u>	<u>\$ 157,424</u>	<u>\$ 658,332</u>	<u>\$ 5,119,847</u>	
Total Functional Expenses 2017	<u>\$ 4,370,390</u>	<u>\$ 447,357</u>	<u>\$ 192,692</u>	<u>\$ 640,049</u>		<u>\$ 5,010,437</u>

See accompanying notes.

HILLSIDE HOUSE, INC.

STATEMENTS OF CASH FLOWS

Year Ended December 31, 2018

with Comparative Totals for December 31, 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Increase in Net Assets	\$ 141,227	\$ 461,508
Adjustments to Reconcile Increase in Net Assets to Cash Provided by (Used by) Operating Activities:		
Depreciation	57,011	69,191
Realized and Unrealized Loss (Gain) on Investments	263,562	(192,553)
Change in Operating Assets and Liabilities:		
Accounts Receivable	196,100	(212,374)
Contributions Receivable	(12,663)	(10,869)
Prepaid Expenses	26,202	1,394
Accounts Payable	96,190	(38,802)
Accrued Expenses	(33,623)	14,543
Net Cash Provided (Used) by Operating Activities	<u>734,006</u>	<u>92,038</u>
Cash Flows from Investing Activities		
Proceeds from Sale of Securities	1,133,929	981,574
Purchase of Securities	(1,276,498)	(1,014,503)
Purchase of Fixed Asset	(219,453)	(87,847)
Net Cash Provided (Used) by Investing Activities	<u>(362,022)</u>	<u>(120,776)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	371,984	(28,738)
Cash and Cash Equivalents at Beginning of Year	237,615	266,353
Cash and Cash Equivalents at End of Year	<u>\$ 609,599</u>	<u>\$ 237,615</u>

See accompanying notes.

Hillside House, Inc.
Notes to Financial Statements
December 31, 2018

Note 1 - Principal Activity and Significant Accounting Policies

Organization

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.

Comparative Financial Information

The accompanying 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 accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects or other long-term purposes are excluded from this definition.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for resident services. The Organization determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2018 and 2017, the allowance was \$105,000 and \$45,000, respectively.

Contributions Receivable

The Organization initially records unconditional contributions receivable and subsequently carried at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

Property and Equipment

The Organization records property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 40 years. When assets are sold or otherwise disposed of, the cost and

Hillside House, Inc.

Notes to Financial Statements

December 31, 2018

related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2018.

Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional contribution receivable, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Organization records donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended December 31, 2018 and 2017, respectively.

Advertising Costs

Advertising costs are expensed as incurred and approximated \$4,817 and \$11,902 during the years ended December 31, 2018 and 2017, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualified for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi), and has been determined not to be private foundation. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Organization has determined it is not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Hillside House has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Hillside House, Inc.

Notes to Financial Statements

December 31, 2018

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk

The Organization manage deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, The Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due governmental agencies, and donors supportive of our mission. Investments are made by diversified investment managers whose performance is monitored by management and a committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the organizations.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization have implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented with no material reclassifications of net assets.

Subsequent Events

The Organization has evaluated subsequent events through February 21, 2020, the date the consolidated financial statements were available to be issued. Management has determined that no subsequent event requiring disclosure or significantly impacting the financial position of the Organization has occurred.

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Notes to Financial Statements
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Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and Cash Equivalents	\$ 609,599
Investments	1,899,163
Accounts Receivable	452,708
Contributions Receivable	<u>49,402</u>
	3,010,872
Less Donor Restrictions	<u>(470,359)</u>
	<u>\$ 2,540,513</u>

Note 3 - Fair Value Measurements and Disclosures

The Organization reports certain assets at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that The Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, The Organization develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value

Hillside House, Inc.
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hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of our investment assets are classified within Level 1 because they comprise open-end mutual funds with readily determinable fair values based on daily redemption values. The fair values of contributions receivable are determined by management using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the assets. Contributions receivable are considered to be Level 3 measurements.

The following table presents assets measured at fair value on a recurring basis at December 31, 2018:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Money Funds (Cost)	\$ 196,440	\$ -	\$ -	\$ -
ETF – Equities	812,565	812,565	-	-
ETF – Fixed Income	412,638	412,638	-	-
Mutual Funds – Fixed Income	443,980	443,980	-	-
Mutual Funds – Real Estate	33,541	33,541	-	-
Total	<u>\$ 1,899,164</u>	<u>\$ 1,702,724</u>	<u>\$ -</u>	<u>\$ -</u>
Contributions Receivable	<u>\$ 49,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,402</u>

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December 31, 2018

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2018:

Contributions Receivable at Beginning of Year	\$ 36,739
Additions	49,402
Collections	<u>(36,739)</u>
Contributions Receivable at Ending of Year	<u>\$ 49,402</u>

Note 4 - Contributions Receivable

Unconditional contributions receivable are estimated to be collected during the year ended December 31, 2019.

At December 31, 2018, two donors accounted for 75 percent of total promises to give.

Note 5 - Fixed Assets

Fixed assets consisted of the following at December 31, 2018 and 2017:

Land	\$ 30,000
Land Improvements	177,330
Buildings and Improvements	1,289,069
Machinery and Equipment	839,032
Furniture and Fixtures	211,924
Vehicles	208,740
Construction in Progress	<u>1,012,456</u>
Total Cost	3,768,551
Accumulated Depreciation	<u>(2,118,470)</u>
Fixed Assets, Net	<u>\$ 1,650,081</u>

Note 6 - Line of Credit

The Organization has a \$500,000 revolving line of credit with Montecito Bank & Trust that expires January 15, 2020. The line of credit was 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, 2018 there was no balance due on the line of credit.

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Note 7 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

Aquatic	\$ 13,020
Generator	130,954
Other Equipment and Furniture	15,769
Miscellaneous	2,536
Freeman Fund – Medical Expense Support	135,528
Thaxton Fund – Staff Salary Support	11,183
Gorham Wellness Fund	111,967
Contributions Restricted for Time	<u>49,402</u>
Total Net Assets Subject to Donor Restrictions	<u>\$ 470,359</u>

Note 8 - Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries, employee benefits, payroll taxes, office expenses, information technology, insurance, and miscellaneous expenses, which are allocated on the basis of estimates of time and effort.

Note 9 - 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.

Note 10 - Concentrations

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

Note 11 - Related Party Transaction

A member of the Board of Directors provides dental services to residents. The fee arrangement is based on the fair value of the services provided and was \$28,426 for the year ended December 31, 2018.