

SERVING SENIORS AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014



Leaf & Cole, LLP
Certified Public Accountants

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Independent Auditor's Report

To the Board of Directors
Serving Seniors and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Serving Seniors and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2014 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Serving Seniors and Subsidiaries as of June 30, 2014 and the changes in their net assets and their 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 Serving Seniors and Subsidiaries' 2013 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 23, 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 consolidated financial statements from which it has been derived.

Leaf & Cole LLP

San Diego, California
September 24, 2014

SERVING SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
<u>Current Assets:</u>					
Cash and cash equivalents	\$ 334,026	\$ 12,130	\$ -	\$ 346,156	\$ 62,294
Investments	1,469,521	160,164	-	1,629,685	1,463,225
Accounts receivable	10,694	-	-	10,694	-
Grants receivable	271,550	-	-	271,550	511,747
Pledges receivable	88,626	-	-	88,626	93,469
Accrued interest receivable	13,880	-	-	13,880	13,880
Accounts receivable - related parties, net	64,000	-	-	64,000	72,064
Prepaid expenses and other	39,674	-	-	39,674	44,887
Total Current Assets	<u>2,291,971</u>	<u>172,294</u>	<u>-</u>	<u>2,464,265</u>	<u>2,261,566</u>
<u>Noncurrent Assets:</u>					
Investments restricted for endowment	-	-	750,000	750,000	750,000
Pledges receivable, net	-	322,074	-	322,074	373,407
Notes receivable	8,300,000	9,105,000	-	17,405,000	17,405,000
Accrued interest receivable	969,095	-	-	969,095	861,819
Land, building and equipment, net	8,130,969	-	-	8,130,969	8,363,062
Donated property	-	-	-	-	98,000
Other assets, net	46,239	-	-	46,239	51,591
Investments in limited partnerships	496,794	-	-	496,794	497,266
Beneficial interest in					
San Diego Foundation	-	-	7,793	7,793	6,987
Total Noncurrent Assets	<u>17,943,097</u>	<u>9,427,074</u>	<u>757,793</u>	<u>28,127,964</u>	<u>28,407,132</u>
TOTAL ASSETS	<u>\$ 20,235,068</u>	<u>\$ 9,599,368</u>	<u>\$ 757,793</u>	<u>\$ 30,592,229</u>	<u>\$ 30,668,698</u>

The accompanying notes are an integral part of the consolidated financial statements.

SERVING SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

LIABILITIES AND NET ASSETS

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	2014 <u>Total</u>	2013 <u>Total</u>
<u>Current Liabilities:</u>					
Accounts payable	\$ 489,442	\$ -	\$ -	\$ 489,442	\$ 291,625
Payroll and related liabilities	96,404	-	-	96,404	61,168
Accrued vacation	208,052	-	-	208,052	185,278
Line of credit	-	-	-	-	205,984
Deferred revenue	195,512	-	-	195,512	190,073
Accrued interest payable	18,972	-	-	18,972	18,972
Capital lease obligation, current portion	2,422	-	-	2,422	13,903
Total Current Liabilities	<u>1,010,804</u>	<u>-</u>	<u>-</u>	<u>1,010,804</u>	<u>967,003</u>
<u>Noncurrent Liabilities:</u>					
Notes payable	10,060,000	-	-	10,060,000	10,060,000
Capital lease obligation, net of current portion	-	-	-	-	2,422
Accrued interest payable	969,095	-	-	969,095	861,819
Total Noncurrent Liabilities	<u>11,029,095</u>	<u>-</u>	<u>-</u>	<u>11,029,095</u>	<u>10,924,241</u>
Total Liabilities	12,039,899	-	-	12,039,899	11,891,244
<u>Net Assets</u>	<u>8,195,169</u>	<u>9,599,368</u>	<u>757,793</u>	<u>18,552,330</u>	<u>18,777,454</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,235,068</u>	<u>\$ 9,599,368</u>	<u>\$ 757,793</u>	<u>\$ 30,592,229</u>	<u>\$ 30,668,698</u>

The accompanying notes are an integral part of the consolidated financial statements.

SERVING SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>2014</u> <u>Total</u>	<u>2013</u> <u>Total</u>
<u>Revenue, Support and Gains:</u>					
Grant revenue	\$ 3,846,947	\$ -	\$ -	\$ 3,846,947	\$ 3,721,285
Contributions	933,109	-	-	933,109	1,554,099
Investment income	452,932	133,130	806	586,868	459,282
Housing	331,190	-	-	331,190	291,721
Special events	255,189	-	-	255,189	211,258
Donations from seniors served	194,022	-	-	194,022	212,574
In-kind contributions	86,400	-	-	86,400	82,800
Other income	17,488	-	-	17,488	25,118
United Way - grant and designations	5,939	-	-	5,939	7,213
Loss on disposal of land, building and equipment	(243)	-	-	(243)	-
Net assets released from restrictions	99,402	(99,402)	-	-	-
Total Revenue, Support and Gains	<u>6,222,375</u>	<u>33,728</u>	<u>806</u>	<u>6,256,909</u>	<u>6,565,350</u>
<u>Expenses:</u>					
Program Services:					
Nutrition program	2,916,506	-	-	2,916,506	2,812,951
Health and social services	1,187,063	-	-	1,187,063	964,624
Housing	819,419	-	-	819,419	863,897
Total Program Services	<u>4,922,988</u>	<u>-</u>	<u>-</u>	<u>4,922,988</u>	<u>4,641,472</u>
Supporting Services:					
Management and general	926,376	-	-	926,376	980,164
Fundraising	479,952	-	-	479,952	474,675
Total Supporting Services	<u>1,406,328</u>	<u>-</u>	<u>-</u>	<u>1,406,328</u>	<u>1,454,839</u>
Total Functional Expenses	<u>6,329,316</u>	<u>-</u>	<u>-</u>	<u>6,329,316</u>	<u>6,096,311</u>
Special Events	<u>152,717</u>	<u>-</u>	<u>-</u>	<u>152,717</u>	<u>109,349</u>
Total Expenses	<u>6,482,033</u>	<u>-</u>	<u>-</u>	<u>6,482,033</u>	<u>6,205,660</u>
Change in Net Assets	(259,658)	33,728	806	(225,124)	359,690
Net Assets at Beginning of Year	<u>8,454,827</u>	<u>9,565,640</u>	<u>756,987</u>	<u>18,777,454</u>	<u>18,417,764</u>
NET ASSETS AT END OF YEAR	<u>\$ 8,195,169</u>	<u>\$ 9,599,368</u>	<u>\$ 757,793</u>	<u>\$ 18,552,330</u>	<u>\$ 18,777,454</u>

The accompanying notes are an integral part of the consolidated financial statements.

SERVING SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	Program Services				Supporting Services			2014 Total	2013 Total
	Nutrition Program	Health and Social Services	Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Expenses:									
Personnel:									
Salaries	\$ 852,013	\$ 828,003	\$ 157,680	\$ 1,837,696	\$ 642,369	\$ 313,690	\$ 956,059	\$ 2,793,755	\$ 2,641,878
Employee benefits	139,045	60,282	13,127	212,454	56,097	18,397	74,494	286,948	278,946
Payroll taxes	62,995	59,897	11,607	134,499	41,133	20,350	61,483	195,982	185,684
Total Personnel	<u>1,054,053</u>	<u>948,182</u>	<u>182,414</u>	<u>2,184,649</u>	<u>739,599</u>	<u>352,437</u>	<u>1,092,036</u>	<u>3,276,685</u>	<u>3,106,508</u>
Operating:									
Food costs	1,545,908	-	-	1,545,908	-	-	-	1,545,908	1,449,200
Interest expense	89	300	338,154	338,543	379	53	432	338,975	356,037
Depreciation and amortization	44,656	374	191,158	236,188	28,312	-	28,312	264,500	318,606
Occupancy and utilities	131,904	-	61,919	193,823	45	37	82	193,905	183,351
Consultants	300	89,051	-	89,351	22,924	19,205	42,129	131,480	117,092
Other expense	13,567	5,480	5,933	24,980	30,426	56,884	87,310	112,290	69,357
Specific assistance	-	96,635	-	96,635	-	-	-	96,635	125,777
Repairs and maintenance	40,633	320	7,973	48,926	34,550	5,350	39,900	88,826	84,605
Auto	68,876	-	-	68,876	-	-	-	68,876	63,749
Mail house services	1,032	4,599	-	5,631	1,887	43,031	44,918	50,549	55,696
Supplies	5,869	24,676	4,101	34,646	8,893	460	9,353	43,999	33,046
Professional fees	-	10,000	-	10,000	31,397	-	31,397	41,397	34,156
Insurance	-	-	15,810	15,810	14,512	-	14,512	30,322	24,192
Telephone	5,774	3,062	10,616	19,452	3,957	1,484	5,441	24,893	30,764
Equipment	2,035	1,554	1,341	4,930	4,574	-	4,574	9,504	33,056
Travel, conferences and meetings	21	2,729	-	2,750	2,703	974	3,677	6,427	7,621
Postage	800	101	-	901	2,218	37	2,255	3,156	3,498
Bad debts	989	-	-	989	-	-	-	989	-
Total Operating	<u>1,862,453</u>	<u>238,881</u>	<u>637,005</u>	<u>2,738,339</u>	<u>186,777</u>	<u>127,515</u>	<u>314,292</u>	<u>3,052,631</u>	<u>2,989,803</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,916,506</u>	<u>\$ 1,187,063</u>	<u>\$ 819,419</u>	<u>\$ 4,922,988</u>	<u>\$ 926,376</u>	<u>\$ 479,952</u>	<u>\$ 1,406,328</u>	<u>\$ 6,329,316</u>	<u>\$ 6,096,311</u>

The accompanying notes are an integral part of the consolidated financial statements.

SERVING SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	<u>2014</u>	<u>2013</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (225,124)	\$ 359,690
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	264,500	318,605
Net realized and unrealized gains	(220,774)	(147,434)
Investments in limited partnerships	472	91
Donated property	98,000	(98,000)
Loss on disposal of land, building and equipment	243	-
Permanently restricted investment income	(806)	(206)
Permanently restricted distributions	-	136
(Increase) Decrease in:		
Accounts receivable	(10,694)	-
Grants receivable	240,197	29,129
Pledges receivable, net	56,176	50,326
Accounts receivable - related parties, net	8,064	6,568
Prepaid expenses and other	5,213	(7,902)
Accrued interest receivable	(107,276)	(98,733)
Other assets	2,000	2,764
(Decrease) Increase in:		
Accounts payable	197,817	167,790
Payroll and related liabilities	35,236	14,985
Accrued vacation	22,774	6,193
Deferred revenue	5,439	(263,822)
Accrued interest payable	107,276	112,117
Net Cash Provided by Operating Activities	<u>478,733</u>	<u>452,297</u>
<u>Cash Flows From Investing Activities:</u>		
Sales of investments, net	54,314	39,937
Purchase of land, building and equipment, net	(29,298)	(44,621)
Change in beneficial interest in San Diego Foundation	(806)	(70)
Net Cash Provided by (Used in) Investing Activities	<u>24,210</u>	<u>(4,754)</u>

(Continued)

The accompanying notes are an integral part of the consolidated financial statements.

SERVING SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	<u>2014</u>	<u>2013</u>
<u>Cash Flows From Financing Activities:</u>		
(Payment)/Proceeds from line of credit, net	\$ (205,984)	\$ 205,984
Payments on notes payable	-	(1,507,211)
Payments on capital lease obligation	(13,903)	(11,835)
Permanently restricted investment income	806	206
Permanently restricted distributions	-	(136)
Net Cash Used in Financing Activities	<u>(219,081)</u>	<u>(1,312,992)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	283,862	(865,449)
Cash and Cash Equivalents at Beginning of Year	<u>62,294</u>	<u>927,743</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 346,156</u></u>	<u><u>\$ 62,294</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

Note 1 - Organization and Significant Accounting Policies:

Organization

The consolidated financial statements of the Organization include the following entities:

Serving Seniors

Serving Seniors, formerly known as Senior Community Centers of San Diego, is a California Nonprofit Public Benefit Corporation. Its mission is to help seniors in poverty live healthy and fulfilling lives.

Senior Housing Corporation

Senior Housing Corporation was established in February 2000 to own, manage, support and develop housing for low and/or moderate income citizens and/or housing for mentally, physically or developmentally challenged persons. Senior Housing Corporation has a .005% partnership interest in Market Square Manor Associates, LP. The Board of Directors of Senior Housing Corporation are elected by the Board of Directors of Serving Seniors.

City Heights Senior Housing Corporation

City Heights Senior Housing Corporation was established in September 2006 to own, manage, support and develop housing for low and/or moderate income senior citizens. City Heights Senior Housing Corporation has a .005% partnership interest in City Heights Square, LP. The Board of Directors of City Heights Senior Housing Corporation are elected by the Board of Directors of Serving Seniors.

West Senior Wellness Center

West Senior Wellness Center was established in June 2009 as a Nonprofit Public Benefit Corporation to perform the charitable functions of and carry out the charitable purposes of Serving Seniors. Serving Seniors is the sole member. The Board of Directors of West Senior Wellness Center are elected by the Board of Directors of Serving Seniors.

West Senior Wellness Center was eligible for New Market Tax Credits (NMTC) because 60% of the people in its census tract are below the median income for San Diego County. NMTC's are awarded on a competitive basis by the Department of the Treasury to Certified Development Entities (CDE). Investors in the tax credits receive a 7-year stream of federal income tax credit benefits for making a qualified investment in a CDE. CDE utilizes this investment to provide capital to qualifying businesses in low-income communities. The goal is to increase access to and/or lower the cost of capital for businesses in low-income areas (e.g. lower interest rates, partial debt forgiveness, etc.) A Certified Development Entity (CDE) applies for and receives an allocation of NMTC from the U.S. Treasury. Our CDE is Clearinghouse NMTC and is based in Orange County. The CDE sells its NMTC to an investor - U.S. Bank. U.S. Bank receives the 39% tax credit over 7 years. West Senior Wellness Center was awarded this NMTC on August 19, 2009.

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

The following is a brief description of the Organization's programs:

Nutrition Program

Serving Seniors provides seniors age 60 and above with over 2,150 hot meals each day, at ten centers. Serving Seniors also provides and delivers hot meals to approximately 450 home-bound seniors on a daily basis. The drivers of the home delivered meals notify Serving Seniors' social workers if any senior is in need of medical or social services.

Health and Social Services

- Health and social services cash management
- Benefits and entitlements coordination
- Coordination of referrals to community partners located at our facilities
- Health education
- Social activities civic engagement
- Fitness activities
- Volunteer opportunities

Housing

Serving Seniors operates a Homeless Prevention program providing Section 8 vouchers from the San Diego Housing Commission to seniors who are experiencing homelessness or at immediate risk of homelessness. Serving Seniors also own two supportive housing residences in which Serving Seniors provides meals and case management services to seniors who are having difficulty maintaining stable housing.

Principles of Consolidation

The consolidated financial statements of the Organization include the accounts of Serving Seniors, Senior Housing Corporation, City Heights Senior Housing Corporation, and West Senior Wellness Center. All material interorganization transactions have been eliminated.

Method of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies

Financial Statement Presentation

The consolidated financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of consolidated financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

Estimates

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

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Risks and Uncertainties

The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statement of financial position.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The Organization's consolidated statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual funds are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.
- Beneficial interest in San Diego Foundation is considered a Level 3 asset which represents an approximation of the discounted future cash flow based on the fair value of the underlying assets.

Allowance for Doubtful Accounts

Management believes that all accounts, grants and pledges receivable were fully collectible; therefore, no allowance for doubtful accounts was recorded as of June 30, 2014 and 2013.

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Capitalization and Depreciation

The Organization capitalizes all property and equipment in excess of \$1,000 at cost, while donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Building	40 years
Furniture and equipment	5 years
Vehicles	5 years
Leasehold improvements	5 - 31.5 years

Depreciation totaled \$261,148 and \$270,715 for the years ended June 30, 2014 and 2013, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of land, buildings and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Impairment of Land and Building

The Organization reviews its investment in land and building for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2014 or 2013.

Donated Property

Donated property consisted of land and improvements donated to the Organization and was valued by appraisal as of the date of the donation and totaled \$-0- and \$98,000 at June 30, 2014 and 2013, respectively.

Other Assets and Amortization

Other assets include loan costs and deposits. Loan costs total \$62,395 and \$62,395, net of accumulated amortization of \$18,387 and \$15,035 at June 30, 2014 and 2013, respectively. The loan costs are being amortized over the life of the loans using the straight-line method. Amortization expense totaled \$3,352 and \$47,890 for the years ended June 30, 2014 and 2013, respectively.

Deposits total \$2,231 and \$4,231 at June 30, 2014 and 2013, respectively.

Compensated Absences

Accumulated unpaid vacation and other employee benefit amounts totaling \$208,052 and \$185,278 at June 30, 2014 and 2013, respectively, are accrued when incurred and included in accrued vacation.

Revenue Recognition

Grant revenue is recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grants receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Deferred revenue from grants totaled \$195,512 and \$190,073 at June 30, 2014 and 2013, respectively.

Donated Services and Materials

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the consolidated financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended June 30, 2014 and 2013, did not meet the requirements above; therefore no amounts were recognized in the consolidated financial statements.

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Donated Services and Materials (Continued)

The Organization occupied facilities under lease agreements at below market rent value of \$86,400 and \$82,800 based on the excess of fair market value of all rental space over the rents paid for the years ended June 30, 2014 and 2013, respectively.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of internal records and estimates made by the Organization's management.

Income Taxes

Serving Seniors, Senior Housing Corporation, City Heights Senior Housing Corporation and West Senior Wellness Center are all public charities and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization believes it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements. These entities are not private foundations.

Serving Seniors, Senior Housing Corporation, City Heights Senior Housing Corporation and West Senior Wellness Center's Returns of Organization Exempt from Income Tax for the years ended June 30, 2014, 2013, 2012, and 2011 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts and brokerage accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Comparative Totals for June 30, 2013

The consolidated 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived.

SERVING SENIORS AND SUBSIDIARIES
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JUNE 30, 2014
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Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 24, 2014, the date the consolidated financial statements were available to be issued.

Note 2 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy as of June 30:

	2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2014
Mutual Funds:				
Fixed income funds	\$ 1,155,781	\$ -	\$ -	\$ 1,155,781
Large cap equity funds	741,903	-	-	741,903
International securities funds	362,631	-	-	362,631
Real estate securities funds	119,370	-	-	119,370
Beneficial interest in San Diego Foundation (Note 10)	-	-	7,793	7,793
	<u>\$ 2,379,685</u>	<u>\$ -</u>	<u>\$ 7,793</u>	<u>\$ 2,387,478</u>
	2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2013
Mutual Funds:				
Fixed income funds	\$ 1,048,677	\$ -	\$ -	\$ 1,048,677
Large cap equity funds	741,136	-	-	741,136
International securities funds	302,465	-	-	302,465
Real estate securities funds	120,947	-	-	120,947
Beneficial interest in San Diego Foundation (Note 10)	-	-	6,987	6,987
	<u>\$ 2,213,225</u>	<u>\$ -</u>	<u>\$ 6,987</u>	<u>\$ 2,220,212</u>

The reconciliation for financial instruments measured at fair value on a recurring basis as significant unobservable inputs (Level 3) are included in the Notes as indicated above.

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 3 - Investments:

Serving Seniors' investments are stated at fair value and consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Mutual Funds	\$ <u>2,379,685</u>	\$ <u>2,213,225</u>

The following schedule summarizes the investment income and its classification in the consolidated statement of activities for the years ended June 30:

	2014				<u>2013</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		
Interest and dividend income	\$ 17,395	\$ 19,032	\$ -	\$ 36,427	\$ 44,030
Net realized and unrealized gains	106,676	114,098	-	220,774	147,434
Interest on notes receivable	328,861	-	-	328,861	267,612
San Diego Foundation	-	-	806	806	206
Total Investment Income	\$ 452,932	\$ 133,130	\$ 806	\$ 586,868	\$ 459,282

Note 4 - Grants Receivable:

Grants receivable consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
County of San Diego - Aging and Independence Services	\$ 247,145	\$ 489,142
County of San Diego - Transitional Housing	9,040	15,848
County of San Diego - Virtual Senior Center	6,896	-
UPAC - Gatekeeper Program	5,417	5,417
County of San Diego - MOM Program	3,015	340
City of San Diego - Supplemental Food for Seniors in Poverty	37	-
City of La Mesa - Community Development Block Grant	-	1,000
Total Grants Receivable	\$ 271,550	\$ 511,747

SERVING SENIORS AND SUBSIDIARIES
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Note 5 - Pledges Receivable:

Pledges receivable consist of contributions pledged for Serving Seniors. Pledges receivable consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Receivables due in less than one year	\$ 88,626	\$ 93,469
Receivables due in more than one year	354,750	406,750
Less: Discount to present value	<u>(32,676)</u>	<u>(33,343)</u>
Receivables due in more than one year, net	<u>322,074</u>	<u>373,407</u>
Pledges Receivable, Net	<u>\$ 410,700</u>	<u>\$ 466,876</u>

The pledges receivable have been discounted to their present value using a discount rate of 0.82% to 1.50%. Pledges receivable, net of discount, from members of the board of directors totaled \$30,582 and \$11,679 at June 30, 2014 and 2013, respectively.

Note 6 - Accounts Receivable - Related Parties:

Serving Seniors has provided development, management, supporting, and other services with respect to projects in which Serving Seniors has a general partner interest. City Heights Senior Housing Corporation has provided development and supporting services to City Heights Square, L.P. and Senior Housing Corporation has provided incentive management services to Market Square Manor Associates, L.P. Serving Seniors has the following receivables from these projects for funds that have been advanced in relation to development or for contracted services provided as follows at June 30:

	<u>2014</u>	<u>2013</u>
Market Square Manor Associates, L.P.	\$ 1,009,525	\$ 917,115
City Heights Square, L.P.	<u>64,000</u>	<u>72,064</u>
Subtotal	1,073,525	989,179
Less: Allowance for doubtful accounts	<u>(1,009,525)</u>	<u>(917,115)</u>
Total Accounts Receivable - Related Parties, Net	<u>\$ 64,000</u>	<u>\$ 72,064</u>

The accounts receivable from Market Square Manor Associates, L.P. is payable from available cash flow after all priority payments, as defined in the partnership agreement. Management has established an allowance for doubtful accounts totaling \$1,009,525 and \$917,115 at June 30, 2014 and 2013, respectively. Management believes that the accounts receivable from City Heights Square, L.P. is fully collectible, therefore no allowance for doubtful accounts has been established.

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 7 - Notes Receivable:

Notes receivable consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Market Square Manor Associates, L.P., A California Limited Partnership, for costs related to the development of Potiker Family Senior Residence. The note accrues interest at 5.6% and is payable from the partnership's available funds. This note is secured by a deed of trust (See Note 13). Accrued interest receivable totaled \$969,095 and \$861,819 at June 30, 2014 and 2013, respectively.	\$ 1,000,000	\$ 1,000,000
Serving Seniors has a purchase money note receivable from Market Square Manor Associates, L.P., A California Limited Partnership, for the purchase of the land associated with the construction of Potiker Family Senior Residence. The note accrues interest at 5.05% per annum and is payable on December 6, 2056 (See Note 13). Accrued interest receivable totaled \$-0- (Accrued interest receivable of \$994,257, net of allowance of \$994,257) and \$-0- (Accrued interest receivable of \$935,868, net of allowance of \$935,868) at June 30, 2014 and 2013 respectively.	2,200,000	2,200,000
Serving Seniors has a note receivable from City Heights Square, L.P., A California Limited Partnership, for advances not to exceed \$9,105,000 related to the development of City Heights Square Senior Apartments. The note accrues interest at 3.0% per annum and is payable on February 15, 2061. Principal and interest payments are due on March 31st of each year after the project is placed in service based on available cash flow. This note is secured by a deed of trust. Accrued interest receivable totaled \$-0- (Accrued interest receivable of \$2,350,391 net of allowance of \$2,350,391) and \$-0- (Accrued interest receivable of \$2,012,250, net of allowance of \$2,012,250) at June 30, 2014 and 2013, respectively.	9,105,000	9,105,000

SERVING SENIORS AND SUBSIDIARIES
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Note 7 - Notes Receivable: (Continued)

	<u>2014</u>	<u>2013</u>
Serving Seniors has a promissory note receivable from Wellness Center NMTC Investor, LLC, A Delaware Limited Liability Company, in the amount of \$5,100,000 related to the development of the Gary and Mary West Senior Wellness Center. The note accrues interest at 3.2659% per annum through August 19, 2016, and 7.5799% thereafter. Interest only payments are payable monthly beginning September 1, 2009, through August 1, 2016. A partial principal payment of \$1,800,000 is due August 19, 2016. Level monthly payments of principal and interest commencing September 1, 2016, are payable in an amount sufficient to fully repay the outstanding principal and interest over an amortization period of 23 years. A final payment of all unpaid principal and interest is due August 19, 2039. This note is secured by a deed of trust. Accrued interest receivable totaled \$13,880 and \$13,880 at June 30, 2014 and 2013, respectively.		
Total Notes Receivable	<u>\$ 5,100,000</u>	<u>\$ 5,100,000</u>
	<u>\$ 17,405,000</u>	<u>\$ 17,405,000</u>

Future principal payments on notes receivable are as follows:

<u>Years Ended</u> <u>June 30</u>	
2015	\$ -
2016	-
2017	1,850,268
2018	58,544
2019	63,205
Thereafter	<u>15,432,983</u>
	<u>\$ 17,405,000</u>

Note 8 - Land, Building and Equipment:

Land, building and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 2,500,000	\$ 2,500,000
Building	6,203,756	6,203,756
Furniture and equipment	874,730	875,486
Vehicles	126,348	126,348
Leasehold improvements	<u>50,617</u>	<u>55,847</u>
Subtotal	9,755,451	9,761,437
Less: Accumulated depreciation	<u>(1,624,482)</u>	<u>(1,398,375)</u>
Land, Building and Equipment, Net	<u>\$ 8,130,969</u>	<u>\$ 8,363,062</u>

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 9 - Investments in Limited Partnerships:

Serving Seniors owns general partner interests in limited partnerships accounted for on the equity method. Senior Housing Corporation has a .005% interest in Market Square Manor, LP. City Heights Senior Housing Corporation has a .005% interest in City Heights Square, LP. The following are the balances in the Serving Seniors' capital accounts at June 30:

	<u>2014</u>	<u>2013</u>
Market Square Manor, L.P.	\$ 265,179	\$ 265,589
City Heights Square, L.P.	231,615	231,677
Total Investments in Limited Partnership	<u>\$ 496,794</u>	<u>\$ 497,266</u>

Note 10 - Beneficial Interest in San Diego Foundation:

Serving Seniors has a beneficial interest in endowment funds held at San Diego Foundation, which are classified as permanently restricted for these investments that must be maintained in perpetuity. The Beneficial Interest in San Diego Foundation is invested in a portfolio of cash, equity and debt securities which is structured for long-term total return consisting of 27% domestic equities, 24% international equities, 20% alternative investments, 10% domestic fixed income, 7% global and international fixed income, 6% real estate, and 6% global equities.

The activity in the beneficial interest in San Diego Foundation consisted of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Balance, Beginning of Year	\$ 6,987	\$ 6,917
Investment income	806	206
Distribution to the Organization	-	(136)
Total Beneficial Interest in San Diego Foundation	<u>\$ 7,793</u>	<u>\$ 6,987</u>

Note 11 - Line-of-Credit:

Serving Seniors has an unsecured business line-of-credit agreement with a financial institution, under which Serving Seniors is allowed to borrow up to \$750,000. Advances under this agreement bear interest equal to the Prime Rate (3.25% at June 30, 2014). The line-of-credit matures on January 31, 2015. The balance outstanding under this line-of-credit totaled \$0- and \$205,984 at June 30, 2014 and 2013, respectively.

SERVING SENIORS AND SUBSIDIARIES
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Note 12 - Capital Lease Obligation:

Serving Seniors entered into a capital lease in July 2009 for phone equipment, expiring August 2014. The lease requires monthly payments of \$1,223 including interest imputed at 7.74% and is collateralized by the equipment. The phone equipment has a cost of \$55,499 and accumulated depreciation of \$55,499 at June 30, 2014.

The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments are due as follows:

Years Ended June 30		2014	2013
2015		\$ 2,446	2,446
Total Minimum Lease Payments		2,446	2,446
Less: Amount representing interest		(24)	(24)
Present value of net minimum lease payments		2,422	2,422
Less: Current portion		(2,422)	(2,422)
Capital Lease Obligation, Long-Term		\$ -	-

Note 13 - Notes Payable:

Notes payable consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Serving Seniors received a subsidy in the loan amount of \$1,000,000 from the Federal Home Loan Bank of San Francisco under the Affordable Housing Program (AHP). The loan must be paid back with interest at 5.6% within 15 years if Serving Seniors does not comply with the provisions of the AHP direct subsidy agreement. This loan is secured by a deed of trust (See Note 7). Accrued interest payable totaled \$969,095 and \$861,819 at June 30, 2014 and 2013, respectively.	\$ 1,000,000	\$ 1,000,000

SERVING SENIORS AND SUBSIDIARIES
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Note 13 - Notes Payable: (Continued)

	<u>2014</u>	<u>2013</u>
<p>Serving Seniors has entered into a Participation Agreement with the Redevelopment Agency of San Diego (Agency) and Market Square Manor Associates, LP (Partnership) whereby the Agency has conveyed title to land to the Organization with the understanding that the Partnership purchase the land for \$2,592,000, of which \$392,000 was paid by the Partnership to the Agency and the balance is evidenced by a purchase money note to the Serving Seniors. (See Note 7) Should Serving Seniors not comply with the terms of the Participation Agreement, Serving Seniors must pay back to the Agency an amount equal to the net present value of the anticipated future residual receipts, calculated on the basis of a 10% discount rate for the balance of the 55-year term of the agreement. This value is assumed to be equal to the purchase money note. Accrued interest payable was calculated at 5.05% which totaled \$-0- (Accrued interest payable of \$1,222,349, net of allowance of \$1,222,349) and \$-0- (Accrued interest payable of \$1,111,249, net of allowance of \$1,111,249) at June 30, 2014 and 2013, respectively.</p>	\$ 2,200,000	\$ 2,200,000
<p>West Senior Wellness Center has a promissory note payable with Clearinghouse NMTC (Sub 15), LLC, a California limited liability Company, for the development of the Gary and Mary West Senior Wellness Center in the original amount of \$5,010,000. Interest on the note accrues at 3.3187% per annum. Interest only payments are payable monthly beginning September 1, 2009, through August 1, 2016. Principal and interest payments of \$26,103 are payable monthly, plus a final payment of all unpaid principal and interest on August 19, 2039. The note is secured by a deed of trust. Accrued interest payable totaled \$13,856 and \$13,856 at June 30, 2014 and 2013, respectively.</p>	5,010,000	5,010,000

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 13 - Notes Payable: (Continued)

	<u>2014</u>	<u>2013</u>
West Senior Wellness Center has a promissory note payable with Clearinghouse NMTC (Sub 15), LLC, a California limited liability Company, for the development of the Gary and Mary West Senior Wellness Center in the original amount of \$1,850,000. Interest on the note accrues at 3.3187% per annum. Interest only payments are payable monthly beginning September 1, 2009 through August 1, 2016. A final payment of all unpaid principal and interest shall be due on August 19, 2016. The note is secured by a deed of trust. Accrued interest payable totaled \$5,116 and \$5,116 at June 30, 2014 and 2013, respectively.		
Total Notes Payable	\$ <u>1,850,000</u>	\$ <u>1,850,000</u>
Less: Current Portion	<u>10,060,000</u>	<u>10,060,000</u>
Notes Payable, Long-Term	-	-
	<u>\$ <u>10,060,000</u></u>	<u>\$ <u>10,060,000</u></u>

Future principal payments on notes payable are as follows:

<u>Years Ended</u> <u>June 30</u>	
2015	\$ -
2016	-
2017	1,984,735
2018	151,493
2019	156,641
Thereafter	<u>7,767,131</u>
	<u>\$ <u>10,060,000</u></u>

Note 14 - Temporarily Restricted Net Assets:

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

	<u>2014</u>	<u>2013</u>
City Heights grant	\$ 9,105,000	\$ 9,105,000
For future periods	322,074	373,407
Endowment earnings in excess of spending policy	169,311	81,905
Wheelchair grant	<u>2,983</u>	<u>5,328</u>
Total Temporarily Restricted Net Assets	<u>\$ <u>9,599,368</u></u>	<u>\$ <u>9,565,640</u></u>

Net assets totaling \$99,402 were released from donor restrictions due to the satisfaction of purpose or time restrictions for the year ended June 30, 2014.

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Note 15 - Endowment Net Assets:

Serving Seniors' endowment consists of two individual funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. Serving Seniors holds and manages one fund, with the other fund held and managed by the San Diego Foundation.

Web MD Health Preservation Endowment

In regards to the Web MD Health Preservation Endowment funds held and managed by Serving Seniors, Serving Seniors has interpreted the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (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, Serving Seniors classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruments 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 Serving Seniors in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Serving Seniors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of Serving Seniors and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Serving Seniors
- The investment policies of Serving Seniors

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Serving Seniors to retain as a fund of perpetual duration. There were no such deficiencies for the years ended June 30, 2014 and 2013.

Serving Seniors has adopted investment and spending policies for endowment funds that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a moderate level
- Comply with applicable laws

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Note 15 - Endowment Net Assets: (Continued)

Web MD Health Preservation Endowment (Continued)

Serving Seniors' endowment funds are invested in a diversified portfolio of mutual funds that are structured to satisfy its long-term rate-of-return objectives. Serving Seniors 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).

Serving Seniors is entitled to withdraw the lesser of five percent of the December 31st market value or any surplus above the original corpus of \$750,000 to be used in support of operational programs. It is anticipated that the distribution is paid out in a lump sum during the first calendar quarter. Changes to the 5% rule may be approved by the majority vote of the Board of Serving Seniors.

San Diego Foundation Managed Funds

The endowment funds of Serving Seniors held by San Diego Foundation (the "SDF") are managed in accordance with UPMIFA. The Foundation's objective is to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require Serving Seniors to retain as a fund of perpetual duration. Serving Seniors classifies permanently restricted net assets held by the Foundation as:

- The original value of gifts donated to the fund
- The original value of Serving Seniors funds transferred to the fund
- The original value of subsequent gifts donated to the fund
- Investment income and realized and unrealized gains and losses on investments
- Distributions from the fund in accordance with the spending policy

The Foundation has adopted investment and spending policies for endowment funds that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundations
- Comply with applicable laws

Serving Seniors' endowment funds held by SDF are invested in a portfolio of cash, equity and debt securities that is structured to satisfy its long-term rate-of-return objectives. SDF 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). SDF spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis.

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Note 15 - Endowment Net Assets: (Continued)

San Diego Foundation Managed Funds (Continued)

Endowment composition by type of fund as of June 30:

	2014		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total June 30, 2014</u>
<u>Donor Restricted Endowment Funds:</u>			
San Diego Foundation	\$ -	\$ 7,793	\$ 7,793
Web MD Health Preservation	<u>169,311</u>	<u>750,000</u>	<u>919,311</u>
Total Donor Restricted Endowment Funds	<u>\$ 169,311</u>	<u>\$ 757,793</u>	<u>\$ 927,104</u>
	2013		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total June 30, 2013</u>
<u>Donor Restricted Endowment Funds:</u>			
San Diego Foundation	\$ -	\$ 6,987	\$ 6,987
Web MD Health Preservation	<u>81,905</u>	<u>750,000</u>	<u>831,905</u>
Total Donor Restricted Endowment Funds	<u>\$ 81,905</u>	<u>\$ 756,987</u>	<u>\$ 838,892</u>

Changes in endowment net assets for the years ended June 30:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets at June 30, 2012	\$ 30,282	\$ 756,917	\$ 787,199
Investment income and net realized and unrealized appreciation	93,011	206	93,217
Appropriation of endowment assets for expenditures	<u>(41,388)</u>	<u>(136)</u>	<u>(41,524)</u>
Endowment Net Assets at June 30, 2013	81,905	756,987	838,892
Investment income and net realized and unrealized appreciation	133,130	806	133,936
Appropriation of endowment assets for expenditures	<u>(45,724)</u>	<u>-</u>	<u>(45,724)</u>
Endowment Net Assets at June 30, 2014	<u>\$ 169,311</u>	<u>\$ 757,793</u>	<u>\$ 927,104</u>

SERVING SENIORS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)

Note 16 - Lease Obligations:

Serving Seniors leases office equipment through August, 2014. Equipment lease expense totaled \$17,898 and \$18,735 for the years ended June 30, 2014 and 2013, respectively, under this lease which is included in equipment in the consolidated statement of functional expenses.

Serving Seniors renews its lease for emergency lodging on an annual basis. Emergency lodging lease expense totaled \$107,551 and \$109,117 for the years ended June 30, 2014 and 2013, respectively, which is included in occupancy and utilities in the consolidated statement of functional expenses.

Future minimum lease payments under the leases are as follows:

Years Ended June 30	
2015	\$ 24,724
2016	24,724
2017	8,881
2018	8,881
2019	8,141
	<u>\$ 75,351</u>

Note 17 - Related Party Transactions:

In August 2009, Serving Seniors entered into an agreement with West Senior Wellness Center for the rental of the property located at 1525 4th Avenue, San Diego, California, through December 31, 2034. Serving Seniors will make monthly payments of \$21,668 for the first seven years of the lease and \$28,417 thereafter. The rental income and expense totaled \$260,016 and \$260,016, and has been eliminated in consolidation for the years ended June 30, 2014 and 2013, respectively.