

AVENIDAS

JUNE 30, 2014

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Avenidas

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
AVENIDAS
Palo Alto, California

Report on the Financial Statements

We have audited the accompanying financial statements of **AVENIDAS** which comprise the statement of financial position as of June 30, 2014, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Avenidas as of June 30, 2014 and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Avenidas' June 30, 2013 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 29, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Jose, California
October 29, 2014

Avenidas

Statement of Financial Position

<i>June 30, 2014 (with comparative totals for 2013)</i>	2014	2013
Assets		
Cash and cash equivalents	\$ 505,980	\$ 465,082
Short-term investments (Note 3)	2,153,648	2,175,756
Accounts receivable, net of allowance for doubtful accounts of \$8,671 for 2014 and \$10,643 for 2013	262,240	308,687
Contributions receivable, net	57,305	140,083
Deposits and prepaid expenses	87,491	81,407
Long-term investments, including endowment funds (Notes 3 and 6)	25,223,401	22,723,086
Property and equipment, net (Note 4)	3,317,042	3,359,765
	\$ 31,607,107	\$ 29,253,866
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 495,861	\$ 543,411
Total liabilities	495,861	543,411
Net Assets (Notes 5 and 6):		
Unrestricted		
Board designated	26,679,350	24,201,143
Undesignated	3,632,794	3,595,205
Total unrestricted	30,312,144	27,796,348
Temporarily restricted	101,403	216,408
Permanently restricted	697,699	697,699
Total net assets	31,111,246	28,710,455
	\$ 31,607,107	\$ 29,253,866

The accompanying notes are an integral part of these statements.

Avenidas

Statement of Activities

Year ended June 30, 2014 (with comparative totals for 2013)

	2014			2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue:				
Program fees	\$ 1,532,765			\$ 1,532,765
Community support	848,566	\$ 49,170		897,736
Community support released from restrictions	164,175	(164,175)		
Governmental support	595,508			595,508
Dividends and interest	6,313			6,313
Short-term investment gain (loss), net of fees	27,511			27,511
Appropriation of endowment assets for expenditure	936,821			936,821
Board designated funds authorized for operations	40,125			40,125
Total public support and revenue before in-kind	4,151,784	(115,005)		4,036,779
In-kind professional services and donated equipment	60,996			60,996
Total public support and revenue	4,212,780	(115,005)		4,097,775
Expenditures				
Program services	3,335,954			3,335,954
Support services:				
Management and general	498,224			498,224
Fundraising - general	385,882			385,882
Fundraising - project	68,237			68,237
Total expenditures	4,288,297			4,288,297
Change in Net Assets from Operating Activities	(75,517)	(115,005)		(190,522)
Non-Operating Net Assets Activity:				
Investment income, net of fees	3,415,623	21,401		3,437,024
Donation from HELPS (Note 1)				4,700,000
Bequests	131,235			131,235
Appropriation of endowment assets for expenditure	(915,420)	(21,401)		(936,821)
Board designated funds authorized for operations	(40,125)			(40,125)
Change in Net Assets from Non-operating Activity	2,591,313			2,591,313
Total Change in Net Assets	2,515,796	(115,005)		2,400,791
Net Assets, beginning of year	27,796,348	216,408	\$ 697,699	28,710,455
Net assets, end of year	\$ 30,312,144	\$ 101,403	\$ 697,699	\$ 31,111,246

The accompanying notes are an integral part of these statements.

Avenidas

Statement of Functional Expenses

Year ended June 30, 2014 (with comparative totals for 2013)

	2014							2013 Total
	Total Program Services	Support Services				2014 Total		
		Management and General	Fundraising		Total			
		General	Capital Project					
Expenditures:								
Salaries	\$ 1,716,554	\$ 253,725	\$ 236,427	\$ 6,509	\$ 496,661	\$ 2,213,215	\$ 2,197,941	
Benefits	185,655	29,280	27,775		57,055	242,710	253,790	
Payroll taxes	128,952	17,998	17,223	459	35,680	164,632	160,645	
Professional services	313,476	62,317	18,533	55,858	136,708	450,184	317,181	
Transportation	151,446					151,446	166,477	
Depreciation and amortization	169,380	11,298	4,319		15,617	184,997	168,361	
In-kind professional services	60,996					60,996	55,840	
Program expense	93,536	30,711	754		31,465	125,001	125,093	
Insurance	98,696	16,408	8,204		24,612	123,308	110,270	
Building maintenance	114,335	12,827	4,801		17,628	131,963	101,168	
Advertising and marketing	90,045	7,832	6,113		13,945	103,990	110,292	
Printing, copying and publications	35,069	10,331	2,544	435	13,310	48,379	49,376	
Utilities	42,540	1,842	689		2,531	45,071	38,711	
Fundraising events and mailings			44,264	281	44,545	44,545	27,312	
Nutrition	34,892					34,892	30,301	
Office expense	21,603	2,641	3,624	2,053	8,318	29,921	25,642	
Computer and equipment	18,049	2,766	4,962	2,465	10,193	28,242	26,372	
Travel and conference	14,000	6,439	1,477		7,916	21,916	17,320	
Postage	5,268	2,073	1,500	177	3,750	9,018	8,448	
Telephone	13,842	3,401	1,700		5,101	18,943	18,270	
Bank fees and bad debt expenses	19,168	20,928			20,928	40,096	55,006	
Dues and subscriptions	5,111	2,876	951		3,827	8,938	8,042	
Volunteers	3,341	2,531	22		2,553	5,894	6,026	
	\$ 3,335,954	\$ 498,224	\$ 385,882	\$ 68,237	\$ 952,343	\$ 4,288,297	\$ 4,077,884	

The accompanying notes are an integral part of these statements.

Avenidas

Statement of Cash Flows

<i>Year ended June 30, 2014 (with comparative totals for 2013)</i>	2014	2013
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,400,791	\$ 5,738,583
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	184,997	168,361
Realized and unrealized gain on investments	(2,824,073)	(1,683,195)
Decrease in allowance for doubtful accounts	(1,972)	(9,040)
Changes in operating assets and liabilities:		
Accounts receivable	48,419	(57,623)
Contributions receivable	82,778	43,353
Deposits and prepaid expenses	(6,084)	(7,161)
Accounts payable and accrued liabilities	(47,550)	55,241
Net cash (used) provided by operating activities	(162,694)	4,248,519
Cash Flows from Investing Activities:		
Net change in short-term investments	22,108	(2,074,701)
Purchases of long-term investments	(8,067,041)	(23,240,727)
Proceeds from sale of long-term investments	8,390,799	20,688,685
Purchase of property and equipment	(142,274)	(4,805)
Net cash provided (used) by investing activities	203,592	(4,631,548)
Net Change in Cash and Cash Equivalents	40,898	(383,029)
Cash and Cash Equivalents, beginning of year	465,082	848,111
Cash and Cash Equivalents, end of year	\$ 505,980	\$ 465,082

Supplemental Disclosure of Cash Flow Information:

No payments for interest or income taxes were made during 2014 and 2013.

The accompanying notes are an integral part of these statements.

Avenidas

Notes to Financial Statements

Note 1- Description of the Organization:

Avenidas is a nonprofit public benefit corporation organized in 1969 under the laws of the State of California to provide support services to older adults and their caregivers. Its programs for independent seniors and caregivers include Health and Wellness, Lifelong Learning and Leisure, Social Work Services, Transportation, Handyman Services, Avenidas Village and Volunteer Corps. The Avenidas Rose Kleiner Center is a licensed adult day health care and adult day care center providing day care and a set of health services to the frail and elderly.

Each year, Avenidas serves approximately 6,500 individuals from throughout the Mid-Peninsula. To keep fees for its services affordable, it receives funding from individuals, foundations, government grants and through fund-raising events. Approximately 375 volunteers provide services to others in the community and support the work of Avenidas staff.

Home Equity Loan Program for Seniors (HELPS) is a separately incorporated nonprofit organization that is operated by Avenidas pursuant to a management contract. The Board of Directors of HELPS consists of six directors, two of whom are also on the Board of Directors of Avenidas. In April 2013, program operations ceased when the last reverse mortgage loan was paid off. The majority of the net assets have been distributed as a donation to Avenidas, with \$4,700,000 received during the year ended June 30, 2013. During the year ended June 30, 2014, Avenidas received \$12,000 in management fees from HELPS (\$24,000 for the year ended June 30, 2013). Unaudited internal financial statements for HELPS at June 30, 2014 showed total assets of approximately \$125,000 and liabilities of \$9,000. Avenidas' financial statements do not include the remaining assets, liabilities, or net assets of HELPS. HELPS will dissolve by the end of the 2014 calendar year.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

Avenidas

Notes to Financial Statements

b. Description of Net Assets:

Unrestricted Net Assets – the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use by management and the Board for general operations. The Board has designated certain unrestricted net assets for endowment purposes and for other purposes (see Note 3 and 6).

Temporarily Restricted Net Assets – the portion of net assets the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Avenidas.

Permanently Restricted Net Assets – the portion of net assets the use of which is limited by donor-imposed stipulations that neither expire by passage of time nor can be removed by actions of Avenidas.

c. Statement of Cash Flows:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and in bank demand and money market accounts and excludes cash held in managed investment accounts.

d. Investments and Fair Value Measurements:

Avenidas reports its investments in marketable debt, equity securities and alternative investments at their fair value. Investment earnings, including realized and unrealized gains and losses, are recorded in the Statement of Activities. Avenidas records revenue generated from investments net of management fees.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Avenidas classifies its financial assets and liabilities based on a valuation method using three levels:

Level 1 Quoted market prices unadjusted in active markets for identical assets or liabilities.

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, Avenidas performs an analysis of the assets and liabilities that are subject to fair value measurement.

Avenidas

Notes to Financial Statements

e. Accounts Receivable:

Receivables are stated at the amount management expects to collect from outstanding balances. Avenidas provides for losses on receivables using the allowance method, based on experience.

f. Property and Equipment:

Property and equipment purchased for \$5,000 or more are capitalized and recorded at cost. Donated property and equipment with a value of at least \$5,000 are recorded at estimated fair value at the date of receipt.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of three to seven years for furniture and equipment. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvement, generally 10 – 40 years. Property and equipment is not depreciated until it is placed in service.

g. Revenue Recognition:

Revenues from government agencies and program fees are recognized when the services are rendered and costs incurred.

Contributions and promises to give are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give to Avenidas. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. If a restriction expires in the same year the donation is received, the donation is recorded as unrestricted. Otherwise, when a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as community support released from restrictions.

h. Income Taxes:

Avenidas is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Service Code and Section 23701(d) of the State of California Revenue and Taxation Code. In addition, Avenidas has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Avenidas follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, to account for uncertain tax positions. Management has concluded that Avenidas has taken no uncertain tax positions that would require adjustment to the financial statements to comply with provisions of this guidance.

Avenidas

Notes to Financial Statements

Avenidas is generally no longer subject to tax examinations by Federal authorities for tax years ending June 30, 2010 and before and by California authorities for tax years ending June 30, 2009 and before.

i. Contributed Services:

Avenidas recognizes contribution revenue for contributed services which enhance non-financial assets or which require specialized skills that Avenidas would need to purchase if not donated. The value of these contributed services was approximately \$61,000.

Numerous other volunteers donate significant amounts of their time to Avenidas' activities. No amounts have been recorded for these donated services since they do not meet the criteria noted above. These volunteers contributed approximately 16,000 hours to Avenidas, the value of which is estimated to be \$420,000, based on the Bureau of Labor Statistics calculation.

j. Transfers from Non-operating Activities to Operating Activities:

Avenidas classifies its Statement of Activities into operating and non-operating activities. As such certain transfers of funds are shown as reductions to non-operating activities with corresponding increases to operating activities. Transfers from non-operating activities to operating activities have no effect on the change in net assets.

k. Allocation of Expenses:

Direct costs are charged directly to the applicable program or services. Indirect costs, related to more than one function, are allocated to programs and services by management based on estimates of time spent, usage and other factors.

l. Use of Estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

m. Comparative Financial Information:

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with Avenidas' financial statements for the year ended June 30, 2013 from which the summarized information was derived.

Avenidas

Notes to Financial Statements

n. Reclassifications:

Certain reclassifications have been made to the 2013 financial statements in order to conform to the 2014 presentation. These reclassifications had no impact on net assets or the change in net assets.

Note 3 - Investments:

In 2014, investments consist of long-term and short-term portfolios, both of which are actively managed by Luminous Capital, a Division of First Republic Investment Management. Investments at June 30 are as follows:

	2014	2013
Cash and short duration funds	\$ 637	\$ 5,268
Domestic fixed income funds	8,641,790	8,000,511
Alternative investments	2,218,820	1,933,867
Domestic equities	9,145,361	8,348,717
Foreign equities – developed markets	3,906,882	3,414,629
Foreign equities – emerging markets	1,309,911	1,020,094
Total long-term investments	25,223,401	22,723,086
Cash and short duration funds	917,476	735,523
Domestic fixed income funds	1,236,172	1,440,233
Total short-term investments	2,153,648	2,175,756
Total investments	\$ 27,377,049	\$ 24,898,842

The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. Avenidas uses the net asset value per share for certain investments as a practical expedient to determine the fair value. According to the fair value hierarchy as discussed in Note 2d, the above investments held at June 30, 2014 are classified as either level 1 or level 3, as follows:

Level 1 Cash management funds, domestic fixed income funds, domestic equities, foreign equities – developed and emerging markets

Level 3 Alternative investments

The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

Avenidas

Notes to Financial Statements

The following shows the activity of the Level 3 assets during the year ended June 30, 2014:

	Fixed Income - Alternative ^(a)	Flexible - Equity/Fixed Income ^(b)	Total Level 3 Assets
Fair Value at July 1, 2013	\$ 1,504,063	\$ 429,804	\$ 1,933,867
Additions	557,160		557,160
Withdrawals		(426,117)	(426,117)
Gains	141,479	19,502	160,981
Fees	(6,309)	(762)	(7,071)
Fair Value at June 30, 2014	\$ 2,196,393	\$ 22,427	\$ 2,218,820

- (a) Fixed Income - Alternative consists of four investments in limited partnerships:
- Two funds with no unfunded commitments as of June 30, 2014. Both permit redemptions quarterly with a 60/70 day notice period.
 - One fund with redemptions permitted quarterly with a 100 day notice period, except in calendar year fourth quarter when redemptions are fulfilled on January 31 instead of December 31.
 - One fund with an unfunded commitment as of June 30, 2014 of \$251,879. Redemptions are not permitted and the fund is expected to have a life of up to six years.
- (b) Flexible – Equity/Fixed Income consisted of one fund that was redeemed in January 2014. At June 30, 2014, there was a holdback of \$22,427 that was received in July, 2014.

The above investment funds are allocated as follows at June 30:

	2014	2013
Board designated funds:		
Board designated endowment purposes	\$ 24,494,010	\$ 21,993,807
Capital Asset Replacement	1,014,490	1,014,490
Board Designated for Capital Project	131,365	
Operating reserves	581,572	705,883
Ready Reserve	457,913	486,963
Total board designated funds	26,679,350	24,201,143
Donor restricted funds:		
Permanently restricted purposes	697,699	697,699
Total donor restricted funds	697,699	697,699
Total investments	\$ 27,377,049	\$ 24,898,842

Avenidas

Notes to Financial Statements

These funds are professionally managed within guidelines of an investment policy approved by the Board and overseen by an Investment Committee, which is more fully discussed in Note 6. The purpose of the Board designated endowment is to fund operations by providing an annual distribution of between 3.5% and 5.5% of the immediate past twelve quarter average rolling value of these investments. The effective distribution rate was 4.4% and 5.3% for the years ending June 30, 2014 and 2013, respectively.

Investment income is comprised of the following for the year ended June 30:

	2014	2013
Income from long-term investments		
Dividends and interest	\$ 696,028	\$ 531,505
Realized and unrealized gains, net	2,817,714	1,689,430
Management fees	(76,718)	(66,396)
<u>Long-term investment income</u>	<u>3,437,024</u>	<u>2,154,539</u>
Income from short-term investments		
Dividends and interest	26,179	
Realized and unrealized gains (losses), net	6,359	(6,235)
Management fees	(5,027)	
<u>Short-term investment income (losses), net</u>	<u>27,511</u>	<u>(6,235)</u>
<u>Total investment income</u>	<u>\$ 3,464,535</u>	<u>\$ 2,148,304</u>

Note 4 - Property and Equipment:

Property and equipment is comprised of the following at June 30:

	2014	2013
Avenidas Rose Kleiner facility	\$ 3,636,575	\$ 3,636,575
Leasehold improvements	1,455,581	1,318,974
Equipment	538,517	556,475
Furniture	73,162	73,162
	5,703,835	5,585,186
<u>Less accumulated depreciation and amortization</u>	<u>(2,386,793)</u>	<u>(2,225,421)</u>
	<u>\$ 3,317,042</u>	<u>\$ 3,359,765</u>

Avenidas

Notes to Financial Statements

Note 5 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following activities at June 30:

	2014	2013
Social Work Services	\$ 61,099	\$ 83,324
Future operations		57,750
Avenidas Village – future operations	40,304	52,834
Avenidas Rose Kleiner Center – future operations		15,000
Transportation Services		7,500
	<hr/>	<hr/>
	\$ 101,403	\$ 216,408

Temporarily restricted net assets were released during the years ending June 30, 2014 and 2013 as follows:

	2014	2013
Avenidas Village	\$ 61,700	\$ 54,942
General operations	57,750	
Social Work Services	22,225	4,376
Avenida's Rose Kleiner Center	15,000	33,687
Transportation Services	7,500	10,000
	<hr/>	<hr/>
	\$ 164,175	\$ 103,005

Note 6 - Endowment Net Assets:

Gifts and bequests accepted with donor stipulations that the principal be maintained intact indefinitely have been reflected as permanently restricted net assets. Permanently restricted net assets consist of \$155,275 (Mitchell Fund), the income from which is available for general operations; \$58,291 (Hubbard Fund), the income from which is restricted for repairs to the 450 Bryant facility; and \$158,058 (Stevens Fund) and \$326,075 (The George H. McKee and Roberta G. McKee Endowment Fund), the income from which is restricted to benefit Avenidas' programs.

Avenidas' endowment also consists of funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Avenidas

Notes to Financial Statements

Endowment net assets at June 30, 2014 are composed of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds			\$ 697,699	\$ 697,699
Board-designated endowment funds	\$ 24,494,010			24,494,010
Total	\$ 24,494,010		\$ 697,699	\$ 25,191,709

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 21,993,807	\$ 0	\$ 697,699	\$ 22,691,506
Investment income, net of fees	597,909	21,401		619,310
Net realized and unrealized gain	2,817,714			2,817,714
Total investment return	3,415,623	21,401		3,437,024
Appropriation of endowment assets for expenditure	(915,420)	(21,401)		(936,821)
Endowment net assets, end of year	\$ 24,494,010	\$ 0	\$ 697,699	\$ 25,191,709

Avenidas

Notes to Financial Statements

Interpretation of Relevant Law - The Board of Directors of Avenidas has interpreted California's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Avenidas classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Avenidas in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Avenidas considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Return Objectives and Risk Parameters – Avenidas' Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Avenidas must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a variety of standard indices while assuming a moderate level of investment risk. Avenidas expects its endowment funds to produce a net average annual total return, over the long term, equal to the change in the Consumer Price Index plus 4.5 percent. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, Avenidas relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Avenidas targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Avenidas

Notes to Financial Statements

Spending Policy and How the Investment Objectives Relate to Spending Policy – Avenidas has a policy of appropriating for distribution each year between 3.5 and 5.5 percent of its endowment fund's average fair value measured based on the average value of the endowment assets over the last 12 quarters ending December 31, adjusted for any new contributions. In establishing this policy, Avenidas considered the long-term expected return on its endowment. This policy is consistent with the Avenidas' dual investment objectives for the endowment assets to provide consistent, predictable cash flows to assist Avenidas in effectively delivering its programs, and to preserve the inflation-adjusted value of the endowment.

Note 7 - Commitments:

a. Benefit Plan

Avenidas has a 403(b) tax-deferred retirement plan for the benefit of employees who are employed a minimum of 20 hours per week. Avenidas contributed 3% of each eligible employee's monthly pay for the years ended June 30, 2014 and 2013, respectively. Avenidas contributed \$56,588 and \$57,420 to the plan as of June 30, 2014 and 2013, respectively.

b. Facilities Lease Agreements

The 450 Bryant Street building is leased to Avenidas from the City of Palo Alto until 2027 at a rental of \$1 per year. Avenidas considers the lease arrangement with the City of Palo Alto as an exchange transaction and has not recorded any donation revenue associated with the lease. Avenidas is currently in negotiation with the City to replace the current lease with a new 50 year lease.

The land on which the Avenidas Rose Kleiner facility is built at 270 Escuela Avenue, Mountain View, California, is leased from the City of Mountain View until 2055 through a ground lease. Avenidas has an option to renew the lease for an additional ten years. Avenidas is not required to make cash payments in exchange for the lease, provided Avenidas meets certain criteria set forth in the lease which include, but are not limited to, providing services to residents of Mountain View. During 2014, Avenidas has met the required criteria. Avenidas considers the lease arrangement with the City of Mountain View as an exchange transaction and has not recorded any donation revenue associated with the lease.

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Note 8 - Concentrations of Risk:

Concentrations of Credit Risk

Financial instruments which potentially subject Avenidas to concentration of credit risk consist of cash and cash equivalents, pledges and accounts receivable and investments. Avenidas maintains its cash accounts at three financial institutions. Cash balances at these financial institutions may, from time to time, exceed Federal Deposit Insurance Corporation insurable limits.

Accounts receivables are due from various individuals, insurance companies and government agencies which mitigate the risk associated therein. An allowance for doubtful accounts is also maintained. Pledges receivables are due from various individuals. Investments are subject to a formal investment policy.

Major Donors

Avenidas did not have any major donor (defined as donations from any one donor representing 10% or more of revenues) in the year ended June 30, 2014. In the prior year, the \$4,700,000 donation from HELPS, included in non-operating net assets activity on the Statement of Activities, represents 84% of the total community support, donation, and bequests for contribution revenue for the year ended June 30, 2013. Avenidas may have major donors on an annual basis but does not believe it is dependent on any one donor on a long-term basis.

Note 9 - Subsequent Events:

Avenidas has evaluated subsequent events through October 29, 2014, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.