

**VISTA DEL MAR CHILD AND FAMILY SERVICES**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2015**



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## INDEPENDENT AUDITORS' REPORT

To the Audit Committee of  
**VISTA DEL MAR CHILD AND FAMILY SERVICES**  
Los Angeles, California

We have audited the accompanying financial statements of Vista Del Mar Child And Family Services ("Vista Del Mar"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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 ("U.S. GAAP"); 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards ("U.S. GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S. 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 auditors' 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 auditors consider 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 Vista Del Mar Child And Family Services as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. GAAP.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2015, on our consideration of Vista Del Mar's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vista Del Mar's internal control over financial reporting and compliance.

### **Report on Summarized Comparative Information and Prior Period Financial Statements**

The financial statements as of and for the year ended June 30, 2014 were audited by RBZ, LLP, which became part of Armanino<sup>LLP</sup> as of August 1, 2015, and whose report dated November 21, 2014 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent in all material respects with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Armanino LLP".

Armanino<sup>LLP</sup>  
Los Angeles, California

December 28, 2015

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2015**

**WITH SUMMARIZED TOTALS AT JUNE 30, 2014**

ASSETS

	2015	2014
Cash and Cash Equivalents	\$ 2,128,734	\$ 4,204,197
Investments (Note 3)	29,087,453	42,278,835
Accounts Receivable, net (Note 4)	4,768,002	5,917,461
Pledges Receivable, net (Note 5)	3,502,003	3,719,220
Prepaid Expenses	603,956	398,475
Beneficial Interest in Charitable Remainder Trusts (Note 6)	3,524,828	3,968,897
Long Term Investments (Notes 3 and 12)	5,493,722	5,838,015
Beneficial Interest in Perpetual Trust (Notes 6 and 12)	893,429	947,486
Property and Equipment, net (Note 7)	11,541,381	11,792,337
Total Assets	\$ 61,543,508	\$ 79,064,923

LIABILITIES AND NET ASSETS

	2015	2014
Liabilities		
Accounts payable	\$ 835,606	\$ 563,398
Accrued liabilities	2,335,624	2,804,696
Annuities payable (Notes 6 and 9)	728,762	1,032,618
Total Liabilities	3,899,992	4,400,712
Commitment and Contingencies (Notes 4, 8 and 10)		
Net Assets		
Unrestricted	43,664,489	59,920,859
Temporarily restricted (Note 11)	9,203,305	9,913,573
Permanently restricted (Note 12)	4,775,722	4,829,779
Total Net Assets	57,643,516	74,664,211
Total Liabilities and Net Assets	\$ 61,543,508	\$ 79,064,923

See accompanying notes to financial statements.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2015  
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014**

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Program Services Revenue					
Governmental revenue, net					
Residential	\$ 5,593,074	\$ -	\$ -	\$ 5,593,074	\$ 5,816,361
Education	9,633,792	-	-	9,633,792	10,612,848
Outpatient	9,586,276	-	-	9,586,276	10,698,769
Community-based services	6,317,110	-	-	6,317,110	5,986,476
Client service fees	1,434,927	-	-	1,434,927	1,445,478
<b>Total Program Services Revenue</b>	<b>32,565,179</b>	<b>-</b>	<b>-</b>	<b>32,565,179</b>	<b>34,559,932</b>
Public Support					
Grants and contributions	1,020,273	1,337,061	-	2,357,334	2,223,074
Legacies and bequests	1,372,220	-	-	1,372,220	305,418
Special events, net of direct donor benefit expenses of \$543,227	475,963	-	-	475,963	266,651
In-kind contributions	400,617	-	-	400,617	222,521
<b>Total Public Support</b>	<b>3,269,073</b>	<b>1,337,061</b>	<b>-</b>	<b>4,606,134</b>	<b>3,017,664</b>
Net Assets Released from Program Restrictions	1,979,700	(1,979,700)	-	-	-
<b>Total Program Services Revenue and Public Support</b>	<b>37,813,952</b>	<b>(642,639)</b>	<b>-</b>	<b>37,171,313</b>	<b>37,577,596</b>
Operating Expenses					
Program services	35,679,349	-	-	35,679,349	35,130,545
Management and general	4,765,223	-	-	4,765,223	4,037,426
Development	1,580,568	-	-	1,580,568	1,144,442
<b>Total Operating Expenses</b>	<b>42,025,140</b>	<b>-</b>	<b>-</b>	<b>42,025,140</b>	<b>40,312,413</b>
Change in Net Assets before Non-Operating Income (Expense)	<b>(4,211,188)</b>	<b>(642,639)</b>	<b>-</b>	<b>(4,853,827)</b>	<b>(2,734,817)</b>

See accompanying notes to financial statements.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2015  
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014**

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Investment and Other Income (Expense)					
Investment income (expense)	671,974	(82,820)	-	589,154	6,800,063
Gain on sale of assets (Note 3)	701,298	-	-	701,298	-
Other income	215,111	-	-	215,111	526,034
Change in value of beneficial interests in trusts (Note 6)	-	15,191	(54,057)	(38,866)	616,308
Change in annuities payable (Note 9)	<u>116,435</u>	<u>-</u>	<u>-</u>	<u>116,435</u>	<u>(285,370)</u>
 Total Non-Operating Income (Expense)	 <u>1,704,818</u>	 <u>(67,629)</u>	 <u>(54,057)</u>	 <u>1,583,132</u>	 <u>7,657,035</u>
 Change in Net Assets before Unusual Item - Pension Buyout	 (2,506,370)	 (710,268)	 (54,057)	 (3,270,695)	 4,922,218
 Unusual Item - Pension Buyout (Note 8)	 <u>(13,750,000)</u>	 <u>-</u>	 <u>-</u>	 <u>(13,750,000)</u>	 <u>-</u>
 Changes in Net Assets	 (16,256,370)	 (710,268)	 (54,057)	 (17,020,695)	 4,922,218
 Net Assets, beginning of year	 <u>59,920,859</u>	 <u>9,913,573</u>	 <u>4,829,779</u>	 <u>74,664,211</u>	 <u>69,741,993</u>
 Net Assets, end of year	 <u>\$ 43,664,489</u>	 <u>\$ 9,203,305</u>	 <u>\$ 4,775,722</u>	 <u>\$ 57,643,516</u>	 <u>\$ 74,664,211</u>

See accompanying notes to financial statements.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2015  
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014**

	2015									
	Program Services				Support Services			Total Expenses		
	Residential	Education	Outpatient	Community- Based Services	Total Program Services	Management and General	Development	Total Support Services	2015	2014
Personnel Expenses										
Salaries and wages	\$ 3,799,473	\$ 6,232,652	\$ 6,981,328	\$ 3,893,256	\$ 20,906,709	\$ 2,312,548	\$ 604,045	\$ 2,916,593	\$ 23,823,302	\$ 22,140,103
Payroll taxes and employee benefits	<u>1,271,939</u>	<u>1,685,427</u>	<u>1,733,271</u>	<u>989,799</u>	<u>5,680,436</u>	<u>714,102</u>	<u>120,379</u>	<u>834,481</u>	<u>6,514,917</u>	<u>7,623,643</u>
Total Personnel Costs	5,071,412	7,918,079	8,714,599	4,883,055	26,587,145	3,026,650	724,424	3,751,074	30,338,219	29,763,746
Other Expenses										
Contract labor and professional fees	21,912	178,474	675,255	192,093	1,067,734	1,068,644	247,440	1,316,084	2,383,818	1,979,736
Direct services	144,965	45,809	313,500	1,057,767	1,562,041	-	-	-	1,562,041	1,485,463
Transportation and auto	39,796	1,502,886	99,881	125,509	1,768,072	3,305	1,786	5,091	1,773,163	1,753,550
Occupancy	332,364	447,943	392,638	341,823	1,514,768	185,938	35,464	221,402	1,736,170	1,565,010
Food and provisions	672,947	555,974	24,754	28,878	1,282,553	-	4,015	4,015	1,286,568	1,233,315
Depreciation and amortization	217,102	168,390	160,784	56,100	602,376	89,749	2,245	91,994	694,370	697,673
Supplies	109,040	268,444	117,697	108,578	603,759	142,906	35,137	178,043	781,802	620,165
In-kind expense	-	-	-	137,699	137,699	-	262,918	262,918	400,617	222,521
Telephone and postage	8,676	11,954	52,127	89,515	162,272	106,198	44,549	150,747	313,019	245,667
Insurance	25,584	46,369	50,890	28,435	151,278	16,378	4,323	20,701	171,979	235,574
Conferences and meetings	1,397	11,447	34,324	33,105	80,273	50,220	129,257	179,477	259,750	132,551
Publications, printing and artwork	8,810	23,736	66,382	45,518	144,446	42,028	65,086	107,114	251,560	234,601
Miscellaneous expense	<u>28</u>	<u>14,598</u>	<u>-</u>	<u>307</u>	<u>14,933</u>	<u>33,207</u>	<u>23,924</u>	<u>57,131</u>	<u>72,064</u>	<u>142,841</u>
	<u>\$ 6,654,033</u>	<u>\$ 11,194,103</u>	<u>\$ 10,702,831</u>	<u>\$ 7,128,382</u>	<u>\$ 35,679,349</u>	<u>\$ 4,765,223</u>	<u>\$ 1,580,568</u>	<u>\$ 6,345,791</u>	<u>\$ 42,025,140</u>	<u>\$ 40,312,413</u>

See accompanying notes to financial statements.



**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2015  
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2014**

	2015	2014
Cash Flows Deficit from Operating Activities		
Changes in net assets		
Before unusual item - pension buyout	\$ (3,270,695)	\$ 4,922,218
Unusual item - pension buyout	<u>(13,750,000)</u>	<u>-</u>
Total Changes in net assets	<u>(17,020,695)</u>	<u>4,922,218</u>
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Adjustment to Los Angeles Department of Mental Health Reserve	183,377	73,399
Depreciation and amortization	694,370	697,673
Realized and unrealized (gains) losses on investments	242,110	(5,986,719)
Gain on sale of assets	(701,298)	-
Distribution of charitable remainder trusts	459,260	20,875
Change in value of beneficial interests in trusts	38,866	(616,308)
Change in value of annuities payable	(116,435)	285,370
Change in present value discount of pledges receivable	(95,040)	258,986
Decrease in allowance for doubtful pledges receivable	-	6,667
(Increase) decrease in operating assets		
Accounts receivable	966,082	452,108
Pledges receivable	312,257	588,568
Prepaid expenses	(205,481)	(223,887)
Increase (decrease) in operating liabilities		
Accounts payable	272,208	153,888
Accrued liabilities	<u>(469,072)</u>	<u>(52,110)</u>
	<u>1,581,204</u>	<u>(4,341,490)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(15,439,491)</u>	<u>580,728</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(443,414)	(599,204)
Proceeds from sale of assets	701,298	-
Purchases of investments, net of investment management fees	(2,598,319)	(2,600,861)
Proceeds from sale of investments	16,736,651	3,071,064
Reinvested interest and dividends	<u>(844,767)</u>	<u>(173,212)</u>
Net Cash Provided by (Used in) Investing Activities	<u>13,551,449</u>	<u>(302,213)</u>
Cash Flows from Financing Activities		
Payments to annuitants	<u>(187,421)</u>	<u>(202,995)</u>
Net Cash Used in Financing Activities	<u>(187,421)</u>	<u>(202,995)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,075,463)	75,520
Cash and Cash Equivalents, beginning of year	<u>4,204,197</u>	<u>4,128,677</u>
Cash and Cash Equivalents, end of year	<u>\$ 2,128,734</u>	<u>\$ 4,204,197</u>

See accompanying notes to financial statements.

## VISTA DEL MAR CHILD AND FAMILY SERVICES

### NOTES TO FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED JUNE 30, 2015

##### NOTE 1 - NATURE OF OPERATIONS

Founded in 1908, Vista Del Mar ("Vista Del Mar") originally served as an orphanage for children whose parents could not care for them due to illness, poverty or death. As societal needs have evolved, Vista Del Mar continues to keep pace by fulfilling the changing needs of the community. More than a century later, Vista Del Mar provides a breadth of programs and services, including an array of offerings for children with autism, developmental disorders and troubled family situations. Enhanced over the years by strategic mergers with such organizations as Family Service of Santa Monica, the Reiss-Davis Child Study Center, Julia Ann Singer Center, and Home-SAFE, and the establishment of a pre-K through 12th grade Non-Public School, Vista Del Mar each year serves more than 5,000 children and families in a unique environment of clinical excellence and caring professionalism. More information on Vista Del Mar can be found at its website at [www.vistadelmar.org](http://www.vistadelmar.org).

##### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

###### Income Tax Status

Vista Del Mar is a nonprofit public benefit corporation organized under the laws of California and, as such, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and corresponding state provisions.

Vista Del Mar's federal income tax and informational returns for tax years ending June 30, 2012 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, Vista Del Mar's only state tax jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ending June 30, 2011 and subsequent.

###### Financial Statement Presentation

Vista Del Mar reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

*Unrestricted Net Assets* - Include contributions, fundraising, fees, sales and other forms of revenue that are not restricted by the donor or grantor as well as expenditures related to the general operations of Vista Del Mar.

*Temporarily Restricted Net Assets* - Include contributions that are temporarily restricted by the donor or grantor. When the restriction expires, the net assets of this classification are reclassified to unrestricted net assets. Restricted contributions, where restrictions are met in the same reporting period, are classified as unrestricted.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

*Permanently Restricted Net Assets* - Include contributions that have been restricted by the donor in perpetuity.

Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not in sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Vista Del Mar's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Vista Del Mar considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments are monitored by an investment committee and are stated at fair value. Unrealized gains and losses are recognized aggregately. Realized gains and losses are recognized immediately and are computed using the specific identification method.

Vista Del Mar must report its investments and other assets measured at fair value among three categories of price inputs available. These categories of inputs are quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3). At year end, all traditional investments (see Note 3) were considered to be Level 1; beneficial interests in trusts (see Note 6) were determined to be Level 3. The fair value amounts of these investments were determined using actuarial estimates of the present value of the estimated future benefits.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The related allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. Past due receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amount due. At June 30, 2015, the majority of receivables are due from governmental agencies, and Vista Del Mar has estimated the related allowance for doubtful accounts to be \$87,665. Receivables due from the Los Angeles County Department of Mental Health are assessed and reserved for separately (see Note 4).

Contributions

Contributions consist primarily of donations from foundations, businesses and the general public. Contributions are recognized when committed to Vista Del Mar by the donor.

Concentration of Risk

Generally, Vista Del Mar's cash balances exceed FDIC-insured limits. Vista Del Mar has not experienced and does not anticipate any losses related to these balances.

Vista Del Mar obtains approximately 82% of its total funding from various governmental sources, the most significant being the California Department of Mental Health, Los Angeles Unified School District, and the Los Angeles County Department of Child and Family Services. Most of this funding is dependent upon the eligibility of individual participants.

The accounts receivable balance outstanding at June 30, 2015 consists primarily of government contract receivables due from county, state and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of Vista Del Mar's receivables consist of earned fees from contract programs granted by governmental agencies.

Legacies and Bequests

Vista Del Mar has been notified that it has been designated as the beneficiary in numerous wills. Bequests are not recognized as support until all of the following conditions are met: the demise of testator, the amount of bequest is known, and there is certainty the amount bequeathed is realizable.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Purchases of fixed assets are recorded at cost. Donated items are recorded at fair value when received. Depreciation and amortization on both purchased and donated items are recorded using the straight line method over the shorter of the estimated useful life of the related asset or the term of the lease for leasehold improvements as follows:

Buildings and improvements	10 - 30 years
Land improvements	30 years
Furniture and fixtures	3 - 30 years
Electronic clinical records system	10 years
Automobiles	5 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Impairment of Long-Lived Assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate that the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by Vista Del Mar during the year.

Contributed Goods and Services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, were provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Vista Del Mar estimates that 355 volunteers have donated a total of approximately 30,000 hours of their time to Vista Del Mar's various programs and fundraising in the past year. Some of the services that these individuals rendered, however, do not meet the above criteria and, as such, are not recognized as revenue. In-kind goods and services for the Early Head Start program of \$137,699 were received during the year ended June 30, 2015 which satisfied the criteria for recognition and, accordingly, were recognized as revenue and related program expense. Other in-kind goods and services received during the year ended June 30, 2015 which satisfied the criteria for recognition totaled \$262,918 and, accordingly, were recognized as revenue and related fundraising expense.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses

Vista Del Mar allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to the natural expense classification. Other expenses that are common to several functions are allocated accordingly.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Subsequent Events

Vista Del Mar has evaluated events subsequent to June 30, 2015, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 28, 2015, the date the financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the financial statements.

NOTE 3 - INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, Vista Del Mar's investments, including long-term investments of \$5,493,722, at fair value as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds	\$ 18,664,446	\$ -	\$ -	\$ 18,664,446
Fixed income				
mutual funds	12,442,964	-	-	12,442,964
Equities	1,250,683	-	-	1,250,683
Fixed income	1,126,111	-	-	1,126,111
Money market funds	<u>1,096,971</u>	<u>-</u>	<u>-</u>	<u>1,096,971</u>
	<u>\$ 34,581,175</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,581,175</u>

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 3 - INVESTMENTS (Continued)

Activity in the investments during the year was as follows:

Beginning balance	\$ 48,116,850
Purchases of investments, net of investment management fees	2,598,319
Reinvested interest and dividends	844,767
Realized and unrealized losses, net	(242,110)
Proceeds from sales of investments (see Note 8)	<u>(16,736,651)</u>
Total Investments	<u>\$ 34,581,175</u>

Investment balances that are set aside for endowment funds are reflected in the statement of financial position as part of long-term investments in the amount of \$5,493,722.

Investment income on the statement of activities reflects the combined realized and unrealized gains, reinvested dividends and interest and related income from savings accounts, as well as the above investments.

Vista Del Mar allocates a portion of investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The total amount utilized for current operations in June 30, 2015 was \$1,061,825, and of the proceeds from sales of \$16,736,651, approximately \$13,750,000 was withdrawn from investments for the pension settlement (see Note 8).

NOTE 4 - CONTRACTUAL ALLOWANCES

Vista Del Mar performs services under a significant number of contracts that are administered by the Los Angeles County Department of Mental Health (LADMH) involving local, state and federal government funds. Contract service payments are generally received monthly, but are subject to approval by the various funding agencies. Final settlements with the various funding agencies can take five or more years, with initial findings in many cases not available for three or four years after funding. Based on management's analysis, Vista Del Mar has estimated a general reserve for claims made, disputed claims and for unexamined years totaling \$1,401,652 at June 30, 2015.

In addition to these reserves, Vista Del Mar has also estimated a reserve in the amount of \$1,594,890 for specific disallowances arising from certain State Department of Mental Health audits. These specific receivables, though upheld and agreed to by earlier audits conducted by LADMH, are now under audit as a result of the State Department of Mental Health's audit of LADMH. It is possible that additional receivables in excess of the specific potential disallowances above could be disallowed if the State prevails in a current appeal process.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 4 - CONTRACTUAL ALLOWANCES (Continued)

Vista Del Mar is disputing these disallowances and the related amounts due, if any. As and when such disputes are finally resolved, Vista Del Mar will make appropriate adjustments to its financial statements to reflect the actual amount of the receivables and obligations, if any.

At June 30, 2015, the total LADMH reserve of \$2,996,542 is included in accounts receivable, net.

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable consist of the following:

Due in 1 year	\$ 264,964
Due in 2-5 years	660,000
Due in 6-10 years	<u>3,710,000</u>
Gross pledges receivable	4,634,964
Less present value discount	(1,026,859)
Less allowance for doubtful pledges	<u>(106,102)</u>
Pledges receivable, net	<u>\$ 3,502,003</u>

Pledges are discounted at rates ranging from 3.0% to 7.5% per annum.

NOTE 6 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER AND PERPETUAL TRUSTS

Charitable Remainder Trusts

Vista Del Mar holds remainder interests in twenty-four irrevocable charitable remainder trusts established in 1985 through 2010. Vista Del Mar is the beneficiary in varying amounts of the distributions of the trusts. Assets held in charitable remainder trusts totaled \$3,524,828 at June 30, 2015 representing the portion of the net present value of the charitable remainder trusts for which Vista Del Mar is the designated beneficiary. Required payments to the donors under ten of these trusts are recorded as liabilities within the statement of financial position (see Note 9).



**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 6 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER AND PERPETUAL TRUSTS (Continued)

Charitable Remainder Trusts (Continued)

Vista Del Mar is the trustee of two of the irrevocable charitable remainder trusts. Vista Del Mar discharges its fiduciary duties pursuant to the trust agreements under the direction of the Board of Directors and management. All of the trusts' assets are designated to Vista Del Mar. All revenue earned on the trusts, net of expenses, is either distributed to the respective trustees or added to the corpus, as specified in the trust agreements. Such agreements generally provide that, upon the death of the donor and/or the donor's successor, no financial benefit may be realized from the trusts until the death of the last surviving trustee of each trust.

Additionally, Vista Del Mar holds remainder interests in various other irrevocable charitable remainder trusts for which others serve as the trustee. Vista Del Mar recognizes temporarily restricted contribution revenue and, as a receivable, the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments to the receivable to reflect the revaluation of the present value of the estimated future payments to the lifetime beneficiaries are recognized in the statement of activities as a change in value of beneficial interest in charitable remainder trusts.

Perpetual Trust

A donor has established and funded a trust, which is administered by trustees other than Vista Del Mar. Under the terms of the trust, Vista Del Mar has the irrevocable right to receive all of the income earned on the trust assets either in perpetuity or for the life of the trust. Vista Del Mar does not control the assets held by the outside trust. Annual distributions from the trust are reported as investment income. Adjustments to the beneficial interest to reflect changes in the fair value are reflected in the statement of activities as a change in value of beneficial interest in perpetual trust.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 6 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER AND PERPETUAL TRUSTS (Continued)

Perpetual Trust (Continued)

The value of assets held in charitable remainder trusts have been determined using statements provided by investment brokers and other third-party information. The changes in Level 3 measurements of the beneficial interest in charitable remainder and perpetual trusts during the year are as follows:

	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trust	<u>Total</u>
Beginning balance	\$ 3,968,897	\$ 947,486	\$ 4,916,383
Distributions	(459,260)	-	(459,260)
Change in value of beneficial interest	<u>15,191</u>	<u>(54,057)</u>	<u>(38,866)</u>
Balance, June 30, 2015	<u>\$ 3,524,828</u>	<u>\$ 893,429</u>	<u>\$ 4,418,257</u>

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Buildings and improvements	\$ 14,032,821
Land and improvements	1,732,602
Furniture and fixtures	178,373
Electronic clinical records system	1,090,276
Leasehold improvements	593,235
Automobiles	<u>221,478</u>
Total	17,848,785
Accumulated depreciation and amortization	<u>(6,307,404)</u>
Property and Equipment, net	<u>\$ 11,541,381</u>

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 8 - RETIREMENT PLANS

Effective May 1, 2014, Vista Del Mar discontinued its participation in the Basic Pension Plan for Employees of Jewish Federation Council of Greater Los Angeles, a multiemployer plan (employer identification number 95-1643388; Plan number 001) ("Multiemployer Plan"). The Multiemployer Plan covered all full-time employees with more than one year of service. Vista Del Mar has three active retirement plans, which are: Employee Benefit Plan of Reiss Davis, Tax Deferred Annuity Plan and 403(b) Retirement Plan.

Multiemployer Plan

Vista Del Mar and the Federation engaged in arbitration in order to determine the liability, if any that Vista Del Mar may have incurred, as a result of its disaffiliation from the Multiemployer Plan. To settle the arbitration, Vista Del Mar paid, and the Federation accepted, the sum of \$13,750,000 in full and complete satisfaction of any claims related to the Multiemployer Plan or the Jewish Federation Council of Greater Los Angeles might assert against Vista Del Mar. This expense has been recorded in the accompanying financial statements as unusual item - pension buyout.

Employee Benefit Plan of Reiss Davis

As of June 30, 1996, the Employee Benefit Plan of Reiss Davis (the "Plan") was frozen to new participants in anticipation of the termination of the Plan due to the merger with Vista Del Mar. Therefore, benefits ceased to accrue for new employees after June 30, 1996. The final average earnings includes only compensation earned by employees who were participating in the plan as of June 30, 1996.

The following table sets forth the Plan's funded status and amounts recognized in Vista Del Mar's statement of financial position at June 30, 2015:

Accumulated Benefit Obligation	<u>\$ 1,407,871</u>
Plan Assets at Fair Value	1,445,411
Projected Benefit Obligation	<u>(1,407,871)</u>
Prepaid Pension Costs	<u>\$ 37,540</u>

Prepaid pension costs are included within prepaid expenses in the accompanying statement of financial position.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 8 - RETIREMENT PLANS (Continued)

Employee Benefit Plan of Reiss Davis (Continued)

Net periodic benefit cost for the year ended June 30, 2015 includes the following components:

Service Cost - Benefits Earned During Year	\$ 15,062
Interest Cost on Projected Benefit Obligation	48,517
Expected Return on Plan Assets	<u>(110,470)</u>
Net Periodic Pension Cost	<u>\$ (46,891)</u>

The actuarial assumptions used were:

Discount Rate	4.10%
Rate of Future Compensation Increase	0.00%
Expected Long-Term Rate of Return on Plan Assets	7.50%

The expected long-term rate of return on plan assets was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standard of Practice No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. Based on Vista Del Mar's investment policy for the Plan, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range equal to 4.10% was selected and added to the real rate of return range to arrive at a best estimate range of 7.14% to 9.70%. A rate within the best estimate range of 7.50% was selected.

No employer contributions are expected for the year ended June 30, 2015 and no plan assets are expected to be returned to the employer during the year ended June 30, 2015.

As of April 30, 2014, the Plan was amended to cease benefit accruals for all participants. This curtailment of benefit obligations resulted in no curtailment gains.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 8 - RETIREMENT PLANS (Continued)

Employee Benefit Plan of Reiss Davis (Continued)

Benefits expected to be paid as of June 30, 2015 are as follows:

Year Ending June 30,

2016		\$	596,000
2017			367,000
2018			51,000
2019			50,000
2020			50,000
Thereafter			<u>272,000</u>
 Total			 <u>\$ 1,386,000</u>

The plan is funded in accordance with the Employee Retirement Income Security Act of 1974 (ERISA). Plan assets consist primarily of listed securities and the fair value of total plan assets of each major category of plan assets at the measurement date are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
General Account	<u>\$ 1,445,411</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,445,411</u>

The investment strategy of the Plan has the following objectives:

- To achieve a balanced return of current income and appropriate growth of principal.
- To achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of plan assets.
- To preserve capital and minimize costs.

Risk control is an important element in the investment of plan assets and is achieved through a diversified target allocation and the prohibition of investing in derivative instruments, private placements, limited partnerships, and venture-capital investments. In addition, short selling and margin transactions are prohibited.

Tax-Deferred Annuity Plan

Vista Del Mar sponsors a tax-deferred annuity plan under Internal Revenue Code Section 403(b). This plan was established as a companion to the Employee Benefit Plan of Reiss Davis. The tax-deferred annuity plan is no longer open to new participants. Vista Del Mar does not contribute to this plan.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 8 - RETIREMENT PLANS (Continued)

403(b) Retirement Plan

Vista Del Mar has an IRC Section 403(b) plan which covers all salaried employees. Vista Del Mar makes non-elective contributions of 5% of each employee's salary to this plan annually. Contributions to this plan totaled \$914,377 in the year ended June 30, 2015.

NOTE 9 - ANNUITIES PAYABLE

Vista Del Mar is in receipt of ten charitable gifts from individuals (see Note 6). These gifts stipulate that annual annuity payments must be made to the donor until the time of death. The gifts are invested in money market funds and fixed income securities. All gift annuities are actuarially calculated based on the life expectancy of the donor using the State of California Insurance Commission Committee on Gift Annuities actuarial tables. The value of annuities at the time of the respected gifts totaled \$2,485,000. Their corresponding reasonably commensurate values at June 30, 2015 are \$728,762.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Legal Proceedings

In the ordinary course of conducting its business, Vista Del Mar becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against Vista Del Mar which, from time to time, may have an impact on changes in net assets. Vista Del Mar believes that these proceedings, individually or in the aggregate, would not have a material effect on the accompanying financial statements.

Operating Leases

Vista Del Mar leases equipment and facilities under non-cancelable lease agreements expiring at various dates through March 2018. Certain leases provide for additional rent based on increases in the Consumer Price Index and for payment of certain expenses. Future minimum payments under the operating agreements total \$198,891 for the year ended June 30, 2016, \$135,997 for the year ended June 30, 2017, and \$88,222 for the year ended June 30, 2018. Aggregate rent expense for all operating leases was \$209,971.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

Workers' Compensation

Vista Del Mar has elected to retain a portion of the risks relating to its workers' compensation insurance program. The exposure for unpaid claims and associated expenses, including incurred but not reported losses, is estimated based on prior claims history and analysis of current outstanding claims, as well as the type of services provided (residential care facilities are a high-risk sector). The accrued liability for workers' compensation self-insurance costs at June 30, 2015 of \$636,138 is included in accrued liabilities. Workers' compensation self-insurance expense for the year ended June 30, 2015 was \$891,635, which includes the annual insurance premium. In addition to the accrued liability, Vista Del Mar has a standby letter of credit with its bank in the amount of \$1,000,000.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2015 are as follows:

Beneficial interest in charitable remainder trusts	\$ 3,524,828
Facilities	3,238,011
Program services	1,260,716
Donor restricted endowment funds (see Note 12)	1,113,710
Scholarship	<u>66,040</u>
Total	<u>\$ 9,203,305</u>

These purpose restricted amounts include \$3,502,003 of pledges receivable (see Note 5).

NOTE 12 - ENDOWMENTS

Vista Del Mar's endowments consist of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts and bequests to either provide a permanent endowment, which is to provide a permanent source of income to Vista Del Mar, or a term endowment, which is to provide income for a specified period to Vista Del Mar. Beneficial interests in charitable remainder trusts and perpetual trusts are not considered part of Vista Del Mar's endowments.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 12 - ENDOWMENTS (Continued)

Vista Del Mar's management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for Vista Del Mar's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. Vista Del Mar's Board of Directors has approved a spending policy that will distribute the annual investment income from the permanently restricted endowment funds, as well as a specific payout rate (5%) of the endowment base (calculated as the three-year average market value of endowment funds) to support Vista Del Mar's programs unless otherwise voted on by the Board of Directors. Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy will minimize the probability of invading the principal over the long term.

Endowment Net Asset Composition by Type of Fund

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ 497,719</u>	<u>\$ 1,113,710</u>	<u>\$ 3,882,293</u>	<u>\$ 5,493,722</u>

Changes in Endowment Net Assets

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2014	\$ 475,020	\$ 1,480,702	\$ 3,882,293	\$ 5,838,015
Investment income	104,881	-	-	104,881
Unrealized gains	-	(82,820)	-	(82,820)
Appropriation for operations	284,172	(284,172)	-	-
Deposited/withdrawn	<u>(366,354)</u>	<u>-</u>	<u>-</u>	<u>(366,354)</u>
Balance, June 30, 2015	<u>\$ 497,719</u>	<u>\$ 1,113,710</u>	<u>\$ 3,882,293</u>	<u>\$ 5,493,722</u>

The appropriation for operations above includes amounts dictated by the spending policy for 2015.



**VISTA DEL MAR CHILD AND FAMILY SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 12 - ENDOWMENTS (Continued)

Permanently Restricted Net Assets

In addition to the endowment funds, permanently restricted net assets also include a beneficial interest in a perpetual trust valued at \$893,429 (see Note 6).