

AVENIDAS

JUNE 30, 2015

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Avenidas

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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, 2015, 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.

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

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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, 2015 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, 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 29, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Jose, California
November 6, 2015

Avenidas

Statement of Financial Position

<i>As of June 30, 2015 (with comparative totals for 2014)</i>	2015	2014
Assets		
Cash and cash equivalents	\$ 257,780	\$ 505,980
Short-term investments (Note 4)	2,163,827	2,153,648
Accounts receivable, net of allowance for doubtful accounts of \$8,651 for 2015 and \$8,671 for 2014	247,123	262,240
Contributions receivable, net (Note 3)	2,446,315	57,305
Deposits and prepaid expenses	83,469	87,491
Long-term investments, including endowment funds (Notes 4 and 7)	24,870,017	25,223,401
Property and equipment, net (Note 5)	3,326,432	3,317,042
	\$ 33,394,963	\$ 31,607,107
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 496,365	\$ 495,861
Total liabilities	496,365	495,861
Net Assets (Notes 6 and 7):		
Unrestricted		
Board designated	26,114,013	26,679,350
Undesignated	3,427,038	3,632,794
Total unrestricted	29,541,051	30,312,144
Temporarily restricted	2,659,848	101,403
Permanently restricted	697,699	697,699
Total net assets	32,898,598	31,111,246
	\$ 33,394,963	\$ 31,607,107

See accompanying notes to financial statements.

Avenidas

Statement of Activities

Year ended June 30, 2015 (with comparative totals for 2014)

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Public Support and Revenue:					
Program fees	\$ 1,477,144			\$ 1,477,144	\$ 1,532,765
Community support	764,570	\$ 87,163		851,733	897,736
Community support released from restrictions	31,928	(31,928)			
Board designated funds authorized for Capital Project administration	222,877			222,877	
Governmental support	522,797			522,797	595,508
Dividends and interest	2,753			2,753	6,313
Short-term investment gain, net of fees	9,798			9,798	27,511
Appropriation of endowment assets for expenditure	957,317			957,317	936,821
Board designated funds authorized for operations	44,000			44,000	40,125
Total public support and revenue before in-kind	4,033,184	55,235		4,088,419	4,036,779
In-kind professional services and donated equipment	47,656			47,656	60,996
Total public support and revenue	4,080,840	55,235		4,136,075	4,097,775
Expenditures					
Program services	3,214,137			3,214,137	3,335,954
Support services:					
Management and general	479,814			479,814	498,224
Fundraising - general	350,769			350,769	385,882
Fundraising - Capital Project	222,877			222,877	68,237
Total expenditures	4,267,597			4,267,597	4,288,297
Change in Net Assets from Operating Activities	(186,757)	55,235		(131,522)	(190,522)
Non-Operating Net Assets Activity (Note 2j):					
Investment income, net of fees	588,860	15,072		603,932	3,437,024
Capital Project contributions, net		2,503,210		2,503,210	
Bequests	35,926			35,926	131,235
Appropriation of endowment assets for expenditure	(942,245)	(15,072)		(957,317)	(936,821)
Board designated funds authorized for Capital Project administration	(222,877)			(222,877)	
Board designated funds authorized for operations	(44,000)			(44,000)	(40,125)
Change in Net Assets from Non-operating Activity	(584,336)	2,503,210		1,918,874	2,591,313
Total Change in Net Assets	(771,093)	2,558,445		1,787,352	2,400,791
Net Assets, beginning of year	30,312,144	101,403	\$ 697,699	31,111,246	28,710,455
Net assets, end of year	\$ 29,541,051	\$ 2,659,848	\$ 697,699	\$ 32,898,598	\$ 31,111,246

See accompanying notes to financial statements.

Avenidas

Statement of Functional Expenses

Year ended June 30, 2015 (with comparative totals for 2014)

	2015						2015 Total	2014 Total
	Total Program Services	Support Services				Total		
		Management and General	General	Fundraising				
			Capital Project					
Expenditures:								
Salaries	\$ 1,658,996	\$ 239,465	\$ 212,139	\$ 146,691	\$ 598,295	\$ 2,257,291	\$ 2,213,215	
Benefits	184,312	26,460	26,208	14,504	67,172	251,484	242,710	
Payroll taxes	124,668	17,397	15,985	9,156	42,538	167,206	164,632	
Professional services	301,777	43,670	8,818	22,373	74,861	376,638	450,184	
Transportation	161,038					161,038	151,446	
Depreciation and amortization	151,435	10,954	4,240	4,196	19,390	170,825	184,997	
In-kind professional services	45,338			2,318	2,318	47,656	60,996	
Program expense	99,352	19,645	464		20,109	119,461	125,001	
Insurance	82,718	18,687	8,125		26,812	109,530	123,308	
Building maintenance	106,934	18,058	4,663		22,721	129,655	131,963	
Advertising and marketing	95,743	10,351	8,772		19,123	114,866	103,990	
Printing, copying and publications	39,831	5,933	4,636	13,130	23,699	63,530	48,379	
Utilities	45,540	1,850	692	831	3,373	48,913	45,071	
Fundraising events and mailings			39,823	4,571	44,394	44,394	44,545	
Nutrition	32,826					32,826	34,892	
Office expense	10,042	5,882	2,521	1,008	9,411	19,453	29,921	
Computer and equipment	18,390	9,943	6,223	2,184	18,350	36,740	28,242	
Travel and conference	13,129	14,707	2,260		16,967	30,096	21,916	
Postage	5,118	1,684	2,292	852	4,828	9,946	9,018	
Telephone	15,317	4,999	2,142	857	7,998	23,315	18,943	
Bank fees and bad debt expenses	13,655	22,414			22,414	36,069	40,096	
Dues and subscriptions	5,697	3,497	615		4,112	9,809	8,938	
Volunteers	2,281	4,218	151	206	4,575	6,856	5,894	
	\$ 3,214,137	\$ 479,814	\$ 350,769	\$ 222,877	\$ 1,053,460	\$ 4,267,597	\$ 4,288,297	

See accompanying notes to financial statements.

Avenidas

Statement of Cash Flows

<i>Year ended June 30, 2015 (with comparative totals for 2014)</i>	2015	2014
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,787,352	\$ 2,400,791
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	170,825	184,997
Realized and unrealized gain on investments	(126,227)	(2,824,073)
Contributions for Capital Project	(117,418)	
Changes in operating assets and liabilities:		
Accounts receivable	(65,783)	46,447
Contributions receivable	(2,308,110)	82,778
Deposits and prepaid expenses	4,022	(6,084)
Accounts payable and accrued liabilities	504	(47,550)
Net cash used by operating activities	(654,835)	(162,694)
Cash Flows from Investing Activities:		
Net change in short-term investments	(24,172)	22,108
Purchases of long-term investments	(463,713)	(8,067,041)
Proceeds from sale of long-term investments	957,317	8,390,799
Purchase of property and equipment	(180,215)	(142,274)
Net cash provided by investing activities	289,217	203,592
Cash Flows from Financing Activities:		
Capital Project revenue received	117,418	
Net cash provided by financing activities	117,418	
Net Change in Cash and Cash Equivalents	(248,200)	40,898
Cash and Cash Equivalents, beginning of year	505,980	465,082
Cash and Cash Equivalents, end of year	\$ 257,780	\$ 505,980

Supplemental Disclosure of Cash Flow Information:

No payments for interest or income taxes were made during 2015 and 2014.

See accompanying notes to financial 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. In April 2013, program operations ceased when the last reverse mortgage loan was paid off. The majority of the net assets were distributed in prior years as donations to Avenidas. During the year ended June 30, 2015, Avenidas received no management fees from HELPS (\$12,000 for the year ended June 30, 2014). Unaudited internal financial statements for HELPS at June 30, 2015 showed total assets of approximately \$90,000. Avenidas' financial statements do not include the remaining assets, liabilities, or net assets of HELPS. HELPS has drafted articles of dissolution.

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).

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 or as designated by the Board for endowment, Capital Project support services and other purposes (see Note 4 and 7).

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.

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Notes to Financial Statements

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.

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.

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Notes to Financial Statements

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.

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 \$45,000.

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 more than 20,000 hours to Avenidas, the value of which is estimated to be \$463,000, based on the Bureau of Labor Statistics calculation.

Avenidas

Notes to Financial Statements

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

Avenidas classifies its Statement of Activities into operating and non-operating activities. Non-operating activities include amounts which, due to their nonrecurring or variable nature, are not considered by management as part of operations. Specific items include (a) long-term investment income and net gains (losses); (b) bequests; (c) contributions associated with the Capital Project. Certain transfers of funds, including the Board-authorized payout from the endowment and other reserves, 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, 2014 from which the summarized information was derived.

n. Reclassifications:

Certain reclassifications have been made to the 2014 financial statements in order to conform to the 2015 presentation. These reclassifications had no impact on net assets or the change in net assets.

Avenidas

Notes to Financial Statements

p. Newly Adopted Accounting Pronouncement

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. This guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. Avenidas has adopted this amendment as of July 1, 2014.

Note 3 - Contributions Receivable:

Contributions receivable as of June 30 are due as follows:

	2015	2014
Less than one year	\$ 254,577	\$ 57,305
One to five years (net of discounts of \$112,167)	2,191,738	
Total	\$ 2,446,315	\$ 57,305

Note 4 - Investments:

In 2015, investments consist of long-term and short-term portfolios, both of which are actively managed by First Republic Investment Management. Investments at June 30 are as follows:

	2015	2014
Cash and short duration funds	\$ 165,071	\$ 637
Domestic fixed income funds	6,382,909	8,641,790
Alternative investments	2,359,032	2,218,820
Domestic equities	11,743,274	9,145,361
Foreign equities – developed markets	3,610,124	3,906,882
Foreign equities – emerging markets	609,607	1,309,911
Total long-term investments	24,870,017	25,223,401
Cash and short duration funds	257,327	917,476
Domestic fixed income funds	1,906,500	1,236,172
Total short-term investments	2,163,827	2,153,648
Total investments	\$ 27,033,844	\$ 27,377,049

Avenidas

Notes to Financial Statements

The fair value of all investments, except for alternative investments, is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. These investments are classified as level 1 measurements, according to the fair value hierarchy discussed in Note 2d.

Avenidas uses the net asset value per share for its alternative investments as a practical expedient to approximate fair value. At June 30, 2015, alternative investments consist of four investments in limited partnerships, each with a fixed income strategy as follows:

- Two funds with no unfunded commitments as of June 30, 2015. 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, 2015 of \$202,023. Redemptions are not permitted and the fund is expected to have a life of up to six years.

The investment funds are allocated as follows at June 30:

	2015	2014
Board designated funds:		
Board designated endowment purposes (see Note 7)	\$ 24,140,625	\$ 24,494,010
Board Designated for Capital Project (see Note 7)	771,448	131,365
Capital Asset Replacement	698,825	1,014,490
Ready Reserve	474,098	457,913
Operating reserves	251,149	581,572
Total board designated funds	26,336,145	26,679,350
Donor restricted funds:		
Permanently restricted purposes (see Note 7)	697,699	697,699
Total donor restricted funds	697,699	697,699
Total investments	\$ 27,033,844	\$ 27,377,049

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 7. 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 4.2% and 4.3% for the years ending June 30, 2015 and 2014, respectively.

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

	2015	2014
Income from long-term investments		
Dividends and interest	\$ 544,194	\$ 696,028
Realized and unrealized gains, net	140,220	2,817,714
Management fees	(80,482)	(76,718)
<u>Long-term investment income</u>	<u>603,932</u>	<u>3,437,024</u>
Income from short-term investments		
Dividends and interest	28,606	26,179
Realized and unrealized (losses) gains, net	(13,993)	6,359
Management fees	(4,815)	(5,027)
<u>Short-term investment income gains (losses), net</u>	<u>9,798</u>	<u>27,511</u>
<u>Total investment income</u>	<u>\$ 613,730</u>	<u>\$ 3,464,535</u>

Note 5 - Property and Equipment:

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

	2015	2014
Avenidas Rose Kleiner facility	\$ 3,636,575	\$ 3,636,575
Bryant Center leasehold improvements	1,457,981	1,455,581
Bryant Center expansion (in progress)	156,766	
Equipment	553,766	538,517
Furniture	73,162	73,162
	5,878,250	5,703,835
<u>Less accumulated depreciation and amortization</u>	<u>(2,551,818)</u>	<u>(2,386,793)</u>
	<u>\$ 3,326,432</u>	<u>\$ 3,317,042</u>

Avenidas

Notes to Financial Statements

Note 6 - Temporarily Restricted Net Assets:

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

	2015	2014
Social Work Services	\$ 47,238	\$ 61,099
Future operations	75,660	
Avenidas Village – future operations	33,740	40,304
Capital Project	2,503,210	
	<hr/>	
	\$ 2,659,848	\$ 101,403

Temporarily restricted net assets were released during the years ending June 30, 2015 and 2014 as follows:

	2015	2014
Avenidas Village	\$ 11,928	\$ 61,700
Social Work Services	20,000	22,225
General operations		57,750
Avenidas Rose Kleiner Center		15,000
Transportation Services		7,500
	<hr/>	
	\$ 31,928	\$ 164,175

Note 7 - 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, 2015 are composed of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds			\$ 697,699	\$ 697,699
Board-designated endowment funds	\$ 24,140,625			24,140,625
Total	\$ 24,140,625		\$ 697,699	\$ 24,838,324

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 24,494,010	\$ 0	\$ 697,699	\$ 25,191,709
Investment income, net of fees	448,640	15,072		463,712
Net realized and unrealized gain	140,220			140,220
Total investment return	588,860	15,072		603,932
Appropriation of endowment assets for expenditure	(942,245)	(15,072)		(957,317)
Endowment net assets, end of year	\$ 24,140,625	\$ 0	\$ 697,699	\$ 24,838,324

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 8 - 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, 2015 and 2014, respectively. Avenidas contributed \$56,651 and \$56,588 to the plan as of June 30, 2015 and 2014, respectively.

b. Facilities Lease Agreements

The 450 Bryant Street building is leased to Avenidas from the City of Palo Alto until 2065 at a rental of \$1 per year. The lease was renegotiated during fiscal year 2015 and commenced on January 1, 2015. 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.

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 2015, 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.

Avenidas

Notes to Financial Statements

Note 9 - 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 received a donation of \$2,000,000 from one donor, included in non-operating net assets activity on the Statement of Activities. That donation represents 59% of the total community support, donation, and bequests for contribution revenue and 82% of the contributions receivable for the year ended June 30, 2015. 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. 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 10 - Capital Project:

In March 2014, Avenidas launched a campaign to raise funds for a project (Capital Project) intended to expand and renovate the historic building in which Avenidas is housed, with the goal of improving and increasing the services offered. Contributions to the Capital Project are temporarily restricted and presented as non-operating revenue on the Statement of Activities.

Since inception, the Capital Project has raised \$2,663,100, of which \$2,412,582 are in pledges receivable. Additionally, the Board designated \$980,000 to the Capital Project, of which \$222,877 was transferred to Capital Project administration during the year ending June 30, 2015.

Capital Project funds sources as of June 30, 2015 are as follows:

	Campaign to Date
Cash contributions	\$ 250,518
Pledges outstanding	2,412,582
Less pledge discounts	(109,889)
Net asset transfers	222,877
	<hr/>
	\$ 2,776,088

Avenidas

Notes to Financial Statements

The current estimate for the total Capital Project is \$18,000,000. Since inception, \$447,869 has been expended for the Capital Project as follows:

	Campaign to Date
Architectural and design fees	\$ 101,852
Project management and fees	54,904
Fundraising expenses	291,113
	<hr/>
	\$ 447,869

In connection with the Capital Project, Avenidas received a conditional promise from a donor to give to up to the amount of \$4,000,000. This grant will be awarded upon Avenidas raising certain funds as part of the Capital Project. As sufficient funds have not yet been raised, this gift has not been recognized in the Statement of Activities or included in net assets.

In October 2015, the Palo Alto City Council voted to approve \$5,000,000 in funding toward the necessary seismic and other improvements to the existing building. The funding is subject to subsequent environmental review and approval of final project design by City Boards, Commissions and Council, it has not been recognized in the Statement of Activities or included in net assets as of June 30, 2015.

Note 11 - Subsequent Events:

Avenidas has evaluated subsequent events from June 30, 2015 through November 6, 2015, the date these financial statements were available to be issued. Except as mentioned in Note 10, there were no material subsequent events that required recognition or additional disclosure in these financial statements.