

**VISTA DEL MAR CHILD AND
FAMILY SERVICES**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

**VISTA DEL MAR CHILD AND
FAMILY SERVICES**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Vista Del Mar Child and Family Services

Report on the Financial Statements

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, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Vista Del Mar as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Vista Del Mar Child and Family Services

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2017 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.

Green Hasson & Janks LLP

November 7, 2017
Los Angeles, California

VISTA DEL MAR CHILD AND FAMILY SERVICES

STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and Cash Equivalents	\$ 3,497,201	\$ -	\$ -	\$ 3,497,201
Restricted Cash	-	481,935	-	481,935
Investments (Note 3)	24,067,458	2,616,041	3,882,293	30,565,792
Accounts Receivable (Net)	5,976,863	-	-	5,976,863
Pledges Receivable (Net) (Note 4)	-	7,958,148	2,000,000	9,958,148
Prepaid Expenses and Other Assets	748,301	-	-	748,301
Beneficial Interest in Charitable Remainder Trusts (Notes 5 and 6)	-	4,294,081	-	4,294,081
Beneficial Interest in Perpetual Trust (Note 6)	-	-	767,791	767,791
Property and Equipment (Net) (Note 7)	11,276,947	-	-	11,276,947
TOTAL ASSETS	\$ 45,566,770	\$ 15,350,205	\$ 6,650,084	\$ 67,567,059
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 1,501,207	\$ -	\$ -	\$ 1,501,207
Accrued Liabilities (Note 8)	5,648,082	-	-	5,648,082
Annuities Payable (Note 10)	658,274	-	-	658,274
TOTAL LIABILITIES	7,807,563	-	-	7,807,563
NET ASSETS:				
Unrestricted	37,759,207	-	-	37,759,207
Temporarily Restricted (Note 12)	-	15,350,205	-	15,350,205
Permanently Restricted (Note 13)	-	-	6,650,084	6,650,084
TOTAL NET ASSETS	37,759,207	15,350,205	6,650,084	59,759,496
TOTAL LIABILITIES AND NET ASSETS	\$ 45,566,770	\$ 15,350,205	\$ 6,650,084	\$ 67,567,059

The Accompanying Notes are an Integral Part of These Financial Statements

VISTA DEL MAR CHILD AND FAMILY SERVICES

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PROGRAM SERVICE REVENUE:				
Governmental Revenue				
Residential	\$ 6,278,234	\$ -	\$ -	\$ 6,278,234
Education	7,817,274	-	-	7,817,274
Outpatient	11,135,334	-	-	11,135,334
Community-Based Services	8,326,442	-	-	8,326,442
Client Service Fees	1,237,592	-	-	1,237,592
TOTAL PROGRAM SERVICE REVENUE	34,794,876	-	-	34,794,876
PUBLIC SUPPORT:				
Grants and Contributions (Net)	483,160	6,251,145	2,000,000	8,734,305
Legacies and Bequests	556,674	-	-	556,674
Special Events (Net of Direct Donor Benefit Expenses of \$421,594)	447,058	-	-	447,058
In-Kind Contributions	890,711	-	-	890,711
TOTAL PUBLIC SUPPORT	2,377,603	6,251,145	2,000,000	10,628,748
TOTAL PROGRAM SERVICE REVENUE AND PUBLIC SUPPORT	37,172,479	6,251,145	2,000,000	45,423,624
OPERATING EXPENSES:				
Program Services	39,438,053	-	-	39,438,053
Management and General Development	4,221,144	-	-	4,221,144
	1,358,424	-	-	1,358,424
TOTAL OPERATING EXPENSES	45,017,621	-	-	45,017,621
Net Assets Released from Purpose Restrictions	2,017,057	(2,017,057)	-	-
Donor Reclassification	-	100,000	(100,000)	-
CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME (LOSS)	(5,828,085)	4,334,088	1,900,000	406,003
Investment Income (Net)	2,877,139	592,087	-	3,469,226
Other Income	256,816	-	-	256,816
Change in Value of Beneficial Interest in:				
Charitable Remainder Trusts	-	789,621	-	789,621
Perpetual Trust	-	-	(13,237)	(13,237)
Change in Annuities Payable	(141,962)	-	-	(141,962)
CHANGE IN NET ASSETS	(2,836,092)	5,715,796	1,886,763	4,766,467
Net Assets - Beginning of Year	40,595,299	9,634,409	4,763,321	54,993,029
NET ASSETS - END OF YEAR	\$ 37,759,207	\$ 15,350,205	\$ 6,650,084	\$ 59,759,496

The Accompanying Notes are an Integral Part of These Financial Statements

VISTA DEL MAR CHILD AND FAMILY SERVICES

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

	Program Services	Supporting Services			Total Expenses
		Management and General	Development	Total	
Salaries and Wages	\$ 21,270,645	\$ 2,088,917	\$ 680,728	\$ 2,769,645	\$ 24,040,290
Payroll Taxes and Employee Benefits	6,072,152	617,313	146,615	763,928	6,836,080
TOTAL PERSONNEL COSTS	27,342,797	2,706,230	827,343	3,533,573	30,876,370
Contract and Professional Services	1,713,711	679,484	183,974	863,458	2,577,169
Occupancy	2,856,172	176,536	41,952	218,488	3,074,660
Transportation Costs	1,579,195	1,995	358	2,353	1,581,548
Direct Services	1,911,957	-	-	-	1,911,957
Food and Provisions	1,205,017	-	-	-	1,205,017
Depreciation	710,979	113,365	3,762	117,127	828,106
Supplies	758,433	89,546	29,363	118,909	877,342
In-Kind Expense	810,360	-	80,351	80,351	890,711
Conferences and Meetings	203,142	39,205	135,334	174,539	377,681
Telephone and Postage	190,499	82,892	7,061	89,953	280,452
Publications, Printing and Artwork	140,090	39,504	48,926	88,430	228,520
Liability Insurance	-	244,712	-	244,712	244,712
Miscellaneous	15,701	47,675	-	47,675	63,376
TOTAL FUNCTIONAL EXPENSES	\$ 39,438,053	\$ 4,221,144	\$ 1,358,424	\$ 5,579,568	\$ 45,017,621
	88%	9%	3%		100%

The Accompanying Notes are an Integral Part of These Financial Statements

VISTA DEL MAR CHILD AND FAMILY SERVICES

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ 4,766,467
Adjustments to Reconcile Change in Net Assets to Net Cash Used In Operating Activities:	
Adjustment to Los Angeles Department of Mental Health Reserve	215,112
Depreciation	828,106
Bad Debt Provision	39,493
Realized and Unrealized Gains on Investments	(2,901,205)
Change in Value of Beneficial Interests in Charitable Remainder Trusts	(789,621)
Change in Value of Beneficial Interest in Perpetual Trust	13,237
Change in Value of Annuities Payable	141,962
Increase in Present Value Discount of Pledges Receivable	141,439
Contribution Restricted for Investment in Perpetuity	(2,000,000)
Contribution Restricted for Investment in Property and Equipment	(5,000,000)
(Increase) Decrease in:	
Accounts Receivable	(75,517)
Pledges Receivable	150,000
Bequest Receivable	906,003
Prepaid Expenses and Other Assets	(51,261)
Increase in:	
Accounts Payable	536,031
Accrued Liabilities	836,491
	<u>836,491</u>
NET CASH USED IN OPERATING ACTIVITIES	(2,243,263)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Property and Equipment	(766,979)
Purchase of Investments	(1,250,000)
Proceeds from Sale of Investments	5,969,293
Reinvested Interest and Dividends	(568,021)
	<u>(568,021)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,384,293

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments to Annuitants	(176,296)
Proceeds From Contribution Restricted for Investment in Property and Equipment	500,000
	<u>500,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	323,704

NET INCREASE IN CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents - Beginning of Year	2,514,402
	<u>2,514,402</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,979,136
	<u>\$ 3,979,136</u>

CASH AND CASH EQUIVALENTS INCLUDES:

Cash and Cash Equivalents	\$ 3,497,201
Restricted Cash	481,935
	<u>481,935</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,979,136
	<u>\$ 3,979,136</u>

The Accompanying Notes are an Integral Part of These Financial Statements

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - ORGANIZATION

Founded in 1908, Vista Del Mar Child and Family Services (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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Vista Del Mar are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted.** Vista Del Mar reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. At June 30, 2017, Vista Del Mar has \$15,350,205 of temporarily restricted net assets.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit Vista Del Mar to expend all of the income (or other economic benefits) derived from the donated assets. At June 30, 2017, Vista Del Mar has \$6,650,084 of permanently restricted net assets.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) CASH AND CASH EQUIVALENTS

Vista Del Mar has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less at the time of purchase. The carrying value of cash and cash equivalents at June 30, 2017 approximates its fair value. Vista Del Mar has an agreement with a donor that requires cash to be held in a separate bank account, which is restricted as to use per the terms of the agreement. Restricted cash at June 30, 2017 was \$481,935.

(d) INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value. Interest and dividend income and gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

(e) ACCOUNTS RECEIVABLE

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amount due. At June 30, 2017, the majority of receivables are due from governmental agencies, and Vista Del Mar has established an allowance for doubtful accounts in the amount of \$22,609, based on an evaluation of collectability.

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 provided monthly, but are subject to approval by the various funding agencies. Final settlements with the various funding agencies are taking from one to five years, with initial findings in many cases not available for three or four years after funding. As a result, Vista Del Mar establishes reserves for claims made, for disputed claims and for unexamined years. At June 30, 2017, the LADMH reserve of \$917,733 is included in accounts receivable.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues when the pledge is received. Vista Del Mar reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. A discount rate (ranging from 3.0% to 7.5%) has been used to calculate the present value of pledges receivable. The present value discount amounted to \$710,714 at June 30, 2017. At June 30, 2017, Vista Del Mar evaluated the collectability of contributions and pledges receivable and an allowance for doubtful pledges of \$148,602 was established. Conditional promises to give are not included as support until such time as the conditions are substantially met. At June 30, 2017, Vista Del Mar has a conditional pledge of \$2,000,000 restricted to endow the Dance Program at the future Performing Arts Center.

(g) CONCENTRATIONS

Vista Del Mar places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Vista Del Mar has not incurred losses related to these investments and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The accounts receivable balance outstanding at June 30, 2017 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.

Approximately 76% of Vista Del Mar's program service revenue and public support is provided by various government agencies. Vista Del Mar anticipates that it will continue to run these programs although there can be no assurance that Vista Del Mar will be able to obtain future grant agreements upon the expiration of the current term of the contracts.

(h) LEGACIES AND BEQUESTS

Vista Del Mar 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 a testator, the amount of the bequest is known, and Vista Del Mar is certain that, based on the estates' net assets, the amount bequeathed is realizable.

(i) BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

Vista Del Mar is the trustee of two 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.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS (continued)

Additionally, Vista Del Mar holds remainder interests in various other irrevocable charitable remainder trusts. Vista Del Mar recognizes temporarily restricted contribution revenue and, as an asset, the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments to the asset 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.

(j) BENEFICIAL INTEREST IN 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. The carrying value of Vista Del Mar's beneficial interest in the perpetual trust at June 30, 2017 is \$767,791.

(k) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$5,000 and the useful life is greater than one year.

The estimated useful lives are as follows:

Building and Improvements	10 - 30 Years
Land Improvements	30 Years
Electronic Clinical Records System	10 Years
Leasehold Improvements	10 - 30 Years
Furniture and Equipment	3 - 30 Years
Vehicles	5 Years

Property and equipment funded by government contracts where title to the assets is retained by the government agencies are not capitalized.

Expenditures for repairs and maintenance are charged to expense as incurred while renewals and betterments are capitalized.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) LONG-LIVED ASSETS

Vista Del Mar reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended June 30, 2017.

(m) CONTRIBUTED GOODS AND SERVICES

Contributions of donated non-cash 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. In-kind goods and services of \$890,711 were received during the year ended June 30, 2017 which satisfied the criteria for recognition.

A substantial number of volunteers have donated significant amounts of their time to Vista Del Mar. Some of the services that these individuals rendered, however, do not meet the above criteria and, as such, are not recognized as revenue.

(n) INCOME TAXES

Vista Del Mar is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

(o) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing Vista Del Mar's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Vista Del Mar uses full time equivalents to allocate indirect costs.

(p) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented. Accordingly, actual results could differ from those estimates.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard for virtually all industries following U.S. GAAP, including those that previously followed industry-specific guidance. For non-public entities, the new standard was originally effective for annual periods beginning after December 15, 2017. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) - Deferral of Effective Date*, which deferred the effective date for one year. Accordingly, this ASU will be effective for Vista Del Mar for the year ending June 30, 2019. Vista Del Mar is currently evaluating the effect the provisions of ASU 2014-09 will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For Vista Del Mar, the ASU will be effective for the year ending June 30, 2021.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For Vista Del Mar, the ASU will be effective for the year ending June 30, 2019.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This guidance clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. This guidance requires entities to present the change in restricted cash and restricted cash equivalents with cash and cash equivalents to reconcile amounts on the statement of financial position to the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. As permitted by the ASU, Vista Del Mar has early adopted this guidance.

(r) SUBSEQUENT EVENTS

Vista Del Mar has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through November 7, 2017, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - INVESTMENTS

Investments at June 30, 2017 consist of the following:

Equity Mutual Funds	\$ 16,195,335
Fixed Income Mutual Funds	10,796,890
Equities	1,195,139
Fixed Income	945,084
Money Market Funds	179,211
Certificates of Deposit	<u>1,254,133</u>
TOTAL INVESTMENTS	<u>\$ 30,565,792</u>

The terms of a letter of credit with a bank [See Note 11(c)] require a reserve to be maintained in a separate bank account. The reserve at June 30, 2017 amounted to \$1,254,133 and is held in certificates of deposit.

Net investment income for the year ended June 30, 2017 consists of the following:

Interest and Dividends	\$ 589,579
Realized and Unrealized Gains	2,901,205
Less: Investment Expenses	<u>(21,558)</u>
INVESTMENT INCOME (NET)	<u>\$ 3,469,226</u>

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2017 are due to be received as follows:

Due within One Year	\$ 3,837,464
Due in One to Five Years	<u>6,980,000</u>
GROSS PLEDGES RECEIVABLE	10,817,464
Less: Present Value Discount	(710,714)
Less: Allowance for Doubtful Pledges	<u>(148,602)</u>
PLEDGES RECEIVABLE (NET)	<u>\$ 9,958,148</u>

NOTE 5 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

Vista Del Mar holds remainder interests in twenty-four irrevocable charitable remainder trusts. Vista Del Mar is the beneficiary in varying amounts of the distributions of the trusts. Assets held in charitable remainder trusts totaled \$4,294,081 at June 30, 2017, representing the portion of the net present value of the charitable remainder trusts for which Vista Del Mar is the designated beneficiary.

Vista Del Mar has been named as a beneficiary for several living trusts and wills. Due to the conditional nature of these trusts and wills, no amounts have been recorded on the accompanying financial statements.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - FAIR VALUE MEASUREMENTS

Vista Del Mar has implemented the fair value accounting standard for those assets (and liabilities) that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. The standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets (or liabilities). Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

The following table presents information about Vista Del Mar's assets that are measured at fair value on a recurring basis at June 30, 2017 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended June 30, 2017	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)
Equity Mutual Funds	\$ 16,195,335	\$ 16,195,335	\$ -	\$ -
Fixed Income Mutual Funds	10,796,890	10,796,890	-	-
Equities	1,195,139	1,195,139	-	-
Fixed Income	945,084	945,084	-	-
Money Market Funds	179,211	179,211	-	-
Certificates of Deposit	1,254,133	-	1,254,133	-
Beneficial Interest in:				
Charitable Remainder Trusts	4,294,081	-	-	4,294,081
Perpetual Trust	767,791	-	-	767,791
TOTAL	\$ 35,627,664	\$ 29,311,659	\$ 1,254,133	\$ 5,061,872

The fair values of investments within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

The fair value of the certificates of deposit within Level 2 is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations and considering the credit-worthiness of the issuer.

The fair values of beneficial interests within Level 3 inputs were determined as described in Notes 2(i) and 2(j).

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - FAIR VALUE MEASUREMENTS (continued)

Transfers between Level 1 and 2 generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 investments relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels for the year ended June 30, 2017.

Changes in Level 3 measurements for the year ended June 30, 2017 are as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Temporarily Restricted	Permanently Restricted	Total
Beneficial Interest in Charitable Remainder Trusts		Beneficial Interest in Perpetual Trust	
Beginning Balance	\$ 3,504,460	\$ 781,028	\$ 4,285,488
Change in Value of Beneficial Interest	789,621	(13,237)	776,384
ENDING BALANCE	\$ 4,294,081	\$ 767,791	\$ 5,061,872

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2017 consist of the following:

Building and Improvements	\$ 14,411,383
Land and Improvements	1,846,344
Electronic Clinical Records System	1,090,277
Leasehold Improvements	593,235
Furniture and Equipment	862,873
Vehicles	247,373
Construction in Progress	76,327
TOTAL	19,127,812
Less: Accumulated Depreciation	<u>(7,850,865)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 11,276,947</u>

Depreciation expense for the year ended June 30, 2017 was \$828,106. Estimated costs to complete the construction in progress are \$5,083,000.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2017 consist of the following:

Department of Mental Health Overpayments	\$ 2,134,480
Accrued Vacation	1,409,993
Accrued Workers' Compensation [See Note 11(c)]	860,097
Department of Child and Family Services Overpayments	783,995
Accrued Payroll	377,974
Other Accrued Liabilities	81,543
TOTAL ACCRUED LIABILITIES	\$ 5,648,082

NOTE 9 - RETIREMENT PLANS

(a) DEFINED BENEFIT PLAN

As of June 30, 1996, the Employee Benefit Plan of Reiss Davis (the Plan) was frozen in anticipation of the termination of the Plan due to the merger with Vista Del Mar. Therefore, benefit accrual service ceased to accrue for any participant after June 30, 1996 and final average earnings does not include any compensation earned by any participant after 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, 2017:

Actuarial Present Value of Benefit Obligations:	
Accumulated Benefit Obligation	\$ 1,433,729
Plan Assets at Fair Value	\$ 1,348,690
Projected Benefit Obligation	(1,433,729)
ACCRUED PENSION LIABILITY	\$ (85,039)

The accrued pension liability at June 30, 2017 is included in accrued liabilities in the accompanying statement of financial position.

Net periodic pension cost for the year ended June 30, 2017 includes the following components:

Service Cost - Benefits Earned During Year	\$ 12,677
Interest Cost on Projected Benefit Obligation	32,478
Expected Return on Plan Assets	(13,597)
Recognized Actuarial Losses	10,397
NET PERIODIC PENSION COST	\$ 41,955

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - RETIREMENT PLANS (continued)

(a) DEFINED BENEFIT PLAN (continued)

The actuarial assumptions used were:

Discount Rate	3.4%
Rate of Future Compensation Increase	0.0%
Expected Long-Term Rate of Return on Plan Assets	4.0%

The Expected Long-Term Rate of Return on Plan Assets assumption of 4.0% was selected in accordance with Actuarial Standards Board in Actuarial Standards of Practice No. 27 - *Selection of Economic Assumptions for Measuring Pension Obligations*. Based on the investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation and investment expense) and for inflation based on the long-term historical return on the applicable asset classes. An average inflation rate within the range equal to 3.0% was selected and added to the real rate of return range to arrive at a best estimate range of 2.83% to 5.04%. A rate within the best estimate range of 4.0% was selected.

No employer contributions are expected for the year ended June 30, 2018 and no plan assets are expected to be returned to the employer during the year ended June 30, 2018.

As of April 30, 2014, the Plan was amended to cease benefit accruals for all participants.

Benefits expected to be paid as of June 30, 2017 are as follows:

Years Ending June 30	
2018	\$ 1,012,000
2019	51,000
2020	50,000
2021	50,000
2022	49,000
Five Years Thereafter	<u>324,000</u>
TOTAL	<u><u>\$ 1,536,000</u></u>

The plan is funded in accordance with the Employee Retirement Income Security Act of 1974 (ERISA). Plan assets are held in an interest accumulation account (level 1 in the fair value hierarchy) that earns a stated rate of interest compounded daily. The effective annual yield during the year ended June 30, 2017 was 1%.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - RETIREMENT PLANS (continued)

(a) DEFINED BENEFIT PLAN (continued)

The investment strategy of Vista Del Mar 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.

(b) 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.

(c) 403(B) RETIREMENT PLAN

Vista Del Mar has an Internal Revenue Code Section 403(b) plan which covers all eligible employees. Vista Del Mar makes non-elective contributions of 5% of each employee's salary to this plan annually. Contributions to this plan totaled \$963,692 for the year ended June 30, 2017.

NOTE 10 - ANNUITIES PAYABLE

Vista Del Mar is in receipt of several charitable gifts from individuals. These gifts stipulate that annuity payments per year 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 gifts totaled \$2,485,000. The corresponding reasonably commensurate value at June 30, 2017 is \$658,274.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 11 - COMMITMENTS AND CONTINGENCIES

(a) OBLIGATIONS UNDER OPERATING LEASES

Vista Del Mar leases facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

Year Ended June 30

2018	\$	361,139
2019		269,132
2020		<u>85,205</u>
TOTAL	\$	<u>715,476</u>

Rent expense under operating leases for the year ended June 30, 2017 was \$382,993.

(b) CONTRACTS

Vista Del Mar's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated. Vista Del Mar has made a provision for the possible disallowance of program costs on its financial statements by reserving on its contracts with LADMH [See Note 2(e)].

(c) 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, 2017 of \$860,097 is included in accrued liabilities. Workers' compensation self-insurance expense for the year ended June 30, 2017 was \$1,066,942, 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 \$1,250,000 (see Note 3).

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance at July 1, 2016	\$ 711,613	\$ -	\$ 711,613
Self-Insurance Expenses Incurred	1,066,942	-	1,066,942
Payments Made to Fund Related Liabilities	<u>(918,458)</u>	-	<u>(918,458)</u>
BALANCE AT JUNE 30, 2017	\$ 860,097	\$ -	\$ 860,097

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)

(d) 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.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 consist of the following:

Beneficial Interest in Charitable Remainder Trusts	\$ 4,294,081
Facilities	8,836,273
Program Services	795,389
Donor Restricted Endowment Funds	<u>1,424,462</u>
<i>TOTAL TEMPORARILY RESTRICTED NET ASSETS</i>	<u>\$ 15,350,205</u>

NOTE 13 - 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'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 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. 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.

VISTA DEL MAR CHILD AND FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 13 - ENDOWMENTS (continued)

Endowment Net Asset Composition by Type of Fund at June 30, 2017	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted	\$ 1,424,462	\$ 5,882,293	\$ 7,306,755
Changes in Endowment Net Assets for the Year Ended June 30, 2017			
Endowment Net Assets - Beginning of Year	\$ 1,207,857	\$ 3,882,293	\$ 5,090,150
Contributions	-	2,000,000	2,000,000
Investment Gain	592,087	-	592,087
Appropriated Expenditures	(375,482)	-	(375,482)
<i>ENDOWMENT NET ASSETS - END OF YEAR</i>	\$ 1,424,462	\$ 5,882,293	\$ 7,306,755