HEBREW FREE LOAN ASSOCIATION

(A NON-PROFIT ORGANIZATION)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED MAY 31, 2016

C O N T E N T S

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hebrew Free Loan Association
Bloomfield Hills, Michigan

We have audited the accompanying financial statements of Hebrew Free Loan Association, (a nonprofit organization), which comprise the statement of financial position as of May 31, 2016, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hebrew Free Loan Association as of May 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of Hebrew Free Loan Association as of May 31, 2015, were audited by other auditors whose report dated October 1, 2015, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended May 31, 2015, is presented for the purpose of analysis and has not been subjected to audit procedures by us. Accordingly, we express no opinion or other form of assurance on the comparative information.

Layton & Richardson, P.C

Certified Public Accountants

East Lansing, Michigan
September 22, 2016

HEBREW FREE LOAN ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	MAY 31, 2016	MAY 31, 2015
CURRENT ASSETS		
Cash and cash equivalents	$ 1,877,392	$ 1,577,153
Pledges receivable (net of allowance for uncollectible pledges of $11,138 and $25,812)	144,375	340,876
Bequests receivable		180,000
Prepaid expense	350	
TOTAL CURRENT ASSETS	2,022,117	2,098,029
LOANS RECEIVABLE (net of allowance for doubtful accounts of $59,235 and $51,550)	3,773,675	3,543,645
PROPERTY AND EQUIPMENT		
Property and equipment	260,926	255,102
Less: accumulated depreciation	(190,583)	(159,789)
NET PROPERTY AND EQUIPMENT	70,343	95,313
OTHER ASSETS		
Investment in certificates of deposit	3,082,194	3,199,339
Beneficial interest in endowment funds	1,077,773	710,047
TOTAL OTHER ASSETS	4,159,967	3,909,386
TOTAL ASSETS	$ 10,026,102	$ 9,646,373

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	MAY 31, 2016	2015
CURRENT LIABILITIES		
Accounts payable	$ 6,275	$ 3,907
Accrued payroll liabilities	45,574	44,371
TOTAL CURRENT LIABILITIES	51,849	48,278
LONG-TERM LIABILITIES		
Note payable - Fisher Foundation	198,000	198,000
Note payable - United Jewish Foundation	28,175	31,520
TOTAL LONG-TERM LIABILITIES	226,175	229,520
NET ASSETS		
Unrestricted	8,670,305	8,317,652
Temporarily restricted		340,876
Total in unrestricted/restricted	8,670,305	8,658,528
Beneficial interest in endowments		
Temporarily restricted	21,416	(25,336)
Permanently restricted	1,056,357	735,383
Total beneficial interest in endowments	1,077,773	710,047
TOTAL NET ASSETS	9,748,078	9,368,575
TOTAL LIABILITIES AND NET ASSETS	$ 10,026,102	$ 9,646,373

HEBREW FREE LOAN ASSOCIATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MAY 31, 2016
WITH SUMMARIZED DATA FOR THE YEAR ENDED MAY 31, 2015

	2016				2015
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
PUBLIC SUPPORT AND REVENUE					
SUPPORT					
Contributions	$ 514,849	$	$	$ 514,849	760,983
Grants - United Jewish Foundation	150,629			150,629	152,913
Grants - Other					100,000
TOTAL PUBLIC SUPPORT	665,478			665,478	1,013,896
REVENUE					
Unrealized gain (loss) on investments	15,019			15,019	22,633
Interest income	13,862			13,862	17,762
Service fee income		22,920		22,920	22,920
TOTAL REVENUE	28,881	22,920		51,801	63,315
Net assets released from restrictions	363,796	(363,796)			
TOTAL PUBLIC SUPPORT AND REVENUE	1,058,155	(340,876)		717,279	1,077,211
EXPENSES					
Program Services					
Hebrew Free Loan	440,418			440,418	432,479
Wm Davidson Jewish College Loan Program	157,427			157,427	160,861
Total program services	597,845			597,845	593,340
Supporting Services					
Management and general	93,809			93,809	91,251
Development	107,200			107,200	109,695
Total supporting services	201,009			201,009	200,946
TOTAL EXPENSES	798,854			798,854	794,286
CHANGE IN NET ASSETS BEFORE BENEFICIAL INTEREST	259,301	(340,876)		(81,575)	282,925
CHANGE IN THE BENEFICIAL INTEREST IN ENDOWMENTS					
Contributions from the endowments	93,352			93,352	
Change in net assets of the endowments		46,752	320,974	367,726	98,715
TOTAL CHANGE IN BENEFICIAL INTEREST	93,352	46,752	320,974	461,078	98,715
NET CHANGE IN NET ASSETS	352,653	(294,124)	320,974	379,503	381,640
NET ASSETS, JUNE 1	8,317,652	315,540	735,383	9,368,575	8,986,935
NET ASSETS, MAY 31	$ 8,670,305	$ 21,416	$ 1,056,357	$ 9,748,078	9,368,575

See accompanying notes to financial statements.

HEBREW FREE LOAN ASSOCIATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED MAY 31, 2016

WITH SUMMARIZED DATA FOR THE YEAR ENDED MAY 31, 2015

	2016							2015
	PROGRAM SERVICES			SUPPORTING SERVICES				
	HEBREW FREE LOAN	WM DAVIDSON JEWISH COLLEGE LOAN PROGRAM	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL SUPPORTING SERVICES	TOTAL FUNCTIONAL EXPENSES	TOTAL FUNCTIONAL EXPENSES
Salaries and related benefits	$ 241,977	$ 106,994	$ 348,971	$ 78,945	$ 76,203	$ 155,148	$ 504,119	$ 518,100
Bad debts	27,644		27,644				27,644	6,915
Depreciation and amortization	14,004	16,790	30,794				30,794	31,715
Dues				1,800		1,800	1,800	1,800
Miscellaneous	1,635	10	1,645	5,426	33	5,459	7,104	3,810
Occupancy	49,288		49,288	2,738	2,738	5,476	54,764	57,048
Office administration	59,224	16,486	75,710		22,613	22,613	98,323	88,629
Postage	5,532	1,207	6,739		1,068	1,068	7,807	8,770
Printing and publications	1,694	414	2,108		750	750	2,858	4,841
Professional fees and consulting	35,143	12,167	47,310	4,900	3,795	8,695	56,005	65,242
Telephone	3,359	3,359	6,718				6,718	6,450
Annual meeting	918		918				918	966
	$ 440,418	$ 157,427	$ 597,845	$ 93,809	$ 107,200	$ 201,009	$ 798,854	$ 794,286

See accompanying notes to financial statements.

HEBREW FREE LOAN ASSOCIATION

STATEMENTS OF CASH FLOWS

	MAY 31, 2016	MAY 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 379,503	$ 381,640
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	30,794	31,715
Unrealized gain on investments	(15,019)	
(Increase) decrease in current assets		
Prepaid expense	(350)	
Accounts receivable	180,000	
Pledges receivable	196,501	102,001
Increase (decrease) in current liabilities		
Accounts payable	2,368	(4,211)
Payroll withholdings	1,203	50
Accrued liabilities		37,750
Accrued retirement		6,460
NET CASH PROVIDED BY OPERATING ACTIVITIES	775,000	555,405
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans receivable	(230,030)	(421,737)
Purchase of fixed assets	(5,824)	(8,341)
Proceeds from sale of investments	169,652	249,489
Reinvestment of investment earnings	(37,488)	(22,633)
Increase in beneficial interest in endowment funds	(461,078)	(105,648)
Proceeds from beneficial interest endowment funds	93,352	29,566
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(471,416)	(279,304)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in notes payable	(3,345)	(2,300)
NET INCREASE IN CASH AND CASH EQUIVALENTS	300,239	273,801
CASH AND CASH EQUIVALENTS, JUNE 1	1,577,153	1,303,352
CASH AND CASH EQUIVALENTS, MAY 31	$ 1,877,392	$ 1,577,153

See accompanying notes to financial statements.

NOTE 1: **BACKGROUND**

Hebrew Free Loan Association (the Association) was incorporated in 1895 as a Michigan non-profit corporation. The Association's program and supporting services are as follows:

Program Services

Hebrew Free Loan – The Association loans funds to members of the Michigan Jewish community whose financial needs cannot be met through traditional means. The loans are made interest-free as required by the Association's charter and in accordance with Jewish tradition.

Wm Davidson Jewish College Loan Program (formerly Jewish Education Loan Service) – In addition, the Association administers the Wm Davidson Jewish College Loan Program (JCLP) as part of the Association and on behalf of various community foundations and agencies. The JCLP provides support to students in need, based on certain criteria. The funding community foundations and agencies provide interest-free loans to the students.

Supporting Services

Management and General – Represents the functions necessary to maintain an adequate working environment, provide proper administrative support of the Association's programs and manage the financial and budgeting responsibilities of the Association.

Development – Provide the structure necessary to encourage and secure support from individuals, foundations and corporations.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Basis of Presentation

Unrestricted Net Assets – Net assets represent the resources available for use in carrying on the operations of the Organization. The unrestricted portion is under the discretionary control of the Board, and it is against this fund that all expenditures for current operations are charged.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Association and/or the passage of time. When a restriction expires, temporary restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. (The Association's temporary restricted assets are due only to the passage of time).

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that must be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on investment of these assets.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -** Continued

Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of support and revenue and functional expense and other changes in net assets during the reporting period. Accordingly, actual results could differ from those estimated by management.

Cash and Cash Equivalents

The Association defines cash and cash equivalents as highly liquid, short-term investments with a maturity of three months or less. At May 31, 2016 and 2015, cash and cash equivalents consist of monies held in checking, savings and money market accounts held at financial institutions and certificates of deposit held at a financial services company. At year end any certificate of deposit with a mature date of three (3) months or less will be recorded as cash equivalent.

Investments

The Association invests in highly liquid certificates of deposit each with an original maturity date anywhere from twelve (12) months to twenty-four (24) months. Certificates of deposit with greater than three months will be treated as available for sale investments at May 31, 2016.

Loans Receivable

The Association's loans receivable are recorded at the value of the loan proceeds when issued, net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on 1½% of new loans made each month adjusted at year end based on management's evaluation of the loans receivable outstanding.

Property and Equipment

All tangible property is recorded at cost. Expenditures for maintenance and repairs are charged to operations in the year incurred. Depreciation and amortization are computed over estimated useful lives of 3-15 years using the straight-line method.

Impairment of Long-Lived Assets

The Association reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of the asset. To date, there have been no such losses.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

Beneficial Interest in Endowment Funds

The Organization is the designated beneficiary of endowment funds held by Jewish Federation of Metropolitan Detroit and United Jewish Foundation of Metro Detroit ("JFMD/UJF"). A portion of these funds are restricted as to use by donors and all funds are restricted through consent of JFMD/UJF. At May 31, 2016 amounts held in permanently and temporarily restricted net assets associated with the beneficial interest in endowment funds totaled $1,077,773.

Contributions

Contributions are generally reported as increases to unrestricted net assets, unless specifically restricted by the donor. Contributions and investment income with donor-imposed restrictions are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when expenses are incurred that satisfy the donor-imposed restrictions or upon expiration of donor-imposed time restrictions. Contributions are unconditional transfers of cash or other assets.

Pledges Receivable

The Association receives pledges and bequest of financial support. Support revenue is recognized when pledges representing an unconditional promise to give are received. In the absence of such promises, revenue is recognized when pledges are paid. Conditional promises to give are not included as support until the conditions are met.

Bequests are recognized as support when the funds are determined to be receivable.

Donated Services

The Association recognizes donated assets and services at fair market value to the extent that the assets and services would typically have to be purchased by the Association if they had not been provided by contribution. No donated assets or services of this nature were received in the current year.

Amounts of other donated services have not been reflected in the statements since no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of time to the Association's program services and fundraising efforts.

Fair Value of Financial Instruments

The Association has estimated the fair value of their financial instruments using the following methods and assumptions:

The carry amounts of cash, pledges receivable, and accounts payable approximate fair value due to their short-term nature.

Loans receivable and Notes payable are recorded at their fair values. The loans are interest free as described under program services and no fluctuation in value would exist because of market conditions.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the related support is reported in the statement of activities as net assets released from restrictions. Contributions with donor-imposed restrictions that are met in the same year as the gifts are received are reported as revenue in the unrestricted net asset class. Contributions of assets other than cash are recorded at their estimated fair value.

Functional Expenses

The costs of providing program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Costs are allocated between the various programs and support services on an actual basis, or based upon reasonable methods. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Risks and Uncertainties

The Association has endowment investments that are pooled with investments from United Jewish Foundation (UJF). UJF holds various investments in any combination of stocks, bonds, fixed-income securities, mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks.

Given the level of risk associated with certain investment securities and the level of uncertainty related to the changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect investment balances and the amounts reported in the statement of financial position and the statement of activities.

Income Taxes

The Organization is exempt under Section (501)(c)(3) of the Internal Revenue Code. Taxes are recorded and paid on business income that is not substantially related to the Organization exempt purposes. The Organization is not classified as a private foundation by the Internal Revenue Service.

Professional standards prescribe a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization’s financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at May 31, 2016.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Concluded

Income Taxes - Concluded

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to May 31, 2012.

Advertising

Advertising costs are expenses as incurred. Advertising costs for the years ended May 31, 2016 was $26,795.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported Statement of Financial Position.

Date of Management's Review

Subsequent events have been evaluated through September 22, 2016, which is the date the financial statements were available to be issued.

NOTE 3: **LOANS RECEIVABLE AND LOANS PAYABLE**

The Association provides loans for a number of specific and general purposes to members of the Jewish community. The loans are interest free and unsecured but generally require that the loan be co-signed by a guarantor. The loans are issued as on demand notes with no repayment schedule.

In addition to the funds that the Association had available, UJF and another foundation have provided interest-free loans to the Association to be used for specific purpose lending. The loans have no repayment requirements and are due in 2019. The Association has loaned out these specific amounts and currently the balance outstanding on these loans receivable related to this debt is $226,175 at May 31, 2016. Because the amounts that are written off as bad debt are allowed to decrease the liability, no allowance for doubtful accounts is included herein on those receivables. The total payable to UJF and the foundation at May 31, 2016 is $226,175.

The Association is responsible for the administration of the Jewish College Loan Fund (JCLP) on behalf of various foundations and community agencies. The loans receivable, with a face value of approximately $5,105,631 at May 31, 2016, represent the balance of loans made to students with a corresponding loan payable to the funding foundations and agencies of the JCLP.

The JCLP loans are not reflected on the statement of financial position of the Association because the Association is the administrator for the loans. The Association has no credit risk associated with the collectability of these loans receivable. Accordingly, an amount payable has been recorded to offset the loan funds.

NOTE 3: **LOANS RECEIVABLE AND LOANS PAYABLE -** Concluded

The loan activity associated with the Association's programs for the year ended May 31, is as follows:

	2016
Balance at beginning of year	$ 3,543,645
Loans made	1,721,401
Loan repayments	(1,468,495)
Loan write-offs	(17,341)
Change in allowance for doubtful account	(5,535)
Balance at end of year	$ 3,773,675

NOTE 4: **CONCENTRATIONS**

Balances maintained at local financial institutions and the financial services company are insured by Federal Deposit Insurance Corporation (FDIC) up to $250,000. At May 31, 2016, balances in excess of the $250,000 insurance limit, based on financial institution records, approximated $40,166. At May 31, 2016, there were 2 certificates of deposit at a single bank which exceeded of the $250,000 insurance limit at the financial services company. At May 31, the cash balance in money market accounts in excess of SIPC insurance limit of $500,000 is $172,461.

NOTE 5: **GUARANTEE OF DEBT**

The Association, as part of the Small Business Loan Program, will guarantee the debt of business loans that are made through coordinated efforts with a financial institution. The financial institution requires the Association to maintain deposits sufficient to reimburse the Associations guarantee of debt. At May 31, 2016, the Association had $50,000 on deposit with the bank to serve as collateral on the loans. Management anticipates these loans will be repaid in full, therefore these obligations are not included on the balance sheet. The balance of the loan at May 31, 2016 is $63,799 of which the association has guaranteed 25% of the balance upon default, or $15,950.

NOTE 6: **FAIR VALUE MEASUREMENTS**

Fair Value Measurements in accordance with GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes that inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

NOTE 6: **FAIR VALUE MEASUREMENTS -** Continued

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets of liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Fair value is a market-based measure, based on assumptions of prices and inputs considered from the perspective of a market participant that are current as of the measurement date, rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Organization's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

The Organization's policy is to recognize transfers in and out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of fair value hierarchy during the year ended May 31, 2016.

Following is a description of the valuation methodologies used for assets measured at fair value at May 31, 2016.

<u>Level 3</u>

The Jewish Federation and United Jewish Federation of Detroit (UJF) (a financially inter-related entity) act under an arrangement as depositories for gifts, conveyances, and other transfers intended to assist the Association in achieving its goals and purposes. These endowment funds are invested as part of a pooled income portfolio that invests in various equity and fixed-income investments that are publically traded securities. While these investments are classified at various levels in the financial statement of UJF, the Association must classify the investments as Level 3 investments as the detail of the specific investments is not readily available to recalculate fair values of said investments. The Organization's beneficial interest in amounts held by the UJF at May 31, 2016, has been recorded at fair value and amounted to $1,077,773.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 6: **FAIR VALUE MEASUREMENTS -** Concluded

The following tables present by level, within the fair value hierarchy, the Organization investment assets at fair value, as of May 31, 2016. As required by GAAP, investment assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

	FAIR VALUE OF MEASUREMENTS AT REPORTING DATE USING:			
	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)	TOTAL
MAY 31, 2016				
Beneficial interest in assets held at United Jewish Federation	$	$	$ 1,077,773	$ 1,077,773
TOTAL	$	$	$ 1,077,773	$ 1,077,773

The following schedule summarizes changes in Level 3 assets measured at fair value on a recurring basis for the year ended May 31, 2016:

	Beneficial Interest in Endowment Funds
Balance at May 31, 2015	$ 710,047
Contribution	500,552
Change in value of funds	(29,224)
Income distributed	(103,602)
Balance at May 31, 2016	$ 1,077,773

NOTE 7: **ENDOWMENT FUNDS**

The Association has specific endowment funds that are held by UJF. These endowment funds are established by donors and are held by UJF, as a financially inter-related entity, for the benefit of the Association.

Interpretation of Relevant Law

The Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets, the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment.

NOTE 7: **ENDOWMENT FUNDS –** Continued

The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association or UJF in the manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association and UJF 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 the Association 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 the Association
The investment policies of the Association and UJF

Funds with Deficiencies

From time to time, the fair value associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA require the associations to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred. Subsequent gains that restore the fair value of the assets of endowment funds to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

The endowment funds are invested and held at UJF. The investment policies for endowment assets attempt to provide a predictable stream of funding to the programs and are supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Association must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the governing board of UJF, the endowment assets are invested in a manner that is intended to produce results that exceed 5% annually while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy the long-term rate-of-return objectives, strategies are put in place in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividend income). The target is a diversified asset allocation that places a great emphasis on equity based investments to achieve its long-term objectives.

NOTE 7: **ENDOWMENT FUNDS –** Concluded

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association receives quarterly distribution from UJF from their portion of the pooled endowment investments. These quarterly distributions represent approximately 5.5% of the endowment base. The endowment base is defined as the three-year moving average of the market value of the total endowment portfolio. The current spending policy will allow for growth of approximately 2% annually. This is consistent with the objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

The donors who established the endowment funds have permanently restricted the use of their contributions. The investment gains (losses) of these funds and miscellaneous contributions to the funds are temporarily restricted until withdrawals are made for specific purposes, or for general activities, as allowed by donor provisions.

Endowment net assets composition as a May 31, 2016 are as follows:
(per unaudited documents received from UJF)

	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL NET ENDOWMENT ASSETS
Donor-restricted	$ 21,416	$ 1,056,357	$ 1,077,773

Changes in endowment net assets as of May 31, 2016 are as follows:

	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL NET ENDOWMENT
Endowment net assets, beginning of the year	$(25,336)	$ 735,383	$ 710,047
Income from investments	(29,224)		(29,224)
Contributions	175,552	325,000	500,552
Management fees	(6,224)		(6,224)
Quarterly distributions received	(93,352)		(93,352)
Released		(4,026)	(4,026)
Endowment net assets, end of year	$ 21,416	$ 1,056,357	$ 1,077,773

NOTE 8: **PLEDGES RECEIVABLE**

Donors pledge contributions to the Association to be received over a period of years. The pledge is recorded as pledges receivable in the year promised at the present value of expected future cash flows, net of allowances for uncollectible amounts. The present value is computed using appropriate discount rates of 1.5 percent for the year ended May 31, 2016.

NOTE 8: **PLEDGES RECEIVABLE -** Concluded

The Association has calculated an allowance for uncollectible pledges receivable based on management's judgment. The factors that were considered in the calculation are prior collection history and type of contributions.

Unconditional promises to give at May 31, are as follows:

	2016
Receivable in less than one year	$ 155,513
Less: allowance for uncollectible pledges	(8,553)
Discount to Net Assets value	(2,585)
Net unconditional promises to give	$ 144,375

To comply with the requirements of FASB ASC 958-605, unconditional promises to give are recorded as temporarily restricted net assists until received.

NOTE 9: **PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at May 31,

	2016
Computer equipment	$ 140,764
Furniture and equipment	30,635
Leasehold improvements	89,527
Total cost	260,926
Less: accumulated depreciation and amortization	(190,583)
Net carrying amount	$ 70,343

Depreciation and amortization expense for the year ended May 31, 2016 totaled $ 30,794.

NOTE 10: **OPERATION LEASE**

The Association leases its office facilities under a three year agreement with UJF, dated March 5, 2015 and expiring May 2018. The Association will receive a grant allocation from UJF for a portion of the lease payment and the rental payment is recorded at fair rental value of the leased premises. Total occupancy expense for the year ended May 31, 2016 was $ 54,764.

NOTE 10: **OPERATION LEASE -** Concluded

Future minimum lease payments under the lease are as follows:

Year Ending May 31:	Amount
2017	$ 57,330
2018	59,676
Total	$ 117,006

NOTE 11: **EMPLOYEE PENSION PLAN**

The Association is a constituent agency of Jewish Federation of Metropolitan Detroit (JFMD) and participates in a qualified pension plan covering the non-union employees of JFMD and its affiliates. Pension costs are allocated by JFMD and are billed to the Association. Accumulated pension benefits and plan net assets are not segregated between the various employer units. The Association's allocable pension expense for the year ended May 31, 2016 was $1,580.

The plan was underfunded, and in the event that the Association had no assists available to pay their contribution, the costs would have been covered by JFMD. Effective December 31, 2014, JFMD froze the Plan.

During the year ended May 31, 2016, the Association completed the process of obtaining a voluntary closing agreement regarding this plan. The matter was resolved completely and no further action was taken regarding the plan.

Effective January 1, 2015, the Association began offering a defined contribution 403(b) retirement plan to all employees who meet eligibility requirements. The plan allows for employee contributions along with a discretionary employer contribution of four percent (4%) of eligible employees' salary. Employer contributions to the plan are $16,711 for the year ended May 31, 2016, this full amount is reflected in retirement contributions accrued.