

**Hebrew Free Loan Association**

Financial Statements

May 31, 2023 and 2022

with Independent Auditors' Report

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Hebrew Free Loan Association  
Bloomfield Hills, Michigan

**Opinion**

We have audited the accompanying financial statements of Hebrew Free Loan Association (a not-for-profit organization), which comprise the statements of financial position as of May 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hebrew Free Loan Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hebrew Free Loan Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hebrew Free Loan Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hebrew Free Loan Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Clark, Schaefer, Hackett & Co.*

East Lansing, Michigan  
September 27, 2023

Hebrew Free Loan Association  
Statements of Financial Position  
May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,420,708	6,979,070
Unconditional promises to give, net of long-term	119,473	304,338
Prepaid expenses	<u>1,405</u>	<u>-</u>
	<u>2,541,586</u>	<u>7,283,408</u>
Loans receivable (Net of allowance of \$71,272 and \$52,385 at May 31, 2023 and May 31, 2022, respectively)	<u>5,458,472</u>	<u>4,651,393</u>
Property and equipment, net	<u>25,473</u>	<u>41,529</u>
Other assets:		
Investments	952,524	947,957
Certificates of deposit	4,095,004	-
Unconditional promises to give, long-term	3,278	91,216
Beneficial interest in endowment funds	1,034,287	1,081,775
Right of use asset	<u>24,026</u>	<u>-</u>
	<u>6,109,119</u>	<u>2,120,948</u>
	<u>\$ 14,134,650</u>	<u>14,097,278</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 1,000	736
Accrued PTO and benefits	126,472	114,912
Operating lease liability	<u>24,201</u>	<u>-</u>
	<u>151,673</u>	<u>115,648</u>
Net assets:		
Without donor restrictions	12,817,939	12,504,301
With donor restrictions	<u>1,165,038</u>	<u>1,477,329</u>
	<u>13,982,977</u>	<u>13,981,630</u>
	<u>\$ 14,134,650</u>	<u>14,097,278</u>

See accompanying notes to the financial statements.

Hebrew Free Loan Association  
Statement of Activities  
For the Year Ended May 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue support:			
Contributions	\$ 617,084	53,380	670,464
Grants-United Jewish Foundation	<u>165,977</u>	<u>-</u>	<u>165,977</u>
	783,061	53,380	836,441
Revenues:			
Unrealized gain on investments	11,477	-	11,477
Net investment income	<u>133,728</u>	<u>-</u>	<u>133,728</u>
	145,205	-	145,205
Net assets released from restrictions	<u>318,183</u>	<u>(318,183)</u>	<u>-</u>
	<u>1,246,449</u>	<u>(264,803)</u>	<u>981,646</u>
Expenses:			
Program services:			
Hebrew Free Loan	619,072	-	619,072
WM Davidson Jewish College Loan Program	<u>90,194</u>	<u>-</u>	<u>90,194</u>
	709,266	-	709,266
Supporting services:			
Management and general	125,919	-	125,919
Development	<u>148,306</u>	<u>-</u>	<u>148,306</u>
	<u>274,225</u>	<u>-</u>	<u>274,225</u>
	<u>983,491</u>	<u>-</u>	<u>983,491</u>
Change in net assets before beneficial interest	262,958	(264,803)	(1,845)
Change in the beneficial interest in endowments:			
Income distributed from endowments	50,680	-	50,680
Change in net assets of endowments	<u>-</u>	<u>(47,488)</u>	<u>(47,488)</u>
	<u>50,680</u>	<u>(47,488)</u>	<u>3,192</u>
Change in net assets	313,638	(312,291)	1,347
Net assets, beginning of year	<u>12,504,301</u>	<u>1,477,329</u>	<u>13,981,630</u>
Net assets, end of year	\$ <u>12,817,939</u>	<u>1,165,038</u>	<u>13,982,977</u>

See accompanying notes to the financial statements.

Hebrew Free Loan Association  
Statement of Activities  
For the Year Ended May 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue support:			
Contributions	\$ 573,099	350,470	923,569
Grants-United Jewish Foundation	<u>159,884</u>	<u>-</u>	<u>159,884</u>
	732,983	350,470	1,083,453
Revenues:			
Unrealized gain (loss) on investments	(47,820)	-	(47,820)
Net investment income	<u>(733)</u>	<u>-</u>	<u>(733)</u>
	(48,553)	-	(48,553)
Net assets released from restrictions	<u>710,059</u>	<u>(710,059)</u>	<u>-</u>
	<u>1,394,489</u>	<u>(359,589)</u>	<u>1,034,900</u>
Expenses:			
Program services:			
Hebrew Free Loan	565,593	-	565,593
WM Davidson Jewish College Loan Program	<u>90,024</u>	<u>-</u>	<u>90,024</u>
	655,617	-	655,617
Supporting services:			
Management and general	121,166	-	121,166
Development	<u>148,112</u>	<u>-</u>	<u>148,112</u>
	<u>269,278</u>	<u>-</u>	<u>269,278</u>
	924,895	-	924,895
Change in net assets before beneficial interest	<u>469,594</u>	<u>(359,589)</u>	<u>110,005</u>
Change in the beneficial interest in endowments:			
Contributions from endowments	49,115	-	49,115
Change in net assets of endowments	<u>-</u>	<u>(95,695)</u>	<u>(95,695)</u>
	<u>49,115</u>	<u>(95,695)</u>	<u>(46,580)</u>
Change in net assets	518,709	(455,284)	63,425
Net assets, beginning of year	<u>11,985,592</u>	<u>1,932,613</u>	<u>13,918,205</u>
Net assets, end of year	\$ <u>12,504,301</u>	<u>1,477,329</u>	<u>13,981,630</u>

See accompanying notes to the financial statements.

Hebrew Free Loan Association  
Statement of Functional Expenses  
For the Year Ended May 31, 2023

	Program Services			Supporting Services		
	Hebrew Free Loan	Jewish College Loan Program	WM Davidson Jewish College Loan Program	Total		Total Functional Expenses
				Program Services	Management and General	
Salaries and related benefits	\$ 371,638		44,596	416,234	120,217	650,946
Bad debts	34,777	-	-	34,777	-	34,777
Depreciation	27,240	1,356		28,596	-	28,596
Dues	-	-	-	-	2,000	2,000
Miscellaneous	4,103	-	-	4,103	226	4,329
Occupancy	40,290	-	-	40,290	2,229	44,757
Office administration	84,023	23,723		107,746	-	130,984
Postage	7,378	1,682		9,060	-	10,865
Printing and publications	2,665	306		2,971	-	2,971
Professional fees and consulting	44,489	16,474		60,963	-	67,493
Telephone	2,469	2,057		4,526	-	4,526
Annual meeting	-	-	-	-	1,247	1,247
	<u>\$ 619,072</u>	<u>90,194</u>	<u>90,194</u>	<u>709,266</u>	<u>125,919</u>	<u>983,491</u>

See accompanying notes to the financial statements.



Hebrew Free Loan Association  
Statement of Functional Expenses  
For the Year Ended May 31, 2022

	Program Services				Supporting Services		
	Hebrew Free Loan	WM Davidson		Total	Management and General	Development	Total Functional Expenses
		Jewish College Loan Program					
Salaries and related benefits	\$ 353,047	42,955		396,002	115,639	110,592	622,233
Bad debts	11,829	-		11,829	-	-	11,829
Depreciation	25,370	3,210		28,580	-	-	28,580
Dues	-	-		-	2,000	-	2,000
Miscellaneous	6,441	100		6,541	180	-	6,721
Occupancy	39,395	-		39,395	2,189	2,189	43,773
Office administration	72,542	22,832		95,374	-	26,320	121,694
Postage	6,228	1,596		7,824	-	1,485	9,309
Printing and publications	6,014	1,300		7,314	-	1,200	8,514
Professional fees and consulting	42,300	16,092		58,392	-	6,326	64,718
Telephone	2,427	1,939		4,366	-	-	4,366
Annual meeting	-	-		-	1,158	-	1,158
	\$ 565,593	90,024		655,617	121,166	148,112	924,895

See accompanying notes to the financial statements.

Hebrew Free Loan Association  
Statements of Cash Flows  
For the Years Ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,347	63,425
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,596	28,580
Amortization of right of use asset	40,328	-
Bad debt	(19,625)	8,512
Unrealized (gain) loss on investments	(11,477)	47,820
Change in beneficial interest in endowment funds	(3,192)	46,580
Effects of changes in net assets and liabilities:		
Unconditional promises to give	272,803	359,589
Prepaid expenses	(1,405)	-
Accounts payable	264	469
Accrued PTO and benefits	11,560	18,680
Operating lease liability	<u>(40,153)</u>	<u>-</u>
Net cash provided by operating activities	<u>279,046</u>	<u>573,655</u>
Cash flows from investing activities:		
Change in loans receivable	(787,454)	253,646
Purchase of fixed assets	(12,540)	(9,950)
Purchase of investments	(4,088,094)	(1,000,000)
Sale of investments	-	665,547
Income distributed from endowment funds	<u>50,680</u>	<u>49,115</u>
Net cash used by investing activities	<u>(4,837,408)</u>	<u>(41,642)</u>
Change in cash and cash equivalents	(4,558,362)	532,013
Cash and cash equivalents, beginning of year	<u>6,979,070</u>	<u>6,447,057</u>
Cash and cash equivalents, end of year	\$ <u>2,420,708</u>	<u>6,979,070</u>

See accompanying notes to the financial statements.

## **1. ORGANIZATION:**

Hebrew Free Loan Association (the Association) was incorporated in 1895 as a Michigan not-for-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.

#### **William Davidson Jewish College Loan Program (formerly Jewish Education Loan Service)**

In addition, the Association administers the William 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 Association provides interest free loans to students through funding provided by community foundations and agencies.

### **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**

Provides the structure necessary to encourage and secure support from individuals, foundations and corporations.

## **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.

### **Financial statement presentation**

The Association is required to report information regarding its financial position and activities according to two classes of net assets:

- **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.

- **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, revenue, 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, 2023 and 2022, 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.

#### **Certificates of deposit**

The Association records certificates of deposit at cost plus accrued interest, which is approximate fair value.

#### **Unconditional promises to give**

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.

#### **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 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, 2023 and 2022, 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.

**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, 2023 and 2022, amounts held in net assets with donor restrictions associated with the beneficial interest in endowment funds totaled \$1,034,287 and \$1,081,775, respectively.

**Revenue recognition – contributions and grants**

All contributions are reported as increases in net assets without donor restrictions unless specifically restricted by a donor. Amounts that are received that are restricted for specific purposes are reported as increases in net assets with donor restrictions.

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires and at that time the related resources are reclassified from net assets with donor restrictions to net assets without donor restrictions. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Contributions that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as net assets without donor restrictions.

The Association reports gifts of assets as increases in net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as increases in net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Donated services**

The Association recognizes donated assets and services at fair 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 carrying amounts of cash, unconditional promises to give, and accounts payable approximate fair value due to their short-term nature.

Loans receivable 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 statements of activities. Wages and related expenses are allocated using an estimate of time and effort. Other costs are allocated between the various programs and support services on an actual basis or based upon reasonable methods such as time spent on various responsibilities performed.

**Adoption of FASB ASC 842**

Effective June 1, 2022, the Association adopted FASB ASC 842, Leases. The Association determines if an arrangement contains a lease at inception based on whether the Association has the right to control the asset during the contract period and other facts and circumstances. The Association elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The adoption of FASB ASC 842 resulted in the recognition of a right-of-use asset of \$64,354 and an operating lease liability of \$64,354 as of June 1, 2022. Results for periods beginning prior to June 1, 2022, continue to be reported in accordance with the Association's historical accounting treatment. The adoption of FASB ASC 842 did not have a material impact of the Association. See note 9.

**Leases**

The Association leases office space. The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating leases are included in operating lease right-of-use ("ROU") asset and operating lease liability in the Association's statements of financial position.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Association uses the implicit rate when it is readily determinable. Since the Association's leases do not provide an implicit rate, the Association is electing to use the risk-free rate applicable at lease commencement for all classes of leased assets. Operating lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Association's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Association will exercise the option.

#### **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 an other 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.

#### **Advertising**

Advertising costs are expensed as incurred. Advertising costs for the years ended May 31, 2023 and 2022 were \$27,447 and \$30,881, respectively.

#### **Date of management's review**

Subsequent events have been evaluated through September 27, 2023, which is the date the financial statements were available to be issued.

### **3. 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, 2023 and 2022, balances in excess of the \$250,000 insurance limit, based on financial institution records, approximated \$2,222,212 and \$6,632,658, respectively.

#### 4. UNCONDITIONAL PROMISES TO GIVE:

Donors pledge contributions to the Association to be received over a period of years. The pledge is recorded as unconditional promises to give 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 3.57 and 2.51 percent for the years ended May 31, 2023 and 2022, 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 are recorded as net assets with donor restriction until received.

Unconditional promises to give at May 31 are as follows:

	<u>2023</u>	<u>2022</u>
Receivable in less than one year	\$ 119,473	304,338
Receivables greater than one year	11,000	118,000
Less: allowance for uncollectible pledges	(7,176)	(23,229)
Discount to net present value	<u>(546)</u>	<u>(3,555)</u>
Net unconditional promises to give	\$ <u>122,751</u>	<u>395,554</u>
Current portion	\$ 119,473	304,338
Long-term portion, due within 1-5 years	<u>3,278</u>	<u>91,216</u>
	\$ <u>122,751</u>	<u>395,554</u>

#### 5. LOANS RECEIVABLE AND LOANS PAYABLE:

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 \$9,810,007 and \$9,828,787 at May 31, 2023 and 2022, 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 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.



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

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ 4,651,393	4,913,551
Loans made	2,594,090	1,511,594
Loan repayments	(1,732,609)	(1,770,435)
Loan write-offs	(34,777)	(11,829)
Change in allowance for doubtful accounts	<u>(19,625)</u>	<u>8,512</u>
	\$ <u>5,458,472</u>	<u>4,651,393</u>

#### 6. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at May 31,

	<u>2023</u>	<u>2022</u>
Computer equipment	\$ 256,241	243,701
Furniture and equipment	30,635	30,635
Leasehold improvements	<u>99,685</u>	<u>99,685</u>
	386,561	374,021
Less accumulated depreciation and amortization	<u>(361,088)</u>	<u>(332,492)</u>
	\$ <u>25,473</u>	<u>41,529</u>

#### 7. FAIR VALUE MEASUREMENTS:

Fair value measurements in accordance with Generally Accepted Accounting Principles (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 or 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. There were no significant transfers between levels of fair value hierarchy during the years ended May 31, 2023 and 2022.

The following is a description of the valuation methodologies used for assets measured at fair value at May 31, 2023 and 2022.

#### Level 3

The Jewish Federation acts 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 publicly 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's investment assets at fair value, as of May 31, 2023 and 2022. 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.

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	Fair value of measurements at reporting date using:			
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
May 31, 2023				
UJF Balanced Pool	\$ -	-	952,524	952,524
Beneficial interest in endowment funds	<u>-</u>	<u>-</u>	<u>1,034,287</u>	<u>1,034,287</u>
	<u>\$ -</u>	<u>-</u>	<u>1,986,811</u>	<u>1,986,811</u>
May 31, 2022				
UJF Balanced Pool	\$ -	-	947,957	947,957
Beneficial interest in endowment funds	<u>-</u>	<u>-</u>	<u>1,081,775</u>	<u>1,081,775</u>
	<u>\$ -</u>	<u>-</u>	<u>2,029,732</u>	<u>2,029,732</u>

**8. ENDOWMENT FUNDS:**

The following schedule summarizes changes in endowment funds for the years ended May 31, 2023 and 2022:

	<u>Beneficial Interest in Endowment Funds</u>
Balance at May 31, 2022	\$ 1,081,775
Change in beneficial interest in endowment funds	3,192
Income distributed	<u>(50,680)</u>
Balance at May 31, 2023	\$ <u>1,034,287</u>
Balance at May 31, 2021	\$ 1,177,470
Change in beneficial interest in endowment funds	(46,580)
Income distributed	<u>(49,115)</u>
Balance at May 31, 2022	\$ <u>1,081,775</u>

The Association has specific endowment funds that are held by UJF. These endowment funds are established by donors and are held by UJF 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 net assets with donor restrictions the original value of the gifts donated to the perpetual endowment and the original value of subsequent gifts to the perpetual endowment.

The remaining portion of the donor restricted endowment fund that is not classified as perpetually restricted is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Association in the manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate endowment funds with donor restrictions:

- 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

#### **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 perpetually 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.

## 9. OPERATING LEASE:

The Association leases its office facilities under a three year agreement with UJF, dated November 18, 2020 and expiring December 2023. A new lease was agreed on of an addition to the current lease with adjusted existing rent structure commencing January 1, 2021. 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.

The Association has elected the option to use the risk-free rate to all classes of leased assets determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable.

The Association has elected the practical expedient to not separate lease and non-lease components for all classes of leased assets.

Total lease costs for the year ended May 31, 2023 are as follows:

Operating lease expense	\$41,555
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The following table summarizes the supplemental cash flow information for the year ended May 31, 2023:

Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	\$64,354

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows from operating leases	\$41,380

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

Weighted average remaining lease term in years:	
Operating leases	.58

Weighted average discount rate:	
Operating leases	2.66%

As of May 31, 2023, maturities of lease liabilities were as follows:

	<u>Operating leases</u>
2024	\$ 24,416
Less: imputed interest	<u>(215)</u>
Total lease obligations	24,201
Less: current obligations	<u>(24,201)</u>
Long-term lease obligations	\$ <u>0</u>

Prior to adoption of ASC 842, the Association's lease expense amounted to \$43,773 in 2022.

There were no material operating leases that the Association had entered into and that were yet to commence as of May 31, 2023.

#### 10. 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, 2023 and 2022, 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.

	<u>2023</u>	<u>2022</u>
Cash	\$ 2,420,708	6,979,070
Unconditional promises to give, net of long-term	119,473	304,338
Beneficial interest in endowment funds	<u>1,034,287</u>	<u>1,081,775</u>
Total financial assets as of year end	3,574,468	8,365,183
Less donor restricted net assets	<u>(1,165,038)</u>	<u>(1,477,329)</u>
Financial assets available to meet cash needs for general expenditure within one year	\$ <u>2,409,430</u>	<u>6,887,854</u>

# **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 years ended May 31, 2023 and 2022 was \$0 and \$3,400, respectively. During the year ended May 31, 2023, the JFMD terminated its employee pension program. The Association paid JFMD \$18,835 to cover costs of payouts to employees.

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 \$20,733 and \$20,865 for the years ended May 31, 2023 and 2022 respectively.

# **12. NET ASSETS WITH DONOR RESTRICTIONS:**

The Association had net assets with donor restrictions as of May 31:

	<u>2023</u>	<u>2022</u>
Purpose restrictions:		
Pledges receivable for future loan capacity	\$ 122,751	395,554
Beneficial interest in endowment funds	<u>1,034,287</u>	<u>1,081,775</u>
	<u>1,157,038</u>	<u>1,477,329</u>
Time restrictions:	<u>8,000</u>	<u>-</u>
	<u>\$ 1,165,038</u>	<u>1,477,329</u>