SERVING SENIORS AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Leaf & Cole, LLP
Certified Public Accountants

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Certified Public Accountants
A Partnership of Professional Corporations

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, 2017, 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 Consolidated 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 consolidated 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Serving Seniors and Subsidiaries as of June 30, 2017, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, on our consideration of Serving Seniors and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Serving Seniors and Subsidiaries' internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
September 29, 2017

SERVING SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2016)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Current Assets: (Notes 2, 3, 4, 5, 6, 7, 8 and 18)					
Cash and cash equivalents	$ 397,545	$ -	$ -	$ 397,545	$ 398,701
Investments	1,390,905	170,649	-	1,561,554	1,584,331
Accounts receivable	10,700	-	-	10,700	4,500
Grants receivable	274,571	-	-	274,571	247,294
Pledges receivable	94,119	-	-	94,119	104,252
Accrued interest receivable	-	-	-	-	13,880
Accounts receivable - related parties, net	99,967	-	-	99,967	84,167
Prepaid expenses and other	146,432	-	-	146,432	139,635
Notes receivable	-	-	-	-	5,100,000
Total Current Assets	2,414,239	170,649	-	2,584,888	7,676,760
Noncurrent Assets: (Notes 2, 3, 4, 6, 8, 9, 10 and 11)					
Pledges receivable, net	-	171,875	-	171,875	220,672
Notes receivable	3,394,734	9,105,000	-	12,499,734	12,415,334
Accrued interest receivable	1,329,344	-	-	1,329,344	1,202,493
Deposits	-	-	-	-	5,871
Land, building and equipment, net	8,241,963	-	-	8,241,963	8,396,474
Investments in limited partnerships	496,837	-	-	496,837	496,944
Investments restricted for endowment	-	-	750,000	750,000	750,000
Beneficial interest in endowment funds	-	-	7,504	7,504	7,284
Total Noncurrent Assets	13,462,878	9,276,875	757,504	23,497,257	23,495,072
TOTAL ASSETS	$ 15,877,117	$ 9,447,524	$ 757,504	$ 26,082,145	$ 31,171,832

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

SERVING SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2016)

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Current Liabilities: (Notes 2, 13 and 18)					
Accounts payable	$ 398,869	$ -	$ -	$ 398,869	$ 337,527
Payroll and related liabilities	162,202	-	-	162,202	107,957
Accrued interest payable	-	-	-	-	18,972
Accrued vacation	186,443	-	-	186,443	219,025
Deferred revenue	150,033	-	-	150,033	70,418
Conditional promise	150,000	-	-	150,000	150,000
Notes payable	-	-	-	-	6,822,591
Total Current Liabilities	1,047,547	-	-	1,047,547	7,726,490
Noncurrent Liabilities: (Notes 2 and 13)					
Notes payable	3,200,000	-	-	3,200,000	3,200,000
Accrued interest payable	1,329,344	-	-	1,329,344	1,202,493
Total Noncurrent Liabilities	4,529,344	-	-	4,529,344	4,402,493
Total Liabilities	5,576,891	-	-	5,576,891	12,128,983
Commitments and Contigencies: (Notes 12, 16, 17 and 18)					
Net Assets: (Notes 2, 14, and 15)	10,300,226	9,447,524	757,504	20,505,254	19,042,849
TOTAL LIABILITIES AND NET ASSETS	$ 15,877,117	$ 9,447,524	$ 757,504	$ 26,082,145	$ 31,171,832

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, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Revenue, Support and Gains:					
Grant revenue	$ 3,975,826	$ -	$ -	$ 3,975,826	$ 4,234,537
Housing	621,732	-	-	621,732	609,430
Special events	504,615	-	-	504,615	538,453
Contributions	478,929	-	-	478,929	607,094
Investment income	277,182	96,341	804	374,327	333,881
Donations from seniors served	138,560	-	-	138,560	166,850
In-kind contributions	105,480	-	-	105,480	100,440
Rental Income	43,730	-	-	43,730	11,124
Other income	23,992	-	-	23,992	120,947
Gain on sale of equipment	4,000	-	-	4,000	2,000
United Way - grant and designations	1,840	-	-	1,840	4,617
Net assets released from restrictions	95,211	(94,627)	(584)	-	-
Total Revenue, Support and Gains	6,271,097	1,714	220	6,273,031	6,729,373
Expenses:					
Program Services:					
Nutrition program	3,127,323	-	-	3,127,323	3,103,090
Health and social services	1,634,778	-	-	1,634,778	1,685,207
Housing	685,114	-	-	685,114	890,243
Total Program Services	5,447,215	-	-	5,447,215	5,678,540
Supporting Services:					
Management and general	666,945	-	-	666,945	612,843
Fundraising	316,242	-	-	316,242	446,951
Total Supporting Services	983,187	-	-	983,187	1,059,794
Total Program and Supporting Services Expenses	6,430,402	-	-	6,430,402	6,738,334
Special Events	86,907	-	-	86,907	112,254
Total Expenses	6,517,309	-	-	6,517,309	6,850,588
Change in Net Assets Before Other Income	(246,212)	1,714	220	(244,278)	(121,215)
Other Income: (Note 18)					
Gain on unwind of tax credit financing	1,706,683	-	-	1,706,683	-
Total Other Income	1,706,683	-	-	1,706,683	-
Change in Net Assets	1,460,471	1,714	220	1,462,405	(121,215)
Net Assets at Beginning of Year	8,839,755	9,445,810	757,284	19,042,849	19,164,064
NET ASSETS AT END OF YEAR	$ 10,300,226	$ 9,447,524	$ 757,504	$ 20,505,254	$ 19,042,849

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, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	Program Services				Supporting Services				
	Nutrition Program	Health and Social Services	Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	2017 Total	2016 Total
Personnel:									
Salaries	$ 901,433	$ 1,165,105	$ 182,139	$ 2,248,677	$ 377,958	$ 223,305	$ 601,263	$ 2,849,940	$ 2,950,445
Employee benefits	113,389	84,846	21,813	220,048	84,337	13,947	98,284	318,332	273,345
Payroll taxes	67,435	81,647	14,219	163,301	26,922	15,279	42,201	205,502	206,727
Total Personnel	1,082,257	1,331,598	218,171	2,632,026	489,217	252,531	741,748	3,373,774	3,430,517
Operating Expenses:									
Food costs	1,687,316	1	-	1,687,317	-	112	112	1,687,429	1,686,361
Occupancy and utilities	153,025	9	73,708	226,742	-	-	-	226,742	214,735
Depreciation	12,735	2,584	186,858	202,177	4,943	-	4,943	207,120	203,975
Specific assistance	-	182,801	-	182,801	245	-	245	183,046	148,460
Repairs and maintenance	77,981	34,340	4,529	116,850	43,016	5,585	48,601	165,451	121,534
Interest expense	-	-	159,021	159,021	123	5,170	5,293	164,314	357,412
Supplies	29,953	24,278	2,377	56,608	18,150	9,287	27,437	84,045	73,866
Other expense	20,325	8,935	4,116	33,376	18,287	15,370	33,657	67,033	201,630
Mail house services	3,554	8,622	63	12,239	2,580	14,222	16,802	29,041	77,940
Professional fees	-	-	-	-	51,004	-	51,004	51,004	32,024
Auto	50,210	22	-	50,232	-	-	-	50,232	49,857
Telephone	8,004	6,097	16,251	30,352	3,637	2,730	6,367	36,719	32,318
Insurance	610	-	19,908	20,518	15,901	-	15,901	36,419	35,244
Public relations	-	24,133	-	24,133	-	6,033	6,033	30,166	33,562
Consultants	-	2,280	-	2,280	13,471	419	13,890	16,170	13,109
Travel, conferences and meetings	47	8,793	-	8,840	2,297	1,399	3,696	12,536	18,889
Postage	615	98	-	713	1,592	3,384	4,976	5,689	3,662
Equipment	691	187	112	990	2,482	-	2,482	3,472	3,239
Total Operating Expenses	2,045,066	303,180	466,943	2,815,189	177,728	63,711	241,439	3,056,628	3,307,817
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	$ 3,127,323	$ 1,634,778	$ 685,114	$ 5,447,215	$ 666,945	$ 316,242	$ 983,187	$ 6,430,402	$ 6,738,334

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, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	$ 1,462,405	$ (121,215)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	207,670	207,274
Net realized and unrealized (gains) losses	(143,097)	10,430
Investments in limited partnerships	107	(254)
Proceeds from sale of donated property	-	565,000
Gain on unwind of tax credit financing	(1,723,141)	-
Permanently restricted investment income	(804)	(54)
Permanently restricted distributions	584	167
(Increase) Decrease in:		
Accounts receivable	(6,200)	(225)
Grants receivable	(27,277)	357,724
Pledges receivable, net	58,930	49,913
Accrued interest receivable	(112,971)	(119,958)
Accounts receivable - related parties, net	(15,800)	(21,209)
Prepaid expenses and other	(6,797)	(76,341)
(Decrease) Increase in:		
Accounts payable	61,342	(30,221)
Payroll and related liabilities	54,245	(5,036)
Accrued vacation	(32,582)	21,230
Deferred revenue	79,615	(222,465)
Accrued interest payable	107,879	119,958
Net Cash (Used In) Provided by Operating Activities	(35,892)	734,718
Cash Flows From Investing Activities:		
Sales (Purchases) of investments, net	165,874	(241,732)
Increase in notes receivable	(84,400)	-
Decrease in other assets	5,871	130
Purchase of land, building and equipment, net	(52,609)	(580,075)
Change in beneficial interest in endowment funds	(220)	113
Net Cash Provided by (Used in) Investing Activities	34,516	(821,564)

(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, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
Cash Flows From Financing Activities:		
Permanently restricted investment income	804	54
Permanently restricted distributions	(584)	(167)
Net Cash Provided by (Used in) Financing Activities	220	(113)
Net Decrease in Cash and Cash Equivalents	(1,156)	(86,959)
Cash and Cash Equivalents at Beginning of Year	398,701	485,660
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 397,545	$ 398,701
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 50,592	$ 231,457

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

Note 1 - 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.

Senior Housing Corporation became sole member of Fairmount SHC Housing, LLC. Fairmount SHC Housing, LLC was formed as a limited liability company under the laws of the State of California on March 16, 2017. Fairmount SHC Housing, LLC was established for the purpose and intent or acquiring real property and provide and manage housing for low income persons.

Senior Housing Corporation became sole member of Ramona SHC Housing, LLC. Ramona SHC Housing, LLC was formed as a limited liability company under the laws of the State of California on March 16, 2017. Ramona SHC Housing, LLC was established for the purpose and intent or acquiring real property provide and manage housing for low income persons.

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.

Note 1 - Organization: (Continued)

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 sold its NMTC to an investor - U.S. Bank. U.S. Bank received the 39% tax credit over 7 years. West Senior Wellness Center was awarded this NMTC on August 19, 2009 and the transaction was unwound during the year ended June 30, 2017 (see Note 18).

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

Nutrition Program

Serving Seniors provides seniors age 60 and above with over 2,400 hot meals each day, at nine centers. Serving Seniors also provides and delivers hot meals to approximately 500 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. The Organization 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.

Note 2 - Significant Accounting Policies:

Consolidated Financial Statements

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, which are collectively referred to as the "Organization". All material interorganization transactions have been eliminated in consolidation.

Accounting Method

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 (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Accounting Change

During 2017, the Organization adopted the provisions of Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). Under this new accounting policy, the Organization has retrospectively presented all debt issuance costs as a direct deduction from the carrying amount of the related obligation in the balance sheet. Amortization of the debt issuance costs is calculated using the interest method and is included as a component of interest expense. The effects of the retrospective application of the accounting change on the year ended June 30, 2016 is to decrease total assets and liabilities by $37,409 in the statement of financial position and reclassify $3,299 of amortization to interest expense in the consolidated statement of functional expenses.

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.

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation

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.

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.

Note 2 - Significant Accounting Policies: (Continued)

Fair Value Measurements

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 endowment funds held at San Diego Foundation is considered a Level 3 asset which represents the fair value of the underlying assets as provided by San Diego Foundation (Note 11).

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all accounts, grants and pledges receivable were fully collectible; therefore, no allowance for doubtful accounts, grants and pledges receivable was recorded at June 30, 2017 and 2016.

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 $207,120 and $203,975 for the years ended June 30, 2017 and 2016, 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.

Note 2 - 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 2017 or 2016.

Debt Issuance Costs

Debt issuance costs are incurred in order to obtain promissory notes payable. Debt issuance costs are amortized on a straight-line basis over the term of the related loan, which approximates the interest method. Unamortized deferred financing costs are presented as a direct reduction from the carrying value of the related obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of mortgage interest expense and totaled $550 and $3,297 for the years ended June 30, 2017 and 2016, respectively. The promissory notes payable were discharged during the year ended June 30, 2017 which resulted in the unamortized debt issuance costs being included as a component of the gain on unwind of tax credit financing.

Investments in Limited Partnerships

The Organization owns general partner interest in limited partnerships accounted for on the equity method.

Compensated Absences

Accumulated unpaid vacation and other employee benefit amounts totaling $186,443 and $219,025 at June 30, 2017 and 2016, 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 is recorded when cash received under a grant exceeds the revenue earned. Deferred revenue from grants totaled $150,033 and $70,418 at June 30, 2017 and 2016, respectively.

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.

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition

The Organization received a restricted contribution that contained donor conditions. Since this contribution represents a conditional promise, it is not recorded as contribution revenue until the donor conditions are met. Funds received from the donor in advance of the conditions being met totaled $150,000 and are recorded as a conditional promise. These funds will subsequently be recognized as contribution revenue when donor conditions are met.

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, 2017 and 2016, did not meet the requirements above; therefore no amounts were recognized in the consolidated financial statements.

The Organization occupied facilities under lease agreements at below the market rent values of $105,480 and $100,440 based on the excess of fair market value of all rental space over the rents paid for the years ended June 30, 2017 and 2016, 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 they have appropriate support for any tax position taken, and as such, do not have any uncertain tax positions that are material to the financial statements. These entities are not private foundations.

No provision or benefit for income taxes for the Limited Liability Companies have been included in these consolidated financial statements since taxable income (loss) passes through to, and is reportable by, the Member/ Partners individually.

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, 2017, 2016, 2015, and 2014 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Note 2 - Significant Accounting Policies: (Continued)

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, 2016

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, 2016, from which the summarized information was derived.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 29, 2017, the date the consolidated financial statements were available to be issued.

Note 3 - Fair Value Measurements:

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

	2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2017
Mutual Funds:				
Fixed income funds	$ 1,098,145	$ -	$ -	$ 1,098,145
Large cap equity funds	759,519	-	-	759,519
International securities funds	336,952	-	-	336,952
Real estate securities funds	116,938	-	-	116,938
Beneficial interest in endowment funds (Note 10)	-	-	7,504	7,504
	$ 2,311,554	$ -	$ 7,504	$ 2,319,058

Note 3 - Fair Value Measurements: (Continued)

	2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
Mutual Funds:				
Fixed income funds	$ 1,233,444	$ -	$ -	$ 1,233,444
Large cap equity funds	685,288	-	-	685,288
International securities funds	295,451	-	-	295,451
Real estate securities funds	120,148	-	-	120,148
Beneficial interest in endowment funds (Note 10)	-	-	7,284	7,284
	$ 2,334,331	$ -	$ 7,284	$ 2,341,615

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.

The following table represents the Organization's Level 3 financial instrument, the valuation techniques used to measure the fair value of the financial instrument, and the significant unobservable inputs and the range of values for those inputs for the years ended June 30:

2017				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	$ 7,504	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A

2016				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	$ 7,284	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A

Note 4 - Investments:

Investments are stated at fair value and consist of the following at June 30:

	2017	2016
Mutual Funds	$ 2,311,554	$ 2,334,331

Note 4 - Investments: (Continued)

Investments are categorized in the statement of financial position as follows:

	2017	2016
Investments - Current	$ 1,561,554	$ 1,584,331
Investments - Noncurrent	750,000	750,000
Total Investments	$ 2,311,554	$ 2,334,331

The following schedule summarizes the investment income for the years ended June 30:

	2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2016 Total
Interest on notes receivable	$ 189,134	$ -	$ -	$ 189,134	$ 297,604
Net realized and unrealized gains (losses)	66,563	76,534	804	143,901	(10,376)
Interest and dividend income	21,485	19,807	-	41,292	46,653
Total Investment Income	$ 277,182	$ 96,341	$ 804	$ 374,327	$ 333,881

Note 5 - Grants Receivable:

Grants receivable consist of the following at June 30:

	2017	2016
County of San Diego - Aging and Independence Services	$ 251,900	$ 229,979
City of San Diego - Low Income Senior Housing Improvements	20,931	-
County of San Diego - MOM Program	1,740	5,250
County of San Diego - Transitional Housing	-	12,065
Total Grants Receivable	$ 274,571	$ 247,294

Note 6 - Pledges Receivable:

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

	2017	2016
Receivables due in less than one year	$ 94,119	$ 104,252
Receivables due in more than one year	200,000	250,750
Less: Discount to present value	(28,125)	(30,078)
Receivables due in more than one year, net	171,875	220,672
Pledges Receivable, Net	$ 265,994	$ 324,924

Note 6 - Pledges Receivable: (Continued)

The pledges receivable have been discounted to their present value using a discount rate of 0.82% to 1.50% at June 30, 2017 and 2016, respectively. Pledges receivable, net of discounts, from members of the board of directors totaled $-0- and $7,500 at June 30, 2017 and 2016, respectively.

Note 7 - 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. and Westminster Manor, 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:

	2017	2016
Market Square Manor Associates, L.P.	$ 1,358,987	$ 1,262,321
City Heights Square, L.P.	22,667	14,167
Westminster Manor, L.P.	8,000	4,000
Subtotal	1,389,654	1,280,488
Less: Allowance for doubtful accounts	(1,289,687)	(1,196,321)
Total Accounts Receivable - Related Parties, Net	$ 99,967	$ 84,167

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 $1,289,687 and $1,196,321 at June 30, 2017 and 2016, respectively. Management believes that the accounts receivable from City Heights Square, L.P. and Westminster Manor, L.P. are fully collectible, therefore no allowance for doubtful accounts has been established.

Note 8 - Notes Receivable:

Notes receivable consist of the following at June 30:

	2017	2016
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 $1,329,344 and $1,202,493 at June 30, 2017 and 2016, respectively.	$ 1,000,000	$ 1,000,000

(Continued)

Note 8 - Notes Receivable: (Continued)

	2017	2016
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 $1,327,557 net of allowance of $1,327,557) and $-0- (Accrued interest receivable of $1,216,457, net of allowance of $1,216,457) at June 30, 2017 and 2016 respectively.	$ 2,310,334	$ 2,310,334
Serving Seniors has a note receivable from City Heights Square, L.P., A California Limited Partnership, for advances not to exceed $9,189,400 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 $3,381,080 net of allowance of $3,381,080) and $-0- (Accrued interest receivable of $3,050,529 net of allowance of $3,050,529 at June 30, 2017 and 2016, respectively.	9,189,400	9,105,000
Serving Seniors had 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 accrued interest at 3.2659% per annum through August 19, 2016, and 7.5799% thereafter. Interest only payments were payable monthly beginning September 1, 2009, through August 1, 2016. A partial principal payment of $1,800,000 was due August 19, 2016. Level monthly payments of principal and interest commencing September 1, 2016, were 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 was due August 19, 2039. This note was secured by a deed of trust. Accrued interest receivable totaled $-0- and $13,880 at June 30, 2017 and 2016, respectively. (See Note 18).	-	5,100,000
Total Notes Receivable	12,499,734	17,515,334
Less: Current Portion	-	(5,100,000)
Notes Receivable, Net of Current Portion	$ 12,499,734	$ 12,415,334

Note 8 - Notes Receivable: (Continued)

Future principal payments on notes receivable are as follows:

Years Ended June 30	
2018	$ -
2019	-
2020	1,000,000
2021	-
2022	-
Thereafter	11,499,734
	$ 12,499,734

Note 9 - Land, Building and Equipment:

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

	2017	2016
Land	$ 2,500,000	$ 2,500,000
Building	6,823,822	6,823,822
Furniture and equipment	981,905	945,098
Vehicles	107,023	107,023
Leasehold improvements	50,617	50,617
Subtotal	10,463,367	10,426,560
Less: Accumulated depreciation	(2,221,404)	(2,030,086)
Land, Building and Equipment, Net	$ 8,241,963	$ 8,396,474

Note 10 - 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:

	2017	2016
Market Square Manor, L.P.	$ 265,408	$ 265,456
City Heights Square, L.P.	231,429	231,488
Total Investments in Limited Partnership	$ 496,837	$ 496,944

Note 11 - 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 endowment funds held at San Diego Foundation is invested in a portfolio of equity and debt securities which is structured for long-term total return consisting of 28% international equities, 24% domestic equities, 20% alternative investments, 17% fixed income, 7% real estate, and 4% commodities.

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

	2017	2016
Balance, Beginning of Year	$ 7,284	$ 7,397
Investment income (loss)	804	54
Distribution to the Organization	(584)	(167)
Total Beneficial Interest in Endowment Funds	$ 7,504	$ 7,284

Note 12 - 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 financial institution's prime rate (4.25% at June 30, 2017). The line-of-credit matures on January 31, 2018. There was no balance outstanding under this line-of-credit at June 30, 2017 and 2016.

Note 13 - Notes Payable:

Notes payable consist of the following at June 30:

	2017	2016
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 8). Accrued interest payable totaled $1,329,344 and $1,202,493 at June 30, 2017 and 2016, respectively.	$ 1,000,000	$ 1,000,000

(Continued)

Note 13 - Notes Payable: (Continued)

	2017	2016
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 8). 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 $1,555,648, net of allowance of $1,555,648) and $-0- (Accrued interest payable of $1,444,548, net of allowance of $1,444,548) at June 30, 2017 and 2016, respectively.	$ 2,200,000	$ 2,200,000
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 were 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 $-0- and $13,856 at June 30, 2017 and 2016, respectively. (See Note 18).	-	5,010,000
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 was due on August 19, 2016. The note is secured by a deed of trust. Accrued interest payable totaled $-0- and $5,116 at June 30, 2017 and 2016, respectively. (See Note 18).	-	1,850,000
Total Notes Payable	3,200,000	10,060,000
Less: Current Portion	-	(6,860,000)
Notes Payable, Net of Current Portion	$ 3,200,000	$ 3,200,000

Note 13 - Notes Payable: (Continued)

Debt issuance costs total $-0- and $62,395, net of accumulated amortization of $-0- and $24,986 at June 30, 2017 and 2016, respectively.

Future principal payments on notes payable are as follows:

Years Ended June 30	
2018	$ -
2019	-
2020	1,000,000
2021	-
2022	-
Thereafter	2,200,000
	$ 3,200,000

Note 14 - Temporarily Restricted Net Assets:

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

	2017	2016
City Heights grant	$ 9,105,000	$ 9,105,000
For future periods	171,875	220,672
Endowment earnings in excess of spending policy	170,649	119,477
Wheelchair grant	-	661
Total Temporarily Restricted Net Assets	$ 9,447,524	$ 9,445,810

Net assets totaling $94,627 were released from donor restrictions due to the satisfaction of purpose or time restrictions for the year ended June 30, 2017.

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.

Note 15 - Endowment Net Assets: (Continued)

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, 2017 and 2016.

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

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.

Note 15 - Endowment Net Assets: (Continued)

San Diego Foundation Managed Funds

The beneficial interest in 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 law

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.

Endowment composition by type of fund at June 30:

	2017		
	Temporarily Restricted	Permanently Restricted	Total June 30, 2017
Donor Restricted Endowment Funds:			
Web MD Health Preservation	$ 170,649	$ 750,000	$ 920,649
Beneficial interest endowment funds - San Diego Foundation	-	7,504	7,504
Total Donor Restricted Endowment Funds	$ 170,649	$ 757,504	$ 928,153

	2016		
	Temporarily Restricted	Permanently Restricted	Total June 30, 2016
Donor Restricted Endowment Funds:			
Web MD Health Preservation	$ 119,477	$ 750,000	$ 869,477
Beneficial interest endowment funds - San Diego Foundation	-	7,284	7,284
Total Donor Restricted Endowment Funds	$ 119,477	$ 757,284	$ 876,761

Note 15 - Endowment Net Assets: (Continued)

San Diego Foundation Managed Funds

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at June 30, 2015	$ 143,445	$ 757,397	$ 900,842
Investment income and net realized and unrealized appreciation	20,236	54	20,290
Appropriation of endowment assets for expenditures	(44,204)	(167)	(44,371)
Endowment Net Assets at June 30, 2016	119,477	757,284	876,761
Investment income and net realized and unrealized appreciation	96,341	804	97,145
Appropriation of endowment assets for expenditures	(45,169)	(584)	(45,753)
Endowment Net Assets at June 30, 2017	$ 170,649	$ 757,504	$ 928,153

Note 16 - Lease Obligations:

Serving Seniors leases office equipment through June, 2019. Equipment lease expense totaled $12,959 and $13,103 for the years ended June 30, 2017 and 2016, respectively, under this lease which is included in other expense in the consolidated statement of functional expenses.

Serving Seniors renews its lease for emergency lodging on an annual basis. Emergency lodging lease expense totaled $143,808 and $125,157 for the years ended June 30, 2017 and 2016, 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	
2018	$ 8,881
2019	8,142
	$ 17,023

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 $43,333 and $260,000, and has been eliminated in the consolidated financial statements for the years ended June 30, 2017 and 2016, respectively.

Note 18 - Gain on Unwind of Tax Credit Financing:

On August 19, 2009, the West Senior Wellness Center borrowed $6,860,000 from Sub 15 as part of a Qualified Low Income Community Investment to partially fund the cost of developing the Gary and Mary West Senior Wellness Center, which financing structure took advantage of the availability of New Market Tax Credits for the project (the 2009 NMTC Financing).

West Senior Wellness Center financing was evidenced by two promissory notes, one in the principal amount of $1,850,000, and one in the principal amount of $5,010,000. The outstanding principal balance of the two notes was $6,860,000.

The 2009 NMTC Financing reached the end of the seven year tax credit compliance period on August 19, 2016. As such, the 2009 NMTC Financing was "unwound" on August 24, 2016.

Wellness Center NMTC Investor, LLC, (the Fund), owns 99.99% of the membership interests in Sub 15. USB NMTC Fund 2009-3, (USB Fund), the tax credit investor in the 2009 NMTC Financing, owns all the membership interests in the Fund.

As part of the 2009 NMTC Financing, Serving Seniors granted to USB Fund the right to require Serving Seniors to purchase all of USB Fund's membership interest in the Fund for $1,000, pursuant to a Put/Call Option Agreement dated August 19, 2009. As part of the "unwind" process, USB Fund exercised the Put on August 24, 2016, and upon the consummation of such purchase of $1,000 resulting from such exercise, Serving Seniors became the sole member of the Fund.

With the consummation of the Put, the then manager of the fund, Clearinghouse Community Development Financial Institution, resigned as manager of the Fund. As the sole member of the Fund, Serving Seniors exercised its right to appoint itself as the successor manager of the Fund.

Sub 15 redeemed the interest of the Fund in Sub 15 in exchange for a distribution of the promissory notes. As a result of such redemption, the Fund held the promissory notes as of August 26, 2016. To facilitate the dissolution of the Fund, Serving Seniors caused the Fund to transfer the promissory notes to the corporation and forgive the promissory notes.

Serving Seniors had a promissory note receivable from the Fund in the amount of $5,100,000 related to the development of the Gary and Mary West Senior Wellness Center. To facilitate the dissolution of the Fund, Serving Seniors forgave the promissory note receivable from the Fund.

After the foregoing transactions, the Fund had little or no assets or liabilities, and, at such time as was determined by the authorized officers of Serving Seniors, was dissolved with all remaining assets distributed to Serving Seniors.

Note 18 - Gain on Unwind of Tax Credit Financing: (Continued)

The gain on unwind of tax credit financing follows

Discharge of promissory notes payable	$	6,860,000
Forgiveness of promissory note receivable		(5,100,000)
Unamortized debt issuance costs		(36,859)
Subtotal		1,723,141
Legal fees incurred and paid		(15,458)
Purchase of USB Fund's membership interest		(1,000)
Gain on Unwind of Tax Credit Financing	$	1,706,683

SERVING SENIORS AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grants/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Passed Through to Subrecipient	Federal Expenditures
U.S. Department of Housing and Urban Development:				
Pass-Through Programs From:				
Community Development Block Grants/Entitlement Grants:	14.218			
City of San Diego		4500082071	$ -	$ 84,400
Section 8 Housing Choice Vouchers:	14.871			
San Diego Housing Commission		N/A	-	132,800
Total Pass-Through Programs			-	217,200
Total U.S. Department of Housing and Urban Development			-	217,200
U.S. Department of Health and Human Services:				
Pass-Through Programs From:				
Aging Cluster:				
Special Programs for the Aging, Title III, Part C,				
Nutrition Services:	93.045			
County of San Diego		547777	-	1,752,697
Nutrition Services Incentive Program:	93.053			
County of San Diego		547777	-	437,454
Total Aging Cluster			-	2,190,151
Medicare Enrollment Assistance Program:	93.071			
Family Health Centers of San Diego, Inc.		N/A	-	10,000
Total Pass-Through Programs			-	2,200,151
Total U.S. Department of Health and Human Services			-	2,200,151
Total Expenditures of Federal Awards			$ -	$ 2,417,351

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Serving Seniors and Subsidiaries under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Serving Seniors and Subsidiaries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Serving Seniors and Subsidiaries.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations* or the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass through entity identifying numbers are presented where available.

Serving Seniors and Subsidiaries has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Serving Seniors and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Serving Seniors and Subsidiaries, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Serving Seniors and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Serving Seniors and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Serving Seniors and Subsidiaries' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Serving Seniors and Subsidiaries' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
September 29, 2017

Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report on Compliance
for the Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance

To the Board of Directors
Serving Seniors and Subsidiaries

Report on Compliance for the Major Federal Program

We have audited Serving Seniors and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Serving Seniors and Subsidiaries' major federal program for the year ended June 30, 2017. Serving Seniors and Subsidiaries' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Serving Seniors and Subsidiaries' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Serving Seniors and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Serving Seniors and Subsidiaries' compliance.

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Opinion on the Major Federal Program

In our opinion, Serving Seniors and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Serving Seniors and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Serving Seniors and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Serving Seniors and Subsidiaries' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
September 29, 2017

SERVING SENIORS AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP	Unmodified			
Internal control over financial reporting:				
Material weaknesses identified?		Yes	X	No
Significant deficiencies identified?		Yes	X	No
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major program:	Unmodified			
Internal control over major programs:				
Material weaknesses identified?		Yes	X	No
Significant deficiencies identified?		Yes	X	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?		Yes	X	No

Identification of major program:

CDFA Number	Name of Federal Program or Cluster
Cluster (93.045, 93.053)	Aging Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?	X	Yes		No

Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

None