

AVENIDAS

JUNE 30, 2016

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, 2016, 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 audit 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.

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, 2016 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, 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 6, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Jose, California
November 10, 2016

Avenidas

Statement of Financial Position

| <i>As of June 30, 2016 (with comparative totals for 2015)</i> | 2016 | 2015 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,079,781 | \$ 257,780 |
| Short-term investments (Note 4) | 2,173,319 | 2,163,827 |
| Accounts receivable, net of allowance for doubtful accounts of \$6,162 for 2016 and \$8,651 for 2015 | 278,067 | 247,123 |
| Contributions receivable, net (Note 3 and Note 9) | 4,130,710 | 2,446,315 |
| Deposits and prepaid expenses | 108,639 | 83,469 |
| Long-term investments, including endowment funds (Notes 4 and 7) | 23,653,634 | 24,870,017 |
| Property and equipment, net (Note 5) | 3,403,887 | 3,326,432 |
| | \$ 34,828,037 | \$ 33,394,963 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 559,637 | \$ 496,365 |
| Total liabilities | 559,637 | 496,365 |
| Net Assets (Notes 6 and 7): | | |
| Unrestricted | | |
| Board designated | 25,129,254 | 26,336,145 |
| Undesignated | 3,204,594 | 3,204,906 |
| Total unrestricted | 28,333,848 | 29,541,051 |
| Temporarily restricted | 5,236,853 | 2,659,848 |
| Permanently restricted | 697,699 | 697,699 |
| Total net assets | 34,268,400 | 32,898,598 |
| | \$ 34,828,037 | \$ 33,394,963 |

See accompanying notes to financial statements.

Avenidas

Statement of Activities

| | 2016 | | | 2015 | |
|--|----------------------|------------------------|------------------------|----------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| Public Support and Revenue: | | | | | |
| Program fees | \$ 1,497,123 | | | \$ 1,497,123 | \$ 1,477,144 |
| Community support | 721,712 | \$ 111,363 | | 833,075 | 851,733 |
| Community support released from restrictions | 93,312 | (93,312) | | | |
| Board designated funds authorized for Capital Project administration | 236,100 | | | 236,100 | 222,877 |
| Governmental support | 581,390 | | | 581,390 | 522,797 |
| Dividends and interest | 2,269 | | | 2,269 | 2,753 |
| Short-term investment gain, net of fees | 9,061 | | | 9,061 | 9,798 |
| Appropriation of endowment assets for expenditure | 984,122 | | | 984,122 | 957,317 |
| Board designated funds authorized for operations | 38,100 | | | 38,100 | 44,000 |
| Total public support and revenue before in-kind | 4,163,189 | 18,051 | | 4,181,240 | 4,088,419 |
| In-kind professional services and donated equipment | 44,012 | | | 44,012 | 47,656 |
| Total public support and revenue | 4,207,201 | 18,051 | | 4,225,252 | 4,136,075 |
| Expenditures | | | | | |
| Program services | 3,327,981 | | | 3,327,981 | 3,214,137 |
| Support services: | | | | | |
| Management and general | 618,680 | | | 618,680 | 479,814 |
| Fundraising - general | 405,428 | | | 405,428 | 350,769 |
| Fundraising - Capital Project | 236,100 | | | 236,100 | 222,877 |
| Total expenditures | 4,588,189 | | | 4,588,189 | 4,267,597 |
| Change in Net Assets from Operating Activities | (380,988) | 18,051 | | (362,937) | (131,522) |
| Non-Operating Net Assets Activity (Note 2j): | | | | | |
| Investment (loss) gain, net of fees | (255,018) | 22,757 | | (232,261) | 603,932 |
| Capital Project contributions, net | | 2,558,954 | | 2,558,954 | 2,503,210 |
| Bequests and non-operating contributions | 664,368 | | | 664,368 | 35,926 |
| Appropriation of endowment assets for expenditure | (961,365) | (22,757) | | (984,122) | (957,317) |
| Board designated funds authorized for Capital Project administration | (236,100) | | | (236,100) | (222,877) |
| Board designated funds authorized for operations | (38,100) | | | (38,100) | (44,000) |
| Change in Net Assets from Non-operating Activity | (826,215) | 2,558,954 | | 1,732,739 | 1,918,874 |
| Total Change in Net Assets | (1,207,203) | 2,577,005 | | 1,369,802 | 1,787,352 |
| Net Assets, beginning of year | 29,541,051 | 2,659,848 | \$ 697,699 | 32,898,598 | 31,111,246 |
| Net assets, end of year | \$ 28,333,848 | \$ 5,236,853 | \$ 697,699 | \$ 34,268,400 | \$ 32,898,598 |

See accompanying notes to financial statements.

Avenidas

Statement of Functional Expenses

Year ended June 30, 2016 (with comparative totals for 2015)

| | 2016 | | | | | | | 2015 Total |
|------------------------------------|---------------------------|---------------------------|------------|-----------------|--------------|--------------|---------------|---------------|
| | Total Program Services | Support Services | | | | Total | 2016 Total | |
| | | Management and General | General | Capital Project | | | | |
| Expenditures: | | | | | | | | |
| Salaries | \$ 1,758,332 | \$ 328,059 | \$ 267,237 | \$ 176,605 | \$ 771,901 | \$ 2,530,233 | \$ 2,257,291 | |
| Benefits | 193,194 | 33,557 | 31,795 | 21,320 | 86,672 | 279,866 | 251,484 | |
| Payroll taxes | 131,595 | 22,790 | 19,693 | 13,351 | 55,834 | 187,429 | 167,206 | |
| Professional services | 275,785 | 66,590 | 15,315 | 3,831 | 85,736 | 361,521 | 376,638 | |
| Transportation | 162,626 | | | | | 162,626 | 161,038 | |
| Depreciation and amortization | 149,968 | 12,581 | 4,662 | 4,883 | 22,126 | 172,094 | 170,825 | |
| In-kind professional services | 44,012 | | | | | 44,012 | 47,656 | |
| Program expense | 75,083 | 27,919 | 454 | | 28,373 | 103,456 | 119,461 | |
| Insurance | 76,874 | 22,024 | 6,963 | | 28,987 | 105,861 | 109,530 | |
| Building maintenance | 115,581 | 16,378 | 4,230 | | 20,608 | 136,189 | 129,655 | |
| Advertising and marketing | 119,340 | 12,101 | 10,583 | | 22,684 | 142,024 | 114,866 | |
| Printing, copying and publications | 23,572 | 5,996 | 1,985 | 1,866 | 9,847 | 33,419 | 63,530 | |
| Utilities | 48,891 | 1,886 | 706 | 847 | 3,439 | 52,330 | 48,913 | |
| Fundraising events and mailings | | | 27,743 | 6,472 | 34,215 | 34,215 | 44,394 | |
| Nutrition | 36,681 | | | | | 36,681 | 32,826 | |
| Office expense | 8,965 | 5,703 | 2,061 | 1,374 | 9,138 | 18,103 | 19,453 | |
| Computer and equipment | 25,873 | 10,779 | 5,442 | 1,769 | 17,990 | 43,863 | 36,740 | |
| Travel and conference | 34,655 | 13,062 | 2,578 | 1,035 | 16,675 | 51,330 | 30,096 | |
| Postage | 6,806 | 1,650 | 926 | 921 | 3,497 | 10,303 | 9,946 | |
| Telephone | 20,299 | 6,116 | 2,210 | 1,474 | 9,800 | 30,099 | 23,315 | |
| Bank fees and bad debt expenses | 10,280 | 17,105 | | 9 | 17,114 | 27,394 | 36,069 | |
| Dues and subscriptions | 6,002 | 6,779 | 673 | | 7,452 | 13,454 | 9,809 | |
| Volunteers | 3,567 | 7,605 | 172 | 343 | 8,120 | 11,687 | 6,856 | |
| | \$ 3,327,981 | \$ 618,680 | \$ 405,428 | \$ 236,100 | \$ 1,260,208 | \$ 4,588,189 | \$ 4,267,597 | |

See accompanying notes to financial statements.

Avenidas

Statement of Cash Flows

| <i>Year ended June 30, 2016 (with comparative totals for 2015)</i> | 2016 | 2015 |
|--|---------------------|-------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ 1,369,802 | \$ 1,787,352 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 172,094 | 170,825 |
| Realized and unrealized loss (gain) on investments | 975,999 | (126,227) |
| Non-operating dividends and interest reinvested | (810,147) | (544,194) |
| Contributions for Capital Project | (796,650) | (117,418) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (30,944) | (65,783) |
| Contributions receivable | (1,684,395) | (2,308,110) |
| Deposits and prepaid expenses | (25,170) | 4,022 |
| Accounts payable and accrued liabilities | 63,272 | 504 |
| Net cash used by operating activities | (766,139) | (1,199,029) |
| Cash Flows from Investing Activities: | | |
| Net change in short-term investments | (19,822) | (24,172) |
| Purchases of long-term investments | (733,408) | (463,713) |
| Proceeds from sale of long-term investments | 984,122 | 957,317 |
| Dividends and interest reinvested | 810,147 | 544,194 |
| Purchase of property and equipment | (249,549) | (180,215) |
| Net cash provided by investing activities | 791,490 | 833,411 |
| Cash Flows from Financing Activities: | | |
| Capital Project revenue received | 796,650 | 117,418 |
| Net cash provided by financing activities | 796,650 | 117,418 |
| Net Change in Cash and Cash Equivalents | 822,001 | (248,200) |
| Cash and Cash Equivalents, beginning of year | 257,780 | 505,980 |
| Cash and Cash Equivalents, end of year | \$ 1,079,781 | \$ 257,780 |

Supplemental Disclosure of Cash Flow Information:

No payments for interest or income taxes were made during 2016 and 2015.

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 8,500 individuals 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 365 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 was 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 and the remaining assets of \$89,800 were contributed during the year ended June 30, 2016.

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. Avenidas considers dividends and interest earned from its long-term investments and included as non-operating investment income on the Statement of Activities to be investing activities for purposes of reporting cash flows.

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:

Accounts receivables are from services provided to participants at Avenidas. 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.

Contributions receivable that are expected to be collected after one year are recorded at net realizable value using a discount rate of 1%. Management uses the allowance method when estimating uncollectible pledges.

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 \$44,000.

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Notes to Financial Statements

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 \$570,000, 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. 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, 2015 from which the summarized information was derived.

n. Reclassifications:

Certain reclassifications have been made to the 2015 financial statements in order to conform to the 2016 presentation. These reclassifications had no impact on net assets or the change in net assets.

Avenidas

Notes to Financial Statements

o. Recent Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02 – *Leases* (Topic 842). The new standard will supersede much of the existing authoritative literature for leases. This ASU requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The amendments in this ASU will be effective for financial statements issued for fiscal year beginning after December 15, 2019. Early application is permitted. Avenidas does not expect that this ASU will have a significant impact on its financial statements.

In August 2016, the FASB issued ASU 2016-14 – *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The amendments in this ASU are designed to make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The ASU sets forth the FASB’s improvements to net asset classification requirements and the information presented about a not-for-profit entity’s liquidity, financial performance, and cash flows. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in the update is permitted. Avenidas is currently evaluating the impact of this pronouncement on its financial statements.

Note 3 - Contributions Receivable:

Contributions receivable as of June 30 are due as follows:

| | 2016 | 2015 |
|--|--------------|--------------|
| Capital Project less than one year | \$ 387,353 | \$ 108,677 |
| Capital Project one to five years | 4,048,088 | 2,303,905 |
| Less discounts to present value | (98,466) | (40,380) |
| Less allowance for doubtful contributions receivable | (276,265) | (71,787) |
| Net Capital Project contributions receivable | 4,060,710 | 2,300,415 |
| Other contributions receivable less than one year | 70,000 | 145,900 |
| Total | \$ 4,130,710 | \$ 2,446,315 |

Avenidas

Notes to Financial Statements

Note 4 - Investments:

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:

| | 2016 | 2015 |
|--------------------------------------|---------------------|---------------------|
| Cash and short duration funds | \$ 1,115 | \$ 165,071 |
| Domestic fixed income funds | 5,717,907 | 6,382,909 |
| Alternative investments | 2,409,166 | 2,359,032 |
| Domestic equities | 9,564,105 | 11,743,274 |
| Foreign equities – developed markets | 4,776,128 | 3,610,124 |
| Foreign equities – emerging markets | 1,185,213 | 609,607 |
| <hr/> Total long-term investments | <hr/> 23,653,634 | <hr/> 24,870,017 |
| Cash and short duration funds | 255,160 | 257,327 |
| Domestic fixed income funds | 1,918,159 | 1,906,500 |
| <hr/> Total short-term investments | <hr/> 2,173,319 | <hr/> 2,163,827 |
| <hr/> Total investments | <hr/> \$ 25,826,953 | <hr/> \$ 27,033,844 |

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

Notes to Financial Statements

Avenidas uses the net asset value per share for its alternative investments as a practical expedient to approximate fair value. At June 30, 2016, 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, 2016. Both permit redemptions quarterly with a 60-70 day notice period.
- One fund with no unfunded commitments as of June 30, 2016. Redemptions are 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, 2016 of \$129,669. Redemptions are not permitted and the fund is expected to have a life of no more than four years.

The investment funds are allocated as follows at June 30:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Board designated funds: | | |
| Board designated endowment purposes (see Note 7) | \$ 22,955,935 | \$ 24,140,625 |
| Board designated for Capital Project (see Note 10) | 535,347 | 771,448 |
| Capital Asset Replacement | 698,825 | 698,825 |
| Ready Reserve | 436,429 | 474,098 |
| Operating reserves | 502,718 | 251,149 |
| Total board designated funds | 25,129,254 | 26,336,145 |
| Donor restricted funds: | | |
| Permanently restricted purposes (see Note 7) | 697,699 | 697,699 |
| Total donor restricted funds | 697,699 | 697,699 |
| Total investments | \$ 25,826,953 | \$ 27,033,844 |

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 4.1% and 4.2% for the years ending June 30, 2016 and 2015, respectively.

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Notes to Financial Statements

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

| | 2016 | 2015 |
|--|--------------|------------|
| Income from long-term investments | | |
| Dividends and interest reinvested | \$ 810,147 | \$ 544,194 |
| Realized and unrealized (loss) gain, net | (965,669) | 140,220 |
| Management fees | (76,739) | (80,482) |
| Long-term investment income | (232,261) | 603,932 |
| Income from short-term investments | | |
| Dividends and interest | 24,190 | 28,606 |
| Realized and unrealized losses, net | (10,330) | (13,993) |
| Management fees | (4,799) | (4,815) |
| Short-term investment income, net | 9,061 | 9,798 |
| Total investment income | \$ (223,200) | \$ 613,730 |

Note 5 - Property and Equipment:

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

| | 2016 | 2015 |
|--|--------------|--------------|
| Avenidas Rose Kleiner facility | \$ 3,636,575 | \$ 3,636,575 |
| Bryant Center leasehold improvements | 1,478,363 | 1,457,981 |
| Bryant Center expansion (in progress) | 350,067 | 156,766 |
| Equipment | 589,632 | 553,766 |
| Furniture | 73,162 | 73,162 |
| | 6,127,799 | 5,878,250 |
| Less accumulated depreciation and amortization | (2,723,912) | (2,551,818) |
| | \$ 3,403,887 | \$ 3,326,432 |

Avenidas

Notes to Financial Statements

Note 6 - Temporarily Restricted Net Assets:

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

| | 2016 | 2015 |
|--|--------------|--------------|
| Social Work Services | \$ 26,837 | \$ 47,238 |
| Avenidas Rose Kleiner Center – future operations | 60,788 | |
| Future operations | 53,250 | 75,660 |
| Avenidas Village – future operations | 33,815 | 33,740 |
| Capital Project | 5,062,163 | 2,503,210 |
| | <hr/> | <hr/> |
| | \$ 5,236,853 | \$ 2,659,848 |

Temporarily restricted net assets were released during the years ending June 30, 2016 and 2015 as follows:

| | 2016 | 2015 |
|----------------------|-----------|-----------|
| Avenidas Village | \$ 500 | \$ 11,928 |
| Social Work Services | 20,402 | 20,000 |
| General operations | 72,410 | |
| | <hr/> | <hr/> |
| | \$ 93,312 | \$ 31,928 |

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, 2016 are composed of:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|----------------------|---------------------------|---------------------------|----------------------|
| Donor restricted endowment funds | | | \$ 697,699 | \$ 697,699 |
| Board-designated endowment funds | \$ 22,955,935 | | | 22,955,935 |
| <hr/> | | | | |
| Total | \$ 22,955,935 | | \$ 697,699 | \$ 23,653,634 |

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|------------------|---------------------------|---------------------------|------------------|
| Endowment net assets, beginning of year | \$ 24,140,625 | | \$ 697,699 | \$ 24,838,324 |
| <hr/> | | | | |
| Transfers to board-designated endowment | 31,693 | | | 31,693 |
| Investment income, net of fees | 710,651 | \$ 22,757 | | 733,408 |
| Net realized and unrealized loss | (965,669) | | | (965,669) |
| <hr/> | | | | |
| Total investment return | (255,018) | 22,757 | | (232,261) |
| <hr/> | | | | |
| Appropriation of endowment assets for expenditure | (961,365) | (22,757) | | (984,122) |
| <hr/> | | | | |
| Endowment net assets, end of year | \$ 22,955,935 | \$ - | \$ 697,699 | \$ 23,653,634 |

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, 2016 and 2015, respectively. Avenidas contributed \$70,676 and \$56,651 to the plan as of June 30, 2016 and 2015, 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 2016, 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 of approximately 3% 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 \$1,737,000 from one donor, included in non-operating net assets activity on the Statement of Activities. That donation represents 43% of the total community support, donation, and bequests for contribution revenue for the year ended June 30, 2016. Avenidas received a donation of \$2,000,000 from the same donor in the prior year, which is included in non-operating net assets activity on the Statement of Activities and was 59% of the total community support, donation, and bequests for contribution revenue for the year ended June 30, 2015. The total of the two donations represent 90% of the contributions receivable for the year ended June 30, 2016. 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 \$5,222,165, of which \$4,435,441, net of discounts of \$374,731, are in pledges receivable. Additionally, the Board designated \$980,000 to the Capital Project, of which \$236,101 was transferred to Capital Project administration during the year ending June 30, 2016 and \$527,214 since inception.

Avenidas

Notes to Financial Statements

Capital Project funds sources as of June 30, 2016 are as follows:

| | Campaign to Date |
|------------------------------|------------------|
| Cash contributions | \$ 1,161,455 |
| Pledges outstanding (Note 3) | 4,435,441 |
| Less pledge discounts | (374,731) |
| Net asset transfers | 527,214 |
| | <hr/> |
| | \$ 5,749,379 |

The current estimate for the total Capital Project is \$18,000,000. Since inception, \$877,281 has been expended for the Capital Project as follows:

| | Campaign to Date |
|-------------------------------|------------------|
| Architectural and design fees | \$ 160,215 |
| Project management and fees | 189,852 |
| Fundraising expenses | 527,214 |
| | <hr/> |
| | \$ 877,281 |

In connection with the Capital Project, Avenidas received verbal promises from eleven donors to give approximately \$1,500,000. This amount 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, and it has not been recognized in the Statement of Activities or included in net assets as of June 30, 2016.

Note 11 - Subsequent Events:

Avenidas has evaluated subsequent events from June 30, 2016 through November 10, 2016, 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.