# HEBREW FREE LOAN ASSOCIATION

(A NON-PROFIT ORGANIZATION)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED MAY 31, 2019 AND 2018

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CLARK SCHAEFER HACKETT
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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, 2019, and the related statement 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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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, 2019, 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.

***Prior Period Financial Statements***

The financial statements of Hebrew Free Loans as of May 31, 2018, were audited by Layton & Richardson, P.C., who merged with Clark, Schaefer, Hackett & Co., as of July 1, 2019, whose report dated October 8, 2018, expressed an unmodified opinion on those statements.

***Emphasis of Matter- Change in Accounting Principles***

As described in Note 2: Reclassifications to the financial statements, the Association adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to that matter.

Clark, Schaefer, Hackett & Co.

East Lansing, Michigan
September 19, 2019

**HEBREW FREE LOAN ASSOCIATION**

STATEMENTS OF FINANCIAL POSITION

ASSETS

| | MAY 31, 2019 | MAY 31, 2018 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 769,205 | $ 1,007,069 |
| Investment in certificates of deposit | 3,707,482 | 3,419,430 |
| Pledges receivable (net of allowance of $0 and $14,593) | 274,500 | 204,919 |
| Prepaid expense | 92 | |
| TOTAL CURRENT ASSETS | 4,751,279 | 4,631,418 |
| LOANS RECEIVABLE (net of allowance for doubtful accounts of $61,629 and $64,228) | 4,499,903 | 4,189,644 |
| PROPERTY AND EQUIPMENT | | |
| Property and equipment | 310,311 | 298,526 |
| Less: accumulated depreciation | (258,102) | (239,603) |
| NET PROPERTY AND EQUIPMENT | 52,209 | 58,923 |
| OTHER ASSETS | | |
| Investment in certificates of deposit | 1,082,384 | 877,188 |
| Pledges receivable (net of allowance for uncollectible pledges of $53,845 and $0) | 618,012 | |
| Beneficial interest in endowment funds | 1,022,796 | 1,138,642 |
| TOTAL OTHER ASSETS | 2,723,192 | 2,015,830 |
| TOTAL ASSETS | $ 12,026,583 | $ 10,895,815 |

See accompanying notes to financial statements.

## LIABILITIES AND NET ASSETS

| | MAY 31, 2019 | MAY 31, 2018 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $ 10,285 | $ 9,734 |
| Accrued payroll liabilities | 57,470 | 46,057 |
| Current portion of long-term debt | 226,175 | |
| TOTAL CURRENT LIABILITIES | 293,930 | 55,791 |
| LONG-TERM LIABILITIES | | |
| Note payable - Fisher Foundation | | 198,000 |
| Note payable - United Jewish Foundation | | 28,175 |
| TOTAL LONG-TERM LIABILITIES | | 226,175 |
| NET ASSETS | | |
| Net assets without donor restrictions | 9,817,345 | 9,270,288 |
| Net assets with donor restrictions | 1,915,308 | 1,343,561 |
| TOTAL NET ASSETS | 11,732,653 | 10,613,849 |
| TOTAL LIABILITIES AND NET ASSETS | $ 12,026,583 | $ 10,895,815 |

**HEBREW FREE LOAN ASSOCIATION**

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED MAY 31, 2019 AND 2018

| | 2019 | | |
|---|---|---|---|
| | NET ASSETS WITHOUT DONOR RESTRICTIONS | NET ASSETS WITH DONOR RESTRICTIONS | TOTAL |
| PUBLIC SUPPORT AND REVENUE | | | |
| SUPPORT | | | |
| Contributions | $ 803,828 | $ 892,512 | $ 1,696,340 |
| Grants - United Jewish Foundation | 159,201 | | 159,201 |
| TOTAL PUBLIC SUPPORT | 963,029 | 892,512 | 1,855,541 |
| REVENUE | | | |
| Unrealized gain (loss) on investments | 10,907 | | 10,907 |
| Interest income | 95,630 | | 95,630 |
| TOTAL REVENUE | 106,537 | | 106,537 |
| Net assets released from restrictions | 204,919 | (204,919) | |
| TOTAL PUBLIC SUPPORT AND REVENUE | 1,274,485 | 687,593 | 1,962,078 |
| EXPENSES | | | |
| Program Services | | | |
| Hebrew Free Loan | 460,467 | | 460,467 |
| Wm Davidson Jewish College Loan Program | 162,648 | | 162,648 |
| Total program services | 623,115 | | 623,115 |
| Supporting Services | | | |
| Management and general | 106,340 | | 106,340 |
| Development | 121,451 | | 121,451 |
| Total supporting services | 227,791 | | 227,791 |
| TOTAL EXPENSES | 850,906 | | 850,906 |
| CHANGE IN NET ASSETS BEFORE BENEFICIAL INTEREST | 423,579 | 687,593 | 1,111,172 |
| CHANGE IN THE BENEFICIAL INTEREST IN ENDOWMENTS | | | |
| Contributions from the endowments | 123,478 | | 123,478 |
| Change in net assets of the endowments | | (115,846) | (115,846) |
| TOTAL CHANGE IN BENEFICIAL INTEREST | 123,478 | (115,846) | 7,632 |
| NET CHANGE IN NET ASSETS | 547,057 | 571,747 | 1,118,804 |
| NET ASSETS, JUNE 1 | 9,270,288 | 1,343,561 | 10,613,849 |
| NET ASSETS, MAY 31 | $ 9,817,345 | $ 1,915,308 | $ 11,732,653 |

See accompanying notes to financial statements.

| 2018 | | |
|---|---|---|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | NET ASSETS WITH DONOR RESTRICTIONS | TOTAL |
| $ 985,951 | $ 204,919 | $ 1,190,870 |
| 173,548 | | 173,548 |
| 1,159,499 | 204,919 | 1,364,418 |
| (7,251) | | (7,251) |
| 57,045 | | 57,045 |
| 49,794 | | 49,794 |
| | | |
| 1,209,293 | 204,919 | 1,414,212 |
| 463,088 | | 463,088 |
| 160,606 | | 160,606 |
| 623,694 | | 623,694 |
| 101,325 | | 101,325 |
| 117,479 | | 117,479 |
| 218,804 | | 218,804 |
| 842,498 | | 842,498 |
| 366,795 | 204,919 | 571,714 |
| 48,218 | | 48,218 |
| | 5,899 | 5,899 |
| 48,218 | 5,899 | 54,117 |
| 415,013 | 210,818 | 625,831 |
| 8,855,275 | 1,132,743 | 9,988,018 |
| $ 9,270,288 | $ 1,343,561 | $ 10,613,849 |

**HEBREW FREE LOAN ASSOCIATION**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED MAY 31, 2019

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 |
| Salaries and related benefits | $ 260,897 | $ 122,312 | $ 383,209 | $ 99,393 | $ 93,211 | $ 192,604 | $ 575,813 |
| Bad debts | 24,590 | | 24,590 | | | | 24,590 |
| Depreciation and amortization | 16,411 | 2,088 | 18,499 | | | | 18,499 |
| Dues | | | | 2,000 | | 2,000 | 2,000 |
| Miscellaneous | 3,038 | 241 | 3,279 | 2,885 | 111 | 2,996 | 6,275 |
| Occupancy | 37,112 | | 37,112 | 2,062 | 2,062 | 4,124 | 41,236 |
| Office administration | 62,792 | 15,651 | 78,443 | | 20,267 | 20,267 | 98,710 |
| Postage | 7,534 | 1,458 | 8,992 | | 1,495 | 1,495 | 10,487 |
| Printing and publications | 3,771 | 1,150 | 4,921 | | | | 4,921 |
| Professional fees and consulting | 39,963 | 16,819 | 56,782 | | 4,305 | 4,305 | 61,087 |
| Telephone | 3,068 | 2,929 | 5,997 | | | | 5,997 |
| Annual meeting | 1,291 | | 1,291 | | | | 1,291 |
| | $ 460,467 | $ 162,648 | $ 623,115 | $ 106,340 | $ 121,451 | $ 227,791 | $ 850,906 |

See accompanying notes to financial statements.

**HEBREW FREE LOAN ASSOCIATION**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED MAY 31, 2018

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 |
| Salaries and related benefits | $ 239,550 | $ 120,050 | $ 359,600 | $ 94,583 | $ 87,303 | $ 181,886 | $ 541,486 |
| Bad debts | 34,937 | | 34,937 | | | | 34,937 |
| Depreciation and amortization | 18,401 | 2,726 | 21,127 | | | | 21,127 |
| Dues | | | | 2,000 | | 2,000 | 2,000 |
| Miscellaneous | 4,169 | 169 | 4,338 | 1,873 | 60 | 1,933 | 6,271 |
| Occupancy | 51,653 | | 51,653 | 2,869 | 2,870 | 5,739 | 57,392 |
| Office administration | 63,827 | 15,459 | 79,286 | | 21,061 | 21,061 | 100,347 |
| Postage | 6,004 | 1,513 | 7,517 | | 1,344 | 1,344 | 8,861 |
| Printing and publications | 1,950 | 950 | 2,900 | | 600 | 600 | 3,500 |
| Professional fees and consulting | 38,308 | 16,809 | 55,117 | | 4,241 | 4,241 | 59,358 |
| Telephone | 3,259 | 2,930 | 6,189 | | | | 6,189 |
| Annual meeting | 1,030 | | 1,030 | | | | 1,030 |
| | $ 463,088 | $ 160,606 | $ 623,694 | $ 101,325 | $ 117,479 | $ 218,804 | $ 842,498 |

See accompanying notes to financial statements.

**HEBREW FREE LOAN ASSOCIATION**

STATEMENTS OF CASH FLOWS

| | MAY 31, 2019 | MAY 31, 2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 1,118,804 | $ 625,831 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 18,499 | 21,127 |
| Unrealized (gain) loss on investments | (10,907) | 7,251 |
| (Increase) decrease in current assets | | |
| Prepaid expense | (92) | 145 |
| Pledges receivable | (687,593) | (96,481) |
| Increase (decrease) in current liabilities | | |
| Accounts payable | 551 | 1,683 |
| Payroll withholdings | 11,413 | 1,750 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 450,675 | 561,306 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Loans receivable | (310,259) | (304,214) |
| Purchase of fixed assets | (11,785) | (3,320) |
| Investment in certificates of deposit | (482,341) | (236,469) |
| Increase in beneficial interest in endowment funds | (7,632) | (54,119) |
| Proceeds from beneficial interest endowment funds | 123,478 | 48,218 |
| NET CASH USED IN INVESTING ACTIVITIES | (688,539) | (549,904) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (237,864) | 11,402 |
| CASH AND CASH EQUIVALENTS, JUNE 1 | 1,007,069 | 995,667 |
| CASH AND CASH EQUIVALENTS, MAY 31 | $ 769,205 | $ 1,007,069 |

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.

Reclassification of Net Assets

On August 18, 2016, FASB issued Account Standards Update (ASU) 2016-14, Not-for-Profit Entities (Top 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability for resources, and the lack of consistency in the type of information provided about expenses and investment return. The Association implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, and as a result, 2018 comparative information has been reclassified to conform to the current year presentation.

Basis of Presentation

Net Assets without Donor Restrictions – Net assets without donor restrictions represent the resources available for use in carrying on the operations of the Association. This portion is under the discretionary control of the Board, and it is against this fund that all expenditures for current operations are charged.

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

Net Assets with Donor Restrictions – 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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, 2019 and 2018, cash and cash equivalents consist of monies held in checking, savings and money market accounts held at financial institutions and some certificates of deposit held at a financial services company. At year end any certificate of deposit with an initial maturity date of three (3) months or less will be recorded as a cash equivalent.

Investments

The Association records certificates of deposit at cost plus accrued interest.

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 2.37% and 1.5% of new loans made each month adjusted at year end based on management's evaluation of the loans receivable outstanding for May 31, 2019 and 2018, respectively.

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 Association 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, 2019 and 2018, amounts held in net assets with donor restrictions associated with the beneficial interest in endowment funds totaled $1,022,796 and $1,138,642, respectively.

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.

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

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.

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 Association has been classified as another than private foundation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Code requires that tax-exempt organizations must comply with federal tax law to maintain tax-exempt status and avoid penalties. The Association is subject to a tax on income from any unrelated business (The Association has no unrelated business income) as defined by Section 509(A)(1) of the Code.

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

Income Taxes - Concluded

The Association evaluates all significant tax positions under a more likely than not threshold as required by U.S. generally accepted accounting principles. As of May 31, 2019, the Association does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The Association's tax returns are subject to examination by the appropriate taxing jurisdictions. At May 31, 2019, the Association's federal tax returns generally remain open for the last three years.

Advertising

Advertising costs are expenses as incurred. Advertising costs for the years ended May 31, 2019 and 2018 were $25,718 and $27,203.

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 19, 2019, 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 monthly 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, 2019 and 2018, and are included in the Associations loans receivable. 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.

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

The Association is responsible for the administration of the William Davidson Jewish College Loan Fund (WDJCLP) on behalf of various foundations and community agencies. The loans receivable, with a face value of approximately $9,259,659 and $8,210,221 at May 31, 2019 and 2018, represent the balance of loans made to students with a corresponding loan payable to the funding foundations and agencies of the WDJCLP, respectively.

The WDJCLP 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.

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

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | $ 4,189,644 | $ 3,885,430 |
| Loans made | 2,311,014 | 2,111,977 |
| Loan repayments | ( 2,006,315) | ( 1,795,534) |
| Loan write-offs | ( 24,590) | ( 19,457) |
| Change in allowance for doubtful account | 30,150 | 7,228 |
| Balance at end of year | $ 4,499,903 | $ 4,189,644 |

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, 2019 and 2018, balances in excess of the $250,000 insurance limit, based on financial institution records, approximated $437,051 and $364,118, respectively.

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, 2019, 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, 2019 and 2018 was $52,216 and $54,055 of which the association has guaranteed 25% of the balance upon default, or $13,054 and $13,514 respectively.

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 Association has the ability to access.

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 Association's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

The Association'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 years ended May 31, 2019 and 2018.

Following is a description of the valuation methodologies used for assets measured at fair value at May 31, 2019 and 2018.

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

Level 3

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 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 Association 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.

The following tables present by level, within the fair value hierarchy, the Association investment assets at fair value, as of May 31, 2019 and 2018. 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, 2019 | | | | |
| Beneficial interest in assets held at United Jewish Federation | $ | $ | $ 1,022,796 | $ 1,022,796 |
| MAY 31, 2018 | | | | |
| Beneficial interest in assets held at United Jewish Federation | $ | $ | $ 1,138,642 | $ 1,138,642 |

## NOTE 7: ENDOWMENT FUNDS

The following schedule summarizes changes in Level 3 assets measured at fair value on a recurring basis for the year ended May 31, 2019 and 2018:

| | Beneficial Interest in Endowment Funds |
|---|---|
| Balance at May 31, 2018 | $ 1,138,642 |
| Contribution | 50 |
| Change in value of funds | 7,582 |
| Income distributed | ( 123,478) |
| Balance at May 31, 2019 | $ 1,022,796 |
| Balance at May 31, 2017 | $ 1,132,743 |
| Contribution | 70 |
| Change in value of funds | 54,047 |
| Income distributed | ( 48,218) |
| Balance at May 31, 2018 | $ 1,138,642 |

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.

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

## NOTE 7: **ENDOWMENT FUNDS –** Concluded

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.

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.

## NOTE 8: LIQUIDITY AND AVAILABILITY

The Association regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures. The following reflects the Association's financial assets as of May 31, 2019 and 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the statement of financial position.

| | 2019 | 2018 |
|---|---|---|
| Cash | $ 769,205 | $ 1,007,069 |
| Investments in CD's | 3,707,482 | 3,419,430 |
| Beneficial interest in Endowment Funds | 1,022,796 | 1,138,642 |
| Total financial assets as year-end | 5,499,483 | 5,565,141 |
| Less: Donor-restricted net assets | ( 1,915,308) | ( 1,343,561) |
| Guarantee of debt | ( 50,000) | ( 50,000) |
| Financial assets available to meet cash needs for General expenditure within one year | $ 3,534,175 | $ 4,171,580 |

## NOTE 9: 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 2.37 and 1.5 percent for the year ended May 31, 2019 and 2018, respectively.

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:

| | 2019 | 2018 |
|---|---|---|
| Receivable in less than one year | $ 274,500 | $ 219,512 |
| Receivables greater than one year | 704,500 | |
| Less: allowance for uncollectible pledges | ( 53,845) | ( 12,008) |
| Discount to Net Assets value | ( 32,643) | ( 2,585) |
| Net unconditional promises to give | $ 892,512 | $ 204,919 |

To comply with the requirements of FASB ASC 958-605, unconditional promises to give are recorded as net assets with donor restriction until received.

## NOTE 10: **PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at May 31,

| | 2019 | 2018 |
|---|---|---|
| Computer equipment | $ 179,991 | $ 168,206 |
| Furniture and equipment | 30,635 | 30,635 |
| Leasehold improvements | 99,685 | 99,685 |
| Total cost | 310,311 | 298,526 |
| Less: accumulated depreciation and amortization | ( 258,102) | ( 239,603) |
| Net carrying amount | $ 52,209 | $ 58,923 |

## NOTE 11: **OPERATION LEASE**

The Association leases its office facilities under a three year agreement with UJF, dated June 1, 2017 and expiring May 2020. 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, 2019 and 2018 was $41,236 and $57,392, respectively.

Future minimum lease payments under the lease are as follows:

| Year Ending May 31: | Amount |
|---|---|
| 2020 | $ 42,450 |

## NOTE 12: **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 years ended May 31, 2019 and 2018 was $3,250 and $3,100, respectively.

NOTE 12: **EMPLOYEE PENSION PLAN** - Concluded

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 $18,469 and $18,504 for the years ended May 31, 2019 and 2018 respectively, this full amount is reflected in retirement contributions accrued.

NOTE 13: **RECLASSIFICATION**

Financial statements have been reclassified to reflect prior year information so it is comparable to the updated format which more accurately reflects the activities of the Association. These are only reclassifications of revenues and expenses, not a restatement of the financial statements.

NOTE 14: **RECENT PRONOUNCEMENTS**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers.* Since the issuance of this standard, there have been several additional standards issued related to this topic. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about that nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers this standard will be effective for the Association's year ending May 31, 2020.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The standard will assist entities in determining whether grants and similar revenue sources should be accounted for as contribution (nonreciprocal) transactions or as exchange (reciprocal) transactions. The standard also provides expanded guidance on determining whether a contribution is conditional. This standard will be effective for the Association's year ending May 31, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases.* The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset with a corresponding lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Association's year ending May 31, 2021.

The Association is currently in the process of evaluation the impact of adoption of these ASUs on the financial statements.