



Jewish Federation

OF SAN DIEGO COUNTY

**AUDITED
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016 (RESTATED)**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Jewish Federation of San Diego County
San Diego, California

We have audited the accompanying financial statements of the Jewish Federation of San Diego County (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Jewish Federation of San Diego County as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Error Correction

As disclosed in Note 1 to the financial statements, certain errors resulting in an understatement of amounts previously reported for liabilities and expenses as of June 30, 2016 were discovered by management of the Jewish Federation of San Diego County during the current year. Accordingly, amounts reported for liabilities and expenses have been restated in the June 30, 2016 financial statements now presented to correct the error. Our opinion is not modified with respect to this matter.



Lindsay & Brownell, LLP

La Jolla, California
March 15, 2018

JEWISH FEDERATION OF SAN DIEGO COUNTY

**STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016 (Restated)**

ASSETS

| | 2017 | | | | 2016 Restated | | | |
|--|---------------------|-------------------------------|-------------------------------|----------------------|---------------------|-------------------------------|-------------------------------|----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Current Assets: | | | | | | | | |
| Cash and cash equivalents | \$ 100,669 | \$ 302,934 | \$ - | \$ 403,603 | \$ 161,501 | \$ 202,478 | \$ - | \$ 363,979 |
| Investments | 4,111,345 | - | - | 4,111,345 | 5,734,429 | - | - | 5,734,429 |
| Pledges receivable, net | 983,952 | 1,292,670 | - | 2,276,622 | 87,851 | 2,353,734 | - | 2,441,585 |
| Current portion of note receivable | 21,905 | - | - | 21,905 | 21,905 | - | - | 21,905 |
| Other current assets | 360,585 | - | - | 360,585 | 176,993 | - | - | 176,993 |
| Prepaid expenses | 53,178 | - | - | 53,178 | 90,237 | - | - | 90,237 |
| Total Current Assets | <u>5,631,634</u> | <u>1,595,604</u> | <u>-</u> | <u>7,227,238</u> | <u>6,272,916</u> | <u>2,556,212</u> | <u>-</u> | <u>8,829,128</u> |
| Noncurrent Assets: | | | | | | | | |
| Pledges receivable, net | - | 58,202 | - | 58,202 | - | 188,451 | - | 188,451 |
| Investments | - | 14,695 | - | 14,695 | (5,468) | 1,765,306 | 2,500,000 | 4,259,838 |
| Beneficial interest in assets held by others | - | - | 5,806,962 | 5,806,962 | - | - | - | - |
| Note receivable, less current portion | 58,703 | - | - | 58,703 | 79,549 | - | - | 79,549 |
| Property & equipment, net | 140,669 | - | - | 140,669 | 176,347 | - | - | 176,347 |
| Total Noncurrent Assets | <u>199,372</u> | <u>72,897</u> | <u>5,806,962</u> | <u>6,079,231</u> | <u>250,428</u> | <u>1,953,757</u> | <u>2,500,000</u> | <u>4,704,185</u> |
| TOTAL ASSETS | <u>\$ 5,831,006</u> | <u>\$ 1,668,501</u> | <u>\$ 5,806,962</u> | <u>\$ 13,306,469</u> | <u>\$ 6,523,344</u> | <u>\$ 4,509,969</u> | <u>\$ 2,500,000</u> | <u>\$ 13,533,313</u> |

The accompanying notes are an integral part of these financial statements.

JEWISH FEDERATION OF SAN DIEGO COUNTY

**STATEMENTS OF FINANCIAL POSITION (Continued)
June 30, 2017 and 2016 (Restated)**

LIABILITIES AND NET ASSETS

| | 2017 | | | | 2016 Restated | | | |
|--|---------------------|-------------------------------|-------------------------------|----------------------|---------------------|-------------------------------|-------------------------------|----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Current Liabilities: | | | | | | | | |
| Accounts payable and accrued expenses | \$ 469,930 | \$ - | \$ - | \$ 469,930 | \$ 306,206 | \$ 19,674 | \$ - | \$ 325,880 |
| Grants payable: | | | | | | | | |
| Jewish Federations of North America - US | - | - | - | - | 192,113 | - | - | 192,113 |
| Jewish Federations of North America - Israel | 2,087,140 | - | - | 2,087,140 | 2,351,377 | - | - | 2,351,377 |
| Jewish Federations of North America - Overseas | 146,740 | - | - | 146,740 | 1,848,786 | - | - | 1,848,786 |
| Payable to local initiatives | 511,214 | - | - | 511,214 | 872,545 | - | - | 872,545 |
| Total Grants Payable | 2,745,094 | - | - | 2,745,094 | 5,264,821 | - | - | 5,264,821 |
| Total Current Liabilities | 3,215,024 | - | - | 3,215,024 | 5,571,027 | 19,674 | - | 5,590,701 |
| Net Assets: | | | | | | | | |
| Unrestricted: | | | | | | | | |
| Undesignated | 375,557 | - | - | 375,557 | (2,638,739) | - | - | (2,638,739) |
| Board designated - Quasi endowment | 2,240,425 | - | - | 2,240,425 | 3,591,056 | - | - | 3,591,056 |
| Total Unrestricted | 2,615,982 | - | - | 2,615,982 | 952,317 | - | - | 952,317 |
| Temporarily restricted | - | 1,668,501 | - | 1,668,501 | - | 4,490,295 | - | 4,490,295 |
| Permanently restricted | - | - | 5,806,962 | 5,806,962 | - | - | 2,500,000 | 2,500,000 |
| Total Net Assets | 2,615,982 | 1,668,501 | 5,806,962 | 10,091,445 | 952,317 | 4,490,295 | 2,500,000 | 7,942,612 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 5,831,006 | \$ 1,668,501 | \$ 5,806,962 | \$ 13,306,469 | \$ 6,523,344 | \$ 4,509,969 | \$ 2,500,000 | \$ 13,533,313 |

The accompanying notes are an integral part of these financial statements.

JEWISH FEDERATION OF SAN DIEGO COUNTY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| <u>Revenue and Support:</u> | | | | |
| Campaign contributions and pledges | \$ 6,973,333 | \$ 1,129,493 | \$ - | \$ 8,102,826 |
| Less: Reserve for uncollectible pledges plus recovery of prior year reserve, net | (277,313) | - | - | (277,313) |
| Campaign Revenue, Net | 6,696,020 | 1,129,493 | - | 7,825,513 |
| Program revenue | 252,815 | - | - | 252,815 |
| Unrealized loss on beneficial interest | - | - | (23,638) | (23,638) |
| Transfer to endowment | - | (3,330,600) | 3,330,600 | - |
| Net assets released from restrictions | 1,059,095 | (1,059,095) | - | - |
| Total Revenue and Support | <u>8,007,930</u> | <u>(3,260,202)</u> | <u>3,306,962</u> | <u>8,054,690</u> |
| <u>Investment Income:</u> | | | | |
| Interest and dividends | 84,141 | 69,358 | - | 153,499 |
| Net realized gains | 196,486 | 191,711 | - | 388,197 |
| Net unrealized gains | 280,695 | 180,887 | - | 461,582 |
| Investment expenses | (5,873) | (3,548) | - | (9,421) |
| Net Investment Income | <u>555,449</u> | <u>438,408</u> | <u>-</u> | <u>993,857</u> |
| Total Revenue, Support and Net Investment Income | <u>8,563,379</u> | <u>(2,821,794)</u> | <u>3,306,962</u> | <u>9,048,547</u> |
| <u>Grants and Expenses:</u> | | | | |
| Grants: | | | | |
| Local initiatives | 1,668,348 | - | - | 1,668,348 |
| Jewish Federations of North America - US | 50,000 | - | - | 50,000 |
| Jewish Federations of North America - Israel | 310,391 | - | - | 310,391 |
| Jewish Federations of North America - Overseas | 176,829 | - | - | 176,829 |
| Designated gifts | 703,443 | - | - | 703,443 |
| Total Grants | <u>2,909,011</u> | <u>-</u> | <u>-</u> | <u>2,909,011</u> |
| Program Services | <u>2,938,703</u> | <u>-</u> | <u>-</u> | <u>2,938,703</u> |
| Supporting Services: | | | | |
| General and administrative | 358,289 | - | - | 358,289 |
| Fundraising | 693,711 | - | - | 693,711 |
| Total Supporting Services | <u>1,052,000</u> | <u>-</u> | <u>-</u> | <u>1,052,000</u> |
| Total Grants and Expenses | <u>6,899,714</u> | <u>-</u> | <u>-</u> | <u>6,899,714</u> |
| Change in Net Assets | 1,663,665 | (2,821,794) | 3,306,962 | 2,148,833 |
| Net Assets at Beginning of Year | 952,317 | 4,490,295 | 2,500,000 | 7,942,612 |
| NET ASSETS AT END OF YEAR | <u>\$ 2,615,982</u> | <u>\$ 1,668,501</u> | <u>\$ 5,806,962</u> | <u>\$ 10,091,445</u> |

The accompanying notes are an integral part of these financial statements.

JEWISH FEDERATION OF SAN DIEGO COUNTY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016 (Restated)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| <u>Revenue and Support:</u> | | | | |
| Campaign contributions and pledges | \$ 4,889,190 | \$ 1,706,662 | \$ - | \$ 6,595,852 |
| Less: Reserve for uncollectible pledges plus recovery of prior year reserve, net | (10,396) | - | - | (10,396) |
| Campaign Revenue, Net | 4,878,794 | 1,706,662 | - | 6,585,456 |
| Program revenue | 271,953 | - | - | 271,953 |
| Net assets released from restrictions | 2,080,667 | (2,080,667) | - | - |
| Total Revenue and Support | <u>7,231,414</u> | <u>(374,005)</u> | <u>-</u> | <u>6,857,409</u> |
| <u>Investment Income:</u> | | | | |
| Interest and dividends | 110,070 | 112,770 | - | 222,840 |
| Net realized losses | (15,138) | (4,309) | - | (19,447) |
| Net unrealized losses | (150,638) | (167,262) | - | (317,900) |
| Investment expenses | (4,518) | (3,460) | - | (7,978) |
| Net Investment Loss | <u>(60,224)</u> | <u>(62,261)</u> | <u>-</u> | <u>(122,485)</u> |
| Total Revenue, Support and Net Investment Loss | <u>7,171,190</u> | <u>(436,266)</u> | <u>-</u> | <u>6,734,924</u> |
| <u>Grants and Expenses:</u> | | | | |
| Grants: | | | | |
| Local initiatives | 1,686,748 | - | - | 1,686,748 |
| Jewish Federations of North America - US | 192,114 | - | - | 192,114 |
| Jewish Federations of North America - Israel | 389,908 | - | - | 389,908 |
| Jewish Federations of North America - Overseas | 167,369 | - | - | 167,369 |
| Designated gifts | 671,943 | - | - | 671,943 |
| Total Grants | <u>3,108,082</u> | <u>-</u> | <u>-</u> | <u>3,108,082</u> |
| Program Services | <u>3,550,662</u> | <u>-</u> | <u>-</u> | <u>3,550,662</u> |
| Supporting Services: | | | | |
| General and administrative | 486,434 | - | - | 486,434 |
| Fundraising | 841,881 | - | - | 841,881 |
| Total Supporting Services | <u>1,328,315</u> | <u>-</u> | <u>-</u> | <u>1,328,315</u> |
| Total Grants and Expenses | <u>7,987,059</u> | <u>-</u> | <u>-</u> | <u>7,987,059</u> |
| Change in Net Assets | <u>(815,869)</u> | <u>(436,266)</u> | <u>-</u> | <u>(1,252,135)</u> |
| Net Assets at Beginning of Year | <u>1,768,186</u> | <u>4,926,561</u> | <u>2,500,000</u> | <u>9,194,747</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 952,317</u> | <u>\$ 4,490,295</u> | <u>\$ 2,500,000</u> | <u>\$ 7,942,612</u> |

The accompanying notes are an integral part of these financial statements.

JEWISH FEDERATION OF SAN DIEGO COUNTY

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2017 and 2016 (Restated)

| | 2017 | 2016 Restated |
|---|--------------------------|--------------------------|
| <u>Cash Flows from Operating Activities:</u> | | |
| Changes in net assets | \$ 2,148,833 | \$(1,252,135) |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Depreciation | 42,985 | 55,257 |
| Net realized (gains) losses on investments | (388,197) | 19,447 |
| Net unrealized (gains) losses on investments | (461,582) | 317,890 |
| Net unrealized losses on beneficial interest in assets held by others | 23,638 | - |
| Decrease (increase) in: | | |
| Pledges receivable, net | 295,212 | 695,598 |
| Note receivable | 20,846 | 20,234 |
| Other current assets | (183,592) | (116,482) |
| Prepaid expenses | 37,059 | 45,759 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 144,050 | 79,846 |
| Grants payable to Jewish Federations of North America - US | (192,113) | (23,087) |
| Grants payable to Jewish Federations of North America - Israel | (264,237) | (321,950) |
| Grants payable to Jewish Federations of North America - Overseas | (1,702,046) | (574,631) |
| Grants payable to local initiatives | (361,331) | (225,442) |
| Grants payable for designated gifts | - | (137,236) |
| Net Cash Used in Operating Activities | <u>(840,475)</u> | <u>(1,416,932)</u> |
| <u>Cash Flows From Investing Activities:</u> | | |
| Purchases of investments | (3,006,341) | (1,055,180) |
| Proceeds from sales of investments | 9,724,348 | 2,442,000 |
| Beneficial interest in assets held by others | (5,830,600) | - |
| Purchases of property and equipment | (7,308) | (20,165) |
| Net Cash Provided by Investing Activities | <u>880,099</u> | <u>1,366,655</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 39,624 | (50,277) |
| Cash and Cash Equivalents at Beginning of Year | <u>363,979</u> | <u>414,256</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>\$ 403,603</u></u> | <u><u>\$ 363,979</u></u> |

The accompanying notes are an integral part of these financial statements.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Jewish Federation of San Diego County (“Federation”) is a California not-for-profit organization formed in 1936 and is one of 153 Jewish Federations in North America. Supported by thousands of generous donors and volunteers, Federation is dedicated to building a vibrant, caring, connected, and enduring Jewish community.

Federation broadens and deepens engagement in Jewish life to strengthen Jewish identity, foster dynamic connections with Israel, and care for all Jews in need. Federation carries out this mission by mobilizing resources, leaders, and organizations to address the community’s most critical needs, creating profound impact locally, in Israel, and around the world.

Guided by Jewish values and quest to be the “Most Welcoming Jewish Community in North America,” Federation focuses on these following mission-driven initiatives:

- **Teens:** Inspires Jewish high school teens to pursue their own Jewish journey locally and in Israel through social, educational, cultural and community service programs; Israel travel incentives; and enhancing the engagement capacity of local organization professionals and volunteers.
- **NextGen:** Connects Jewish young adults to all things young and Jewish, and helps native San Diegans and newcomers find meaning and build relationships in all facets of life, from professional to religious, to cultural and communal.
- **Aging in Community:** Provides effective, scalable and sustainable services to enable Jewish older adults to live safely and comfortably in their own homes and communities for as long as possible.
- **Shalom SD:** Encourages Jews who are new residents in the area or members of interfaith households to find their own meaningful place amongst the synagogues and communal organizations in the San Diego Jewish community.
- **Israel:** Deepens the connections between the San Diego Jewish community and Israel through people-to-people exchanges, travel and the rewarding two-decade partnership with the Sha’ar HaNegev region and increasing support for Federation’s global partners to care for Jews in need in Israel and around the world.

Accounting Principles

Federation’s financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Prior Period Adjustment

Federation received a bequest from the Milton and Madeline Goldberg Foundation in May 2007 to hold as an endowment for a period of ten years with earnings to be distributed periodically to the American Jewish Joint Distribution Committee, (“JDC”), and the corpus to be distributed in full to JDC at the end of the ten year period.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

This bequest was incorrectly recorded as income in 2007 when received, as there was no benefit ascribed to Federation for these funds. At the time of the bequest, a grant, payable to JDC, should have been recorded. This resulted in an understatement of grants payable and thus an understatement of grant expense in 2007. A restatement was made to the financial statements in the prior year to reflect the proper accounting for this bequest. In the current year upon payment of the grant, management noted that the calculation of the grant payable was understated by \$420,000 and therefore corrected. This correction increased grants payable and decreased net assets at beginning of year in the statement of activities by \$420,000 for the year ended June 30, 2016.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds with original maturities of three months or less at the date of acquisition. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Investments

Federation maintains its investments at the Jewish Community Foundation in investment pools. Federation reports its investments in these pools at fair value based on the underlying assets as reported by the fund manager. Investment income, including realized and unrealized gains and losses from these investment pools, are reported in the statements of activities.

Pledges Receivable

Pledges receivable represent a donor's promise to give to Federation and are stated at the amount Federation expects to collect from outstanding balances. Management determines the reserve for uncollectible pledges by specific identification of delinquent accounts, history of collections, past write-offs, and estimated uncollectible balances. Pledges receivable are written off when deemed uncollectible. The balance at year-end reflects pledges due from donors and is expected to be fully collected within one year. Unconditional pledges that are expected to be collected in future years are recorded at the net present value of estimated future cash receipts. Pledges receivable are discounted using a risk adjusted rate of return. Conditional pledges are not included as income until the conditions are substantially met. Pledges receivable are stated net of a reserve for uncollectible pledges of \$103,217 and \$113,140 as of June 30, 2017 and 2016, respectively.

Beneficial Interest in Assets Held by Others

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958 requires a specified beneficiary to recognize its right to the assets held by a recipient entity as an asset unless the recipient entity has variance power. Federation is named as the sole beneficiary of an endowment fund held at the Jewish Community Foundation. Federation reports this fund as a beneficial interest in assets held by others in the statements of financial position. Annual fair value remeasurements to the beneficial interest are reported as increases or decreases in the statements of financial position and as a change in value of beneficial interests within contribution income in the statements of activities.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Capitalization and Depreciation

Federation capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated assets 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 these donated assets must be maintained, Federation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Federation 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:

| | |
|--------------------------------|--------------|
| Leasehold improvements | 5 – 15 years |
| Office furniture and equipment | 3 – 5 years |
| Computer hardware and software | 3 – 10 years |

Maintenance and repairs are charged to expense as incurred. Upon sale or disposition of land, buildings or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Grant Expenditures and Grants Payable

Federation provides grants to partner agencies to support and strengthen Jewish life locally and globally. All grants are approved by the Board of Directors. Grant expenditures are recognized in the period in which the grant is approved and communicated, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and grants payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the net present value of expected future payments discounted using a risk adjusted rate at each grant date for a commensurate period.

Compensated Absences

Vested and accumulated vacation is recorded as an expense and liability as benefits accrue to employees. The accrued vacation liability totaled \$84,721 and \$106,336 at June 30, 2017 and 2016, respectively, and is included in accounts payable and accrued expenses in the statements of financial position.

Net Assets

Federation reports information regarding its 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

Unrestricted net assets are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are the broad limits resulting from the nature of Federation and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Temporarily Restricted Net Assets

These are net assets resulting from contributions whose use by Federation is limited by donor imposed stipulations that expire by passage of time or can be fulfilled and removed by actions of Federation pursuant to those stipulations. 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 statements of activities as net assets released from restrictions. As of June 30, 2017 and 2016, Federation had temporarily restricted assets of \$1,668,501 and \$4,490,295, respectively.

Permanently Restricted Net Assets

These are net assets resulting from contributions and other inflows of assets whose use by Federation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled by actions of Federation. The donor-imposed stipulations require that they be maintained permanently by Federation. The income from these assets is available for either general operations or specific programs as specified by the donor. As of June 30, 2017 and 2016, Federation had permanently restricted net assets of \$5,806,962 and \$2,500,000, respectively.

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 financial statements to understand the net asset classification, net composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds (see further disclosure at Note 9).

Contributions

Contributions are recognized when the donor makes a promise to give to Federation that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire 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 a risk-adjusted rate. Amortization of discounts are recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Investments acquired by gift are recorded at fair value on the date of gift. Realized and unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding pledges receivable. The reserve for uncollectible pledges receivable and recoveries and provisions for uncollectible pledges consisted of the following as of and for the years ended June 30:

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Reserve at Beginning of Year | \$ 113,140 | \$ 213,615 |
| Provision/net recovery for uncollectible pledges: | | |
| Provision for current year receivables | 95,728 | 156,986 |
| Recoveries of prior year reserved receivables/reduction of reserve | (48,379) | (146,590) |
| Total provision | <u>47,349</u> | <u>10,396</u> |
| Less: | | |
| Write-offs of receivables against allowance | (57,272) | (110,871) |
| Reserve at End of Year | <u>\$ 103,217</u> | <u>\$ 113,140</u> |

Donated Services and Office Facilities

Federation utilized the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the 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 financial statements.

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates developed by management.

Income Taxes

Federation is a public charity and is 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 except for taxes on net unrelated business income. Since Federation has no obligation for unrelated business income tax for the years ended June 30, 2017 and 2016, no provisions for federal or state income taxes have been made.

FASB ASC 740, *Accounting for Uncertainty in Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. Federation has applied FASB ASC 740 which did not result in the recognition of any unrecognized tax benefits upon adoption and Federation has no unrecognized tax benefits at June 30, 2017 and 2016. Federation continues to evaluate changes in tax law and new authoritative rulings. There have been no related tax penalties or interest, which would be classified as tax expense in the statements of activities.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Risks and Uncertainties

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations of Credit Risk

Federation maintains its cash balance at one financial institution which is secured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Cash and cash equivalent balances in the amounts of \$310,591 and \$0 as of June 30, 2017 and 2016, respectively, were not insured by the FDIC. Federation has not experienced any losses in this account and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements.

Subsequent Events

Federation has evaluated subsequent events through the date these financial statements were available to be issued. See Note 13 for material subsequent events that required recognition and disclosure in the financial statements.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2. Analysis of Investments

Federation maintains its investments at the Jewish Community Foundation. The funds held at the Jewish Community Foundation are invested in investment pools. The Short-Term Pool is a cash equivalent pool that seeks principal preservation by investing in certificates of deposit, securities issued or guaranteed by the U.S. government, and other cash equivalents. The Endowment Pool invests 58% in domestic and international equities, 12% in fixed income, 6% in real assets, and 24% in alternative investments consisting of commodities and hedge funds of funds. Investments consist of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|-------------------|---------------------|---------------------|
| Endowment Pool | \$ 2,255,120 | \$ 7,850,894 |
| Short-Term Pool | 1,847,021 | 2,143,373 |
| Real Property | 23,899 | - |
| Total Investments | <u>\$ 4,126,040</u> | <u>\$ 9,994,267</u> |

Statements of Financial Position Classification:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|---------------------|---------------------|
| <u>Current Investments:</u> | | |
| Unrestricted Foundations Fund | \$ 2,240,425 | \$ 3,591,056 |
| Indigent Burial Fund | 89,593 | - |
| Operating Fund | 1,781,327 | 2,143,373 |
| Total Current Investments | <u>4,111,345</u> | <u>5,734,429</u> |
| <u>Noncurrent Investments:</u> | | |
| Sunshine Brooks Fund | 14,695 | 2,494,532 |
| Milton and Madeline Goldberg Fund | - | 1,765,306 |
| Total Noncurrent Investments | <u>14,695</u> | <u>4,259,838</u> |
| Total Investments | <u>\$ 4,126,040</u> | <u>\$ 9,994,267</u> |

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2. Analysis of Investments (Continued)

The following schedule summarizes Federation's net investment income (loss) and its classification in the statements of activities for the years ended June 30:

| | 2017 | | |
|-----------------------------|-------------------|------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Interest and dividends | \$ 84,141 | \$ 69,358 | \$ 153,499 |
| Net realized gains | 196,486 | 191,711 | 388,197 |
| Net unrealized gains | 280,695 | 180,887 | 461,582 |
| Investment expenses | (5,873) | (3,548) | (9,421) |
| Total Net Investment Income | <u>\$ 555,449</u> | <u>\$ 438,408</u> | <u>\$ 993,857</u> |

| | 2016 | | |
|---------------------------|--------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Interest and dividends | \$ 110,070 | \$ 112,770 | \$ 222,840 |
| Net realized losses | (15,138) | (4,309) | (19,447) |
| Net unrealized losses | (150,638) | (167,262) | (317,900) |
| Investment expenses | (4,518) | (3,460) | (7,978) |
| Total Net Investment Loss | <u>\$(60,224)</u> | <u>\$(62,261)</u> | <u>\$(122,485)</u> |

Note 3. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements*, defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The provisions of FASB ASC 820 establish a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that observable inputs be used when available. The three-level hierarchy for fair value measurements is defined as follows:

Level 1 - quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - observable market-based inputs or unobservable inputs that are corroborated by market data. May include quoted prices in a market that is not active.

Level 3 - unobservable inputs that cannot be corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

Federation’s statements of financial position include the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments held at Jewish Community Foundation in investment pools are considered Level 2 and Level 3 assets and are reported at fair value based on the fair value of the underlying assets in the funds as reported by the fund manager, Jewish Community Foundation.
- Beneficial interest in assets held by others is valued at the fair value of the underlying assets and classified within Level 3 as there is no active or inactive market for this type of asset.
- Pledges receivable are valued at the net present value of expected future cash inflows which approximates fair value and are classified within Level 3 as there is no market for these assets.
- Grants payable are valued at the net present value of expected future cash outflows which approximates fair value and are classified within Level 3 as there is no market for these liabilities.

The following is a summary of Federation’s assets and liabilities measured at fair value within the fair value hierarchy as of June 30, 2017:

Assets at Fair Value as of June 30, 2017

| | Unadjusted Quoted Prices (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Balance as of June 30, 2017 |
|---|---|--|--|--|
| Investments | | | | |
| Short-Term Pool | | | | |
| Operating Fund | \$ - | \$ 1,781,327 | \$ - | \$ 1,781,327 |
| Indigent Burial Fund | - | - | 65,694 | 65,694 |
| Total Short-Term Pool | - | 1,781,327 | 65,694 | 1,847,021 |
| Endowment Pool | | | | |
| Unrestricted Foundations Fund | - | - | 2,240,425 | 2,240,425 |
| Sunshine Brooks Fund | - | - | 14,695 | 14,695 |
| Total Endowment Pool | - | - | 2,255,120 | 2,255,120 |
| Real Estate | | | | |
| Indigent Burial Fund | - | - | 23,899 | 23,899 |
| Total Real Estate | - | - | 23,899 | 23,899 |
| Total Investments | - | 1,781,327 | 2,344,713 | 4,126,040 |
| Beneficial Interest in Assets Held by Others | - | - | 5,806,962 | 5,806,962 |
| Pledges Receivable, Net | - | - | 2,334,824 | 2,334,824 |
| | <u>\$ -</u> | <u>\$ 1,781,327</u> | <u>\$ 10,486,499</u> | <u>\$ 12,267,826</u> |

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

Liabilities at Fair Value as of June 30, 2017

| | Unadjusted Quoted Prices (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Balance as of June 30, 2017 |
|---------------------|---|--|--|--|
| Grants Payable, Net | \$ - | \$ - | \$ 2,745,094 | \$ 2,745,094 |

The following tables summarize the changes in Federation's Level 3 assets and liabilities for the year ended June 30, 2017:

Level 3 Assets For the Year Ended June 30, 2017

| | Short-Term Pool | Endowment Pool | Real Estate | Beneficial Interest in Assets Held by Others | Pledges Receivable | Balance as of June 30, 2017 |
|--|----------------------------|---------------------------|--------------------|---|-------------------------------|--|
| Beginning Balance, July 1, 2016 | \$ - | \$ 7,850,894 | \$ - | \$ - | \$ 2,630,036 | \$ 10,480,930 |
| Realized and unrealized gains (losses) | 312 | 984,845 | - | (23,638) | - | 961,519 |
| Purchases and contributions | 75,734 | 1,433,376 | 23,899 | 5,830,600 | 7,759,488 | 15,123,097 |
| Sales, distributions, and collections | (10,352) | (8,013,995) | - | - | (8,056,915) | (16,081,262) |
| Net change in discount | - | - | - | - | 2,215 | 2,215 |
| Transfers in (out) of Level 3 | - | - | - | - | - | - |
| Ending Balance, June 30, 2017 | \$ 65,694 | \$ 2,255,120 | \$ 23,899 | \$ 5,806,962 | \$ 2,334,824 | \$ 10,486,499 |

Level 3 Liabilities For the Year Ended June 30, 2017

| | Grants Payable, Net | Balance as of June 30, 2017 |
|---------------------------------|--------------------------------|--|
| Beginning Balance, July 1, 2016 | \$ 5,264,821 | \$ 5,264,821 |
| Grants awarded | 950,144 | 950,144 |
| Grants paid | (3,469,871) | (3,469,871) |
| Transfers in (out) of Level 3 | - | - |
| Ending Balance, June 30, 2017 | \$ 2,745,094 | \$ 2,745,094 |

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

The following is a summary of Federation's assets and liabilities measured at fair value within the fair value hierarchy as of June 30, 2016:

Assets at Fair Value as of June 30, 2016

| | Unadjusted Quoted Prices (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Balance as of June 30, 2016 |
|--------------------------------------|---|--|--|--|
| Investments | | | | |
| Short-Term Pool | | | | |
| Operating Fund | \$ - | \$ 2,143,373 | \$ - | \$ 2,143,373 |
| Endowment Pool | | | | |
| Unrestricted Foundations Fund | - | - | 3,591,056 | 3,591,056 |
| Sunshine Brooks Fund | - | - | 2,494,532 | 2,494,532 |
| Milton and Madeline Goldberg Fund | - | - | 1,765,306 | 1,765,306 |
| Total | - | 2,143,373 | 7,850,894 | 9,994,267 |
| Pledges Receivable, Net | - | - | 2,630,036 | 2,630,036 |
| | <u>\$ -</u> | <u>\$ 2,143,373</u> | <u>\$ 10,480,930</u> | <u>\$ 12,624,303</u> |

Liabilities at Fair Value as of June 30, 2016

| | Unadjusted Quoted Prices (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Balance as of June 30, 2016 |
|---------------------|---|--|--|--|
| Grants Payable, Net | \$ - | \$ - | \$ 5,264,821 | \$ 5,264,821 |

The following tables summarize the changes in Federation's Level 3 assets and liabilities for the year ended June 30, 2016:

Level 3 Assets For the Year Ended June 30, 2016

| | Pledges Receivable | Endowment Pool | Balance as of June 30, 2016 |
|---------------------------------------|-------------------------------|---------------------------|--|
| Beginning Balance, July 1, 2015 | \$ 3,325,634 | \$ 8,422,316 | \$ 11,747,950 |
| Realized and unrealized losses | - | (129,422) | (129,422) |
| Purchases and contributions | 6,783,335 | - | 6,783,335 |
| Sales, distributions, and collections | (7,475,665) | (442,000) | (7,917,665) |
| Net change in discount | (3,268) | - | (3,268) |
| Transfers in (out) of Level 3 | - | - | - |
| Ending Balance, June 30, 2016 | <u>\$ 2,630,036</u> | <u>\$ 7,850,894</u> | <u>\$ 10,480,930</u> |

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

Level 3 Liabilities For the Year Ended June 30, 2016

| | Grants Payable, Net | Balance as of June 30, 2016 |
|---------------------------------|--------------------------------|--|
| Beginning Balance, July 1, 2015 | \$ 6,547,167 | \$ 6,547,167 |
| Grants awarded | 1,566,574 | 1,566,574 |
| Grants paid | (2,848,920) | (2,848,920) |
| Transfers in (out) of Level 3 | - | - |
| Ending Balance, June 30, 2016 | <u>\$ 5,264,821</u> | <u>\$ 5,264,821</u> |

Note 4. Pledges Receivable

Pledges receivable are valued at the net present value of expected future cash outflows which approximates fair value. The applicable U.S. Treasury rate was used as the discount rate and ranged from 1.03% to 1.69%. In accordance with FASB ASC 820, *Fair Value Measurements*, pledges receivable due for payment in less than one year are considered short term and not discounted for present value purposes.

Unconditional pledges receivable consist of the following at June 30:

| | 2017 | 2016 |
|--|----------------------------|----------------------------|
| Receivables due in less than one year | <u>\$ 2,379,839</u> | <u>\$ 2,554,725</u> |
| Less: Reserve for uncollectible pledges | <u>(103,217)</u> | <u>(113,140)</u> |
| Receivables due in less than one year, net | 2,276,622 | 2,441,585 |
| Receivables due in one to five years | 60,000 | 195,000 |
| Less discount to net present value | <u>(1,798)</u> | <u>(6,549)</u> |
| Receivables due in one to five years, net | 58,202 | 188,451 |
| Unconditional Pledges Receivable, Net | <u><u>\$ 2,334,824</u></u> | <u><u>\$ 2,630,036</u></u> |

As of June 30, 2017, Federation had a conditional pledge receivable totaling \$2,467,839 from a major donor to co-fund MOTIV, a multi-faceted Jewish Teen Initiative in San Diego County. The promise is conditioned upon Federation raising a 1-to-1 matching from other sources over the next three years.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 5. Note Receivable

Federation issued a seven-year promissory note for \$147,000 in January 2014 to a related party, UJF Holdings Corp. ("UJF") for the purpose of completing tenant improvements in the office space occupied by Federation and other Jewish community tenants.

| | <u>2017</u> | <u>2016</u> |
|---|------------------|------------------|
| Promissory note with UJF dated January 1, 2014. Interest payments due in quarterly installments at 1.2% per annum beginning January 1, 2014, matures December 1, 2020. UJF to pay thirty-two payments of \$5,476.21 each at quarterly intervals on the first day of each quarter beginning April 1, 2014. Payments will be applied to principal and interest. | \$ 80,608 | \$ 101,454 |
| Less: Current Portion | <u>(21,905)</u> | <u>(21,905)</u> |
| Note Receivable, Less Current Portion | <u>\$ 58,703</u> | <u>\$ 79,549</u> |

Interest income of \$1,058 and \$1,672 was recognized during the years ended June 30, 2017 and 2016, respectively.

Note 6. Property and Equipment

Property and equipment consists of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|-------------------|-------------------|
| Leasehold Improvements | \$ 359,618 | \$ 359,618 |
| Office Furniture and Equipment | 187,708 | 187,708 |
| Computer Hardware and Software | <u>229,541</u> | <u>222,233</u> |
| Subtotal | 776,867 | 769,559 |
| Less: Accumulated Depreciation | <u>(636,198)</u> | <u>(593,212)</u> |
| Total Property and Equipment, Net | <u>\$ 140,669</u> | <u>\$ 176,347</u> |

Depreciation expense was \$42,985 and \$55,257 for the years ended June 30, 2017 and 2016, respectively.

Note 7. Grants Payable

Grants payable consists of approved grant commitments. Grants payable due in greater than one year are discounted to present value using risk-adjusted rates of return. At June 30, 2017, the entire grants payable balance is expected to be paid in the following fiscal year.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Restricted funds to support programs | \$ 1,653,806 | \$ 2,724,989 |
| Milton and Madeline Goldberg Fund | - | 1,765,306 |
| Sunshine Brooks Fund | <u>14,695</u> | <u>-</u> |
| Total Temporarily Restricted Net Assets | <u>\$ 1,668,501</u> | <u>\$ 4,490,295</u> |

The terms of the Milton D. and Madeline L. Goldberg Fund state that the funds must be held as an endowment until January 2017. Income earned on these funds is required to be allocated to the JDC. When the restriction expires, the principal may be used for any purpose consistent with the JDC. The balance of this fund was transferred to the JDC by June 30, 2017.

The Hattie H. Brooks Trust distributed \$2.5 million to Federation in 2000 to be held as a separate fund to be known as the Sunshine Brooks Fund with the income to be used for general operating purposes (see further disclosure at Note 9).

Temporarily Restricted Net Assets in the amount of \$1,059,095 and \$2,080,667 were released from donor restrictions by incurring expenses and events satisfying the purpose or time restrictions specified by donors for the years ended June 30, 2017 and 2016, respectively.

Note 9. Endowment Net Assets

As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. Federation's endowment consists of an individual fund with such restrictions.

Federation has interpreted the enacted version of the 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, Federation 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 applicable donor gift instrument at the time of 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 Federation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, Federation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 9. Endowment Net Assets (Continued)

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 Federation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets totaled \$0 and \$5,468 at June 30, 2017 and 2016, respectively.

Federation has adopted investment and spending policies for endowment funds that:

1. Protect the invested asset,
2. Preserve spending capacity of the fund income,
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a minimal level, and
4. Comply with applicable laws.

Federation's endowment funds are invested at Jewish Community Foundation in the Endowment Pool which is structured for long-term total return.

Federation has a policy of appropriating for distribution each year an amount up to 7% of the fair value of the twelve-quarter rolling average of the assets associated with the endowment as of the quarter prior to the year end. In establishing this policy, Federation considered the long-term expected return on its endowment. Over the long-term, Federation expects the current spending policy to allow the endowment to meet the needs of Federation. This is consistent with Federation's objectives to balance purchasing power of the endowment assets held in perpetuity, provide additional growth through new gifts and investments returns, as well as provide a funding source for investment in Federation programs and services. Distributions in the amount of \$392,000 (5.7% of the twelve-quarter rolling average) and \$0 (0% of the twelve-quarter rolling average) were made for the years ended June 30, 2017 and 2016, respectively.

Endowment composition by type of fund as of June 30:

| | 2017 | | | Total |
|--------------------------------|---------------------|-------------------------------|-------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Unrestricted Operations Fund – | | | | |
| Quasi Endowment | \$ 2,240,425 | \$ - | \$ - | \$ 2,240,425 |
| Sunshine Brooks Fund | - | 14,695 | - | 14,695 |
| Total Endowment Funds | <u>\$ 2,240,425</u> | <u>\$ 14,695</u> | <u>\$ -</u> | <u>\$ 2,255,120</u> |

| | 2016 | | | Total |
|--------------------------------|---------------------|-------------------------------|-------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Unrestricted Operations Fund – | | | | |
| Quasi Endowment | \$ 3,591,056 | \$ - | \$ - | \$ 3,591,056 |
| Sunshine Brooks Endowment | (5,468) | - | 2,500,000 | 2,494,532 |
| Total Endowment Funds | <u>\$ 3,585,588</u> | <u>\$ -</u> | <u>\$ 2,500,000</u> | <u>\$ 6,085,588</u> |

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 9. Endowment Net Assets (Continued)

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

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment Net Assets at June 30, 2015 | \$ 3,994,749 | \$ 33,150 | \$ 2,500,000 | \$ 6,527,899 |
| Investment return: | | | | |
| Interest and dividends | 101,746 | 64,519 | - | 166,265 |
| Net realized and unrealized losses | (165,785) | (95,689) | - | (261,474) |
| Investment expenses | (3,122) | (1,980) | - | (5,102) |
| Total Net Investment Loss | (67,161) | (33,150) | - | (100,311) |
| Board-designated transfers | (342,000) | - | - | (342,000) |
| Appropriation of endowment net assets | - | - | - | - |
| Endowment Net Assets at June 30, 2016 | \$ 3,585,588 | \$ - | \$ 2,500,000 | \$ 6,085,588 |
| Investment return: | | | | |
| Interest and dividends | 73,367 | 40,729 | - | 114,096 |
| Net realized and unrealized gains | 477,181 | 259,634 | - | 736,815 |
| Investment expenses | (3,955) | (2,201) | - | (6,156) |
| Total Net Investment Income | 546,593 | 298,162 | - | 844,755 |
| Transfers | | | | |
| Board-designated transfers | (1,891,756) | (283,467) | 3,306,962 | 1,131,739 |
| Transfer to Endowment | - | - | (5,806,962) | (5,806,962) |
| Appropriation of endowment net assets | - | - | - | - |
| Endowment Net Assets at June 30, 2017 | \$ 2,240,425 | \$ 14,695 | \$ - | \$ 2,255,120 |

Federation has a beneficial interest in certain endowment funds held by Jewish Community Foundation (“JCF”), in which Federation has not recorded this asset in the accompanying financial statements as JCF maintains variance power over these funds. JCF’s spending policy is to disburse 5% annually, based upon endowment principal market value. If the market value of the endowment principal of any fund, at the end of each month, is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received. The distributions are used to further Federation’s mission. Federation received \$200,241 and \$161,565 in distributions from these funds for the years ended June 30, 2017 and 2016, respectively. The fair value of the beneficial interest in these funds at the JCF totaled \$4,440,209 and \$4,209,187 at June 30, 2017 and 2016, respectively.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 9. Endowment Net Assets (Continued)

In 1998, Federation's Board of Directors ("Board") voted to earmark a portion of unrestricted net assets as a Board Designated – Quasi Endowment. The earmarked funds are to be invested with earnings available for unrestricted use by Federation. The Board can elect to end its restriction on these assets and remove the assets from the quasi-endowment at any time it chooses. The Board performs an annual analysis of its designated assets in comparison to the assets available for designation to determine if restrictions should be amended.

In 2017, the Board elected to create a permanent endowment fund, a separate legal entity named The Endowment for Federation ("Endowment") to be held at the JCF whereby Federation is the sole beneficiary. The Board released \$3,330,600 from the Board Designated - Quasi Endowment and unrestricted funds to support the long term perpetual funding of Federation through this Endowment. Federation also elected to move \$2,500,000 from the Sunshine Brooks Fund into the Endowment.

The Endowment does not meet the requirements of consolidation under U.S. GAAP. Upon transfer of funds, Federation recorded a beneficial interest in assets held by others ("Beneficial Interest") of \$5,830,600 for their interest in this Endowment. In accordance with U.S. GAAP, Federation remeasures fair value of the Beneficial Interest annually and records the change in fair value within contribution income in the statements of activities. Unrealized loss on the change in fair value of the Beneficial Interest was \$23,638 at June 30, 2017.

Note 10. Retirement Plan

Federation provides a 403(b) Thrift Plan (the "Plan"), which is administered by Mutual of America. The Plan covers substantially all of Federation's full-time employees. Federation made contributions to the Plan for eligible employees equal to the lesser of 50% of the participants' contributions during the Plan year or 1.5% of the participants' eligible compensation through December 31, 2008. Beginning January 1, 2009, Federation made contributions for eligible employees equal to 7% of compensation up to \$30,000 and an additional 4.3% of compensation in excess of \$30,000. Effective April 1, 2017, Federation's contribution changed to the lesser of 50% of the participant's contributions during the Plan year or 2.5% of the participants' eligible compensation. Federation's contributions to the Plan totaled \$86,176 and \$204,902 for the years ended June 30, 2017 and 2016, respectively. Federation incurred no administrative expenses on this Plan in 2017 and 2016.

Note 11. Analysis of Operating Lease

Federation leases its office facilities from UJF Holdings Corp. ("UJF"), a related party, and is in the fifth year of a ten-year lease with options for four additional five-year terms. Federation paid rent to UJF totaling \$127,070 and \$126,433, utilizing a co-operative cost sharing model for all building tenants for the years ended June 30, 2017 and 2016, respectively (see further disclosure at Note 12).

Future minimum payments under the non-cancelable operating lease as of June 30, 2017 are as follows:

Years ending June 30:

| | |
|--------------|-------------------|
| 2018 | 127,070 |
| 2019 | 129,611 |
| 2020 | 132,203 |
| 2021 | 134,847 |
| 2022 | 137,544 |
| Thereafter | 140,295 |
| Total | \$ 801,570 |

JEWISH FEDERATION OF SAN DIEGO COUNTY

SUPPLEMENTARY INFORMATION

Note 12. Related Party Transactions

Three officers of Federation serve as officers of UJF Holdings Corp. (“UJF”). Federation provides support services to UJF and pays UJF for rent. Federation charged UJF support services fees of \$80,500 and \$77,979 and paid rent in the amount of \$127,070 and \$126,433 for the years ended June 30, 2017 and 2016, respectively. Amounts (Due To) and Due From UJF as of June 30, 2017 and 2016 amounted to \$87,491 and \$175,289, respectively (see further disclosure of related party transactions at Note 5 and Note 11).

Note 13. Subsequent Events

In October 2017, a donor withdrew support for one of Federation’s annual events, resulting in a loss on pledges receivable of \$60,000. Additionally, another donor withdrew a multi-year commitment in support of one of Federation’s program areas resulting in a loss on pledges receivable of \$170,000. Federation has recorded these losses in the statement of activities for the year ended June 30, 2017.