

**VISTA DEL MAR CHILD AND  
FAMILY SERVICES**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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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, 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 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, 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.

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 December \_\_, 2018 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*

December 14, 2018  
Los Angeles, California

## VISTA DEL MAR CHILD AND FAMILY SERVICES

### STATEMENT OF FINANCIAL POSITION

June 30, 2018

<b>ASSETS</b>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and Cash Equivalents	\$ 2,002,386	\$ -	\$ -	\$ 2,002,386
Restricted Cash	-	223,033	-	223,033
Investments (Note 3)	22,670,882	2,732,728	5,876,640	31,280,250
Accounts Receivable (Net)	6,314,420	-	-	6,314,420
Pledges Receivable (Net) (Note 4)	-	8,084,680	-	8,084,680
Prepaid Expenses and Other Assets	844,144	-	-	844,144
Beneficial Interest in Charitable Remainder Trusts (Notes 5 and 6)	-	5,263,695	-	5,263,695
Beneficial Interest in Perpetual Trust (Note 6)	-	-	907,263	907,263
Property and Equipment (Net) (Note 7)	11,107,287	-	-	11,107,287
<b>TOTAL ASSETS</b>	<b>\$ 42,939,119</b>	<b>\$ 16,304,136</b>	<b>\$ 6,783,903</b>	<b>\$ 66,027,158</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES:</b>				
Accounts Payable	\$ 1,400,887	\$ -	\$ -	\$ 1,400,887
Accrued Liabilities (Note 8)	6,795,498	-	-	6,795,498
Annuities Payable (Note 10)	593,954	-	-	593,954
<b>TOTAL LIABILITIES</b>	<b>8,790,339</b>	<b>-</b>	<b>-</b>	<b>8,790,339</b>
<b>NET ASSETS:</b>				
Unrestricted	34,148,780	-	-	34,148,780
Temporarily Restricted (Note 12)	-	16,304,136	-	16,304,136
Permanently Restricted (Note 13)	-	-	6,783,903	6,783,903
<b>TOTAL NET ASSETS</b>	<b>34,148,780</b>	<b>16,304,136</b>	<b>6,783,903</b>	<b>57,236,819</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 42,939,119</b>	<b>\$ 16,304,136</b>	<b>\$ 6,783,903</b>	<b>\$ 66,027,158</b>

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, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PROGRAM SERVICE REVENUE:</b>				
Governmental Revenue				
Residential	\$ 6,207,980	\$ -	\$ -	\$ 6,207,980
Education	6,756,002	-	-	6,756,002
Outpatient	10,923,320	-	-	10,923,320
Community-Based Services	8,573,556	-	-	8,573,556
Client Service Fees	1,284,373	-	-	1,284,373
<b>TOTAL PROGRAM SERVICE REVENUE</b>	<b>33,745,231</b>	<b>-</b>	<b>-</b>	<b>33,745,231</b>
<b>PUBLIC SUPPORT:</b>				
Grants and Contributions (Net)	787,156	1,896,801	-	2,683,957
Legacies and Bequests	188,465	-	-	188,465
Special Events (Net of Direct Donor Benefit Expenses of \$428,168)	290,178	-	-	290,178
In-Kind Contributions	1,095,063	-	-	1,095,063
<b>TOTAL PUBLIC SUPPORT</b>	<b>2,360,862</b>	<b>1,896,801</b>	<b>-</b>	<b>4,257,663</b>
<b>TOTAL PROGRAM SERVICE REVENUE AND PUBLIC SUPPORT</b>	<b>36,106,093</b>	<b>1,896,801</b>	<b>-</b>	<b>38,002,894</b>
<b>OPERATING EXPENSES:</b>				
Program Services	39,614,146	-	-	39,614,146
Management and General	4,092,712	-	-	4,092,712
Development	1,235,590	-	-	1,235,590
<b>TOTAL OPERATING EXPENSES</b>	<b>44,942,448</b>	<b>-</b>	<b>-</b>	<b>44,942,448</b>
Net Assets Released from Purpose Restrictions	2,284,109	(2,284,109)	-	-
Donor Reclassification	5,653	-	(5,653)	-
<b>CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME (LOSS)</b>	<b>(6,546,593)</b>	<b>(387,308)</b>	<b>(5,653)</b>	<b>(6,939,554)</b>
Investment Income (Net)	1,753,354	499,566	-	2,252,920
Other Income	1,294,787	-	-	1,294,787
Change in Value of Beneficial Interest in:				
Charitable Remainder Trusts	-	841,673	-	841,673
Perpetual Trust	-	-	139,472	139,472
Change in Value of Annuities Payable	(111,975)	-	-	(111,975)
<b>CHANGE IN NET ASSETS</b>	<b>(3,610,427)</b>	<b>953,931</b>	<b>133,819</b>	<b>(2,522,677)</b>
Net Assets - Beginning of Year	37,759,207	15,350,205	6,650,084	59,759,496
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 34,148,780</b>	<b>\$ 16,304,136</b>	<b>\$ 6,783,903</b>	<b>\$ 57,236,819</b>

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, 2018

	Program Services	Supporting Services			Total Expenses
		Management and General	Development	Total	
Salaries and Wages	\$ 21,327,480	\$ 2,019,084	\$ 623,930	\$ 2,643,014	\$ 23,970,494
Payroll Taxes and Employee Benefits	5,511,842	664,764	124,505	789,269	6,301,111
<b>TOTAL PERSONNEL COSTS</b>	26,839,322	2,683,848	748,435	3,432,283	30,271,605
Contract and Professional Services	1,499,200	681,619	213,519	895,138	2,394,338
Occupancy	3,349,822	89,142	38,283	127,425	3,477,247
Transportation Costs	1,522,286	4,116	165	4,281	1,526,567
Direct Services	2,044,294	-	-	-	2,044,294
Food and Provisions	1,186,497	-	-	-	1,186,497
Depreciation	779,164	129,272	3,762	133,034	912,198
Supplies	681,194	107,686	33,135	140,821	822,015
In-Kind Expense	1,039,353	-	55,710	55,710	1,095,063
Conferences and Meetings	275,819	44,473	65,267	109,740	385,559
Telephone and Postage	181,268	87,414	19,401	106,815	288,083
Publications, Printing and Artwork	71,706	8,379	57,334	65,713	137,419
Liability Insurance	47,183	200,812	-	200,812	247,995
Miscellaneous	97,038	55,951	579	56,530	153,568
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 39,614,146</u> 88%	<u>\$ 4,092,712</u> 9%	<u>\$ 1,235,590</u> 3%	<u>\$ 5,328,302</u>	<u>\$ 44,942,448</u> 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, 2018

### CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ (2,522,677)
Adjustments to Reconcile Change in Net Assets to Net Cash Used In Operating Activities:	
Adjustment to Los Angeles Department of Mental Health Reserve	220,093
Depreciation	912,198
Gain on Sale of Property	(537,829)
Realized and Unrealized Gains on Investments	(1,645,156)
Contribution of Beneficial Interests in Charitable Remainder Trusts	(127,941)
Change in Value of Beneficial Interests in Charitable Remainder Trusts	(841,673)
Change in Value of Beneficial Interest in Perpetual Trust	(139,472)
Change in Value of Annuities Payable	111,975
Decrease in Present Value Discount of Pledges Receivable	(249,607)
Contribution Restricted for Investment in Property and Equipment	(241,656)
(Increase) Decrease in:	
Accounts Receivable	(557,650)
Pledges Receivable	2,123,075
Prepaid Expenses and Other Assets	(95,843)
Increase in:	
Accounts Payable	(100,320)
Accrued Liabilities	1,147,416

***NET CASH USED IN OPERATING ACTIVITIES*** (2,545,067)

### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Property and Equipment	(864,709)
Proceeds from Sale of Property	660,000
Purchase of Investments	(2,504,314)
Proceeds from Sale of Investments	4,042,776
Reinvested Interest and Dividends	(607,764)

***NET CASH PROVIDED BY INVESTING ACTIVITIES*** 725,989

### CASH FLOWS FROM FINANCING ACTIVITIES:

Payments to Annuitants	(176,295)
Proceeds From Contribution Restricted for Investment in Property and Equipment	241,656

***NET CASH PROVIDED BY FINANCING ACTIVITIES*** 65,361

***NET INCREASE IN CASH AND CASH EQUIVALENTS*** (1,753,717)

Cash and Cash Equivalents - Beginning of Year 3,979,136

***CASH AND CASH EQUIVALENTS - END OF YEAR*** \$ 2,225,419

### CASH AND CASH EQUIVALENTS INCLUDES:

Cash and Cash Equivalents	\$ 2,002,386
Restricted Cash	223,033

***CASH AND CASH EQUIVALENTS - END OF YEAR*** \$ 2,225,419

The Accompanying Notes are an Integral Part of These Financial Statements



# VISTA DEL MAR CHILD AND FAMILY SERVICES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### 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 12<sup>th</sup> 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

#### (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, 2018, Vista Del Mar has \$16,304,136 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, 2018, Vista Del Mar has \$6,783,903 of permanently restricted net assets.

# VISTA DEL MAR CHILD AND FAMILY SERVICES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### 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, 2018 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, 2018 was \$223,033.

#### (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, 2018, the majority of receivables are due from governmental agencies, and Vista Del Mar has established an allowance for doubtful accounts in the amount of \$27,520 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, 2018, the LADMH reserve of \$1,137,826 is included in accounts receivable.

# VISTA DEL MAR CHILD AND FAMILY SERVICES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### 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 \$461,107 at June 30, 2018. At June 30, 2018, Vista Del Mar evaluated the collectability of contributions and pledges receivable and an allowance for doubtful pledges of \$86,360 was established. Conditional promises to give are not included as support until such time as the conditions are substantially met.

#### **(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, 2018 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 89% 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, 2018

### 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, 2018 is \$907,263

#### (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.

#### (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, 2018.

# VISTA DEL MAR CHILD AND FAMILY SERVICES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(m) ANNUITIES PAYABLE**

Assets contributed by donors under gift annuity agreements and controlled by Vista Del Mar are recognized at fair value with a corresponding liability to beneficiaries of the annuity agreements. The excess of the cash received over the present value of the annuity obligation is recorded as contribution revenue on the date the annuity gift is received and the liability is determined. Such liability is calculated as the present value of the estimated future cash flows to be distributed to the income beneficiaries over their expected lives. Amortization of the discount and changes in actuarial assumptions are included in the change in value of annuities in the statement of activities.

#### **(n) 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 \$1,095,063 were received during the year ended June 30, 2018 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.

#### **(o) 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.

#### **(p) 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.

#### **(q) 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, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (r) NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which improves and converges the revenue recognition requirements of U.S. GAAP and International Financial Reporting Standards. The ASU replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, which is intended to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance has subsequently been amended through a series of ASU's between August 2015 and September 2017 to improve the operability and understandability of the implementation guidance on principal versus agent considerations, licensing implementation guidance, scope exceptions, and various other narrow aspects, as identified and addressed in such updates. For Vista Del Mar, the ASU and subsequent amendments will be effective for the year ending June 30, 2020.

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 June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. For Vista Del Mar, the ASU will be effective for the year ending June 30, 2020.

# VISTA DEL MAR CHILD AND FAMILY SERVICES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) SUBSEQUENT EVENTS

Vista Del Mar has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2018 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through December 14, 2018, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred, except as described in Note 9(a).

### NOTE 3 - INVESTMENTS

Investments at June 30, 2018 consist of the following:

Equity Mutual Funds	\$ 17,226,942
Fixed Income Mutual Funds	11,484,628
Equities	666,057
Fixed Income	540,357
Money Market Funds	108,101
Certificates of Deposit	<u>1,254,165</u>
<b>TOTAL INVESTMENTS</b>	<b>\$ <u>31,280,250</u></b>

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, 2018 amounted to \$1,254,165 and is held in certificates of deposit.

Net investment income for the year ended June 30, 2018 consists of the following:

Interest and Dividends	\$ 628,949
Realized and Unrealized Gains	1,645,156
Less: Investment Expenses	<u>(21,185)</u>
<b>INVESTMENT INCOME (NET)</b>	<b>\$ <u>2,252,920</u></b>

### NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2018 are due to be received as follows:

Due within One Year	\$ 2,787,147
Due in One to Five Years	<u>5,845,000</u>
<b>GROSS PLEDGES RECEIVABLE</b>	<b>8,632,147</b>
Less: Present Value Discount	(461,107)
Less: Allowance for Doubtful Pledges	<u>(86,360)</u>
<b>PLEDGES RECEIVABLE (NET)</b>	<b>\$ <u>8,084,680</u></b>

# VISTA DEL MAR CHILD AND FAMILY SERVICES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### NOTE 5 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

Vista Del Mar holds remainder interests in twenty-six 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 \$5,263,695 at June 30, 2018, 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.

### 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 and liabilities that are measured at fair value on a recurring basis at June 30, 2018 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended June 30, 2018	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	\$ 17,226,942	\$ 17,226,942	\$ -	\$ -
Fixed Income Mutual Funds	11,484,628	11,484,628	-	-
Equities	666,057	666,057	-	-
Fixed Income	540,357	540,357	-	-
Money Market Funds	108,101	108,101	-	-
Certificates of Deposit	1,254,165	-	1,254,165	-
Beneficial Interest in:				
Charitable Remainder Trusts	5,263,695	-	-	5,263,695
Perpetual Trust	907,263	-	-	907,263
<b>TOTAL ASSETS</b>	<b>\$ 37,451,208</b>	<b>\$ 30,026,085</b>	<b>\$ 1,254,165</b>	<b>\$ 6,170,958</b>
Annuitants Payable	\$ 593,954	-	-	\$ 593,954
<b>TOTAL LIABILITIES</b>	<b>\$ 593,954</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 593,954</b>



# VISTA DEL MAR CHILD AND FAMILY SERVICES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### NOTE 6 - FAIR VALUE MEASUREMENTS (continued)

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 inputs were 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).

The fair value of annuities payable within Level 3 inputs was determined as described in Note 2(m).

Transfers between Level 1 and 2 generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 generally 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, 2018.

Changes in Level 3 measurements for the year ended June 30, 2018 are as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trust	Annuities Payable
Beginning Balance	\$ 4,294,081	\$ 767,791	\$ 658,274
Contributions	127,941	-	-
Payments	-	-	(176,295)
Change in Value	841,673	139,472	111,975
<b><i>ENDING BALANCE</i></b>	<b><i>\$ 5,263,695</i></b>	<b><i>\$ 907,263</i></b>	<b><i>\$ 593,954</i></b>

### NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 consist of the following:

Building and Improvements	\$ 14,418,992
Land and Improvements	1,856,573
Electronic Clinical Records System	1,090,277
Leasehold Improvements	593,235
Furniture and Equipment	1,218,560
Vehicles	247,373
Construction in Progress	414,244
<b><i>TOTAL</i></b>	19,839,254
Less: Accumulated Depreciation	(8,731,967)
<b><i>PROPERTY AND EQUIPMENT (NET)</i></b>	<b><i>\$ 11,107,287</i></b>

Depreciation expense for the year ended June 30, 2018 was \$912,198. Estimated costs to complete the construction in progress are \$7,933,000.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**NOTE 8 - ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2018 consist of the following:

Department of Mental Health Overpayments	\$ 2,134,480
Accrued Vacation	1,285,482
Accrued Workers' Compensation [See Note 11(c)]	796,833
Department of Child and Family Services Overpayments	1,331,229
Accrued Payroll	525,374
Payroll Taxes Payable	373,732
Pension Payable	276,892
Other Accrued Liabilities	<u>71,476</u>
<b>TOTAL ACCRUED LIABILITIES</b>	<b>\$ 6,795,498</b>

**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, 2018:

<b>Actuarial Present Value of Benefit Obligations:</b>	
Accumulated Benefit Obligation	<u>\$ 1,552,358</u>
Plan Assets at Fair Value	\$ 1,275,466
Projected Benefit Obligation	<u>(1,552,358)</u>
<b>ACCRUED PENSION LIABILITY</b>	<b>\$ (276,892)</b>

The accrued pension liability at June 30, 2018 is included in accrued liabilities in the accompanying statement of financial position.

Net periodic pension cost for the year ended June 30, 2018 includes the following components:

Service Cost - Benefits Earned During Year	\$ 12,447
Interest Cost on Projected Benefit Obligation	34,332
Expected Return on Plan Assets	(13,138)
Net Amortization and Deferral	<u>(16,354)</u>
<b>NET PERIODIC PENSION COST</b>	<b>\$ 17,287</b>

# VISTA DEL MAR CHILD AND FAMILY SERVICES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### NOTE 9 - RETIREMENT PLANS (continued)

#### (a) DEFINED BENEFIT PLAN (continued)

The actuarial assumptions used were:

Discount Rate	3.7%
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 3.98% to 4.74%. 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, 2018 are as follows:

#### Years Ending June 30

2019	\$ 986,000
2020	50,000
2021	49,000
2022	49,000
2023	83,000
Five Years Thereafter	304,000

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.

# VISTA DEL MAR CHILD AND FAMILY SERVICES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### 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.

In October 2018, the Plan was terminated with a final payment of \$437,000.

#### (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 \$1,022,173 for the year ended June 30, 2018.

### 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, 2018 is \$593,954.

**VISTA DEL MAR CHILD AND FAMILY SERVICES**

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**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**

2019	\$ 427,744
2020	244,477
2021	<u>127,483</u>
<b>TOTAL</b>	<u><u>\$ 799,704</u></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, 2018 of \$796,833 is included in accrued liabilities. Workers' compensation self-insurance expense for the year ended June 30, 2018 was \$843,295 which includes the annual insurance premium. In addition to the accrued liability, Vista Del Mar has a standby letter of credit with a bank in the amount of \$1,250,000 (see Note 3).

	Gross Claims Liability	Estimated Insurance Recoveries	Net Claims Liability
Balance at July 1, 2017	\$ 860,097	\$ -	\$ 860,097
Self-Insurance Expenses Incurred	816,657	-	816,657
Payments Made to Fund Related Liabilities	<u>(879,921)</u>	-	<u>(879,921)</u>
<b>BALANCE AT JUNE 30, 2018</b>	<u><u>\$ 796,833</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 796,833</u></u>

# VISTA DEL MAR CHILD AND FAMILY SERVICES

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### 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, 2018 consist of the following:

Beneficial Interest in Charitable Remainder Trusts	\$ 5,263,695
Facilities	8,193,323
Program Services	1,434,154
Donor Restricted Endowment Funds	<u>1,412,964</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ 16,304,136</u></b>

### 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, 2018

**NOTE 13 - ENDOWMENTS** (continued)

	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment Net Asset Composition by Type of Fund at June 30, 2018</b>			
Donor-Restricted	\$ 1,412,964	\$ 5,876,640	\$ 7,289,604
<b>Changes in Endowment Net Assets for the Year Ended June 30, 2018</b>			
Endowment Net Assets -			
Beginning of Year	\$ 1,141,212	\$ 5,882,293	\$ 7,023,505
Donor Release	-	(5,653)	(5,653)
Investment Income	499,566	-	499,566
Appropriated Expenditures	(227,814)	-	(227,814)
<b>ENDOWMENT NET ASSETS - END OF YEAR</b>	\$ 1,412,964	\$ 5,876,640	\$ 7,289,604