



Jewish Federation

OF SAN DIEGO COUNTY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Jewish Federation of San Diego County (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jewish Federation of San Diego County as of June 30, 2019 and 2018, 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.

Change in Accounting Principle

As described in Note 3 to the financial statements, in fiscal year 2019, Jewish Federation of San Diego County adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* for the year ended June 30, 2019 and retrospectively applied to 2018. Our opinion is not modified with respect to this matter.



Lindsay & Brownell, LLP

La Jolla, California
October 10, 2019

JEWISH FEDERATION OF SAN DIEGO COUNTY

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash	\$ 442,723	\$ 198,240
Investments	3,701,859	4,084,649
Pledges receivable, net	2,172,386	2,284,813
Current portion of note receivable	21,905	21,905
Other current assets	323,221	205,286
Prepaid expenses	83,171	85,138
Total Current Assets	6,745,265	6,880,031
Noncurrent Assets		
Beneficial interest in assets held by others	11,878,772	11,978,570
Note receivable, less current portion	16,253	37,605
Fixed assets, net	114,739	128,836
Total Noncurrent Assets	12,009,764	12,145,011
Total Assets	\$ 18,755,029	\$ 19,025,042
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 602,018	\$ 411,638
Grants payable, net		
Jewish Federation of North America - U.S.	75,900	75,900
Jewish Federation of North America - Israel	1,897,957	1,933,397
Jewish Federation of North America - Overseas	43,000	90,000
Payable for local initiatives	693,000	343,480
Total grants payable, net	2,709,857	2,442,777
Total Current Liabilities	3,311,875	2,854,415
Net Assets		
Without donor restrictions	3,342,793	3,912,435
With donor restrictions	12,100,361	12,258,192
Total Net Assets	15,443,154	16,170,627
Total Liabilities and Net Assets	\$ 18,755,029	\$ 19,025,042

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

JEWISH FEDERATION OF SAN DIEGO COUNTY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions and pledges	\$ 4,960,715	\$ 140,343	\$ 5,101,058
Less: Reserve for uncollectible pledges plus recovery of prior year reserve, net	(21,165)	-	(21,165)
Campaign Revenue, Net	4,939,550	140,343	5,079,893
Program revenue	250,956	-	250,956
Interest on note receivable	552	-	552
Unrealized gain on beneficial interest	-	419,423	419,423
Transfer to Endowment	(50,000)	50,000	-
Net assets released from restrictions	768,652	(768,652)	-
Total Revenue and Support	5,909,710	(158,886)	5,750,824
Net Investment Income			
Interest and dividends	114,504	1,137	115,641
Net realized gains	139	-	139
Net unrealized gains	2,213	-	2,213
Investment expenses	(3,883)	(82)	(3,965)
Net Investment Income	112,973	1,055	114,028
Total Revenue, Support and Net Investment Income	6,022,683	(157,831)	5,864,852
Grants and Expenses			
Grants			
Local initiatives	1,097,048	-	1,097,048
Designated gifts	723,661	-	723,661
Jewish Federations of North America - Israel	593,004	-	593,004
Jewish Federations of North America - Overseas	270,000	-	270,000
Jewish Federations of North America - U.S.	153,004	-	153,004
Total Grants	2,836,717	-	2,836,717
Program Operations	2,359,428	-	2,359,428
Supporting Services			
Management and general	299,133	-	299,133
Fundraising	1,097,047	-	1,097,047
Total Supporting Services	1,396,180	-	1,396,180
Total Grants and Expenses	6,592,325	-	6,592,325
Change in Net Assets	(569,642)	(157,831)	(727,473)
Net Assets, Beginning	3,912,435	12,258,192	16,170,627
Net Assets, Ending	\$ 3,342,793	\$ 12,100,361	\$ 15,443,154

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

JEWISH FEDERATION OF SAN DIEGO COUNTY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions and pledges	\$ 11,076,539	\$ 151,950	\$ 11,228,489
Less: Reserve for uncollectible pledges plus recovery of prior year reserve, net	(164,260)	-	(164,260)
Campaign Revenue, Net	10,912,279	151,950	11,064,229
Program revenue	240,892	-	240,892
Interest on note receivable	807	-	807
Unrealized gain on beneficial interest	-	744,381	744,381
Transfer to Endowment	(5,927,268)	5,927,268	-
Net assets released from restrictions	910,778	(910,778)	-
Total Revenue and Support	6,137,488	5,912,821	12,050,309
Net Investment Income			
Interest and dividends	125,507	3,607	129,114
Net realized gains	56,173	756	56,929
Net unrealized gains (losses)	56,905	(802)	56,103
Investment expenses	(4,183)	(73)	(4,256)
Net Investment Income	234,402	3,488	237,890
Total Revenue, Support and Net Investment Income	6,371,890	5,916,309	12,288,199
Grants and Expenses			
Grants			
Local initiatives	978,095	-	978,095
Designated gifts	789,269	-	789,269
Jewish Federations of North America - Israel	342,906	-	342,906
Jewish Federations of North America - Overseas	171,740	-	171,740
Jewish Federations of North America - U.S.	50,000	-	50,000
Total Grants	2,332,010	-	2,332,010
Program Operations	2,600,865	-	2,600,865
Supporting Services			
Management and general	326,505	-	326,505
Fundraising	949,637	-	949,637
Total Supporting Services	1,276,142	-	1,276,142
Total Grants and Expenses	6,209,017	-	6,209,017
Change in Net Assets	162,873	5,916,309	6,079,182
Net Assets, Beginning	3,749,562	6,341,883	10,091,445
Net Assets, Ending	\$ 3,912,435	\$ 12,258,192	\$ 16,170,627

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

JEWISH FEDERATION OF SAN DIEGO COUNTY

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2019 and 2018

	2019			
	Program Operations	Management & General	Fundraising	Total
Expenses				
Contributions and grants	\$ 2,836,717	\$ -	\$ -	\$ 2,836,717
Salaries and benefits	1,280,545	184,419	846,074	2,311,038
Professional fees	429,861	79,325	45,686	554,872
Facilities and equipment	215,382	26,479	143,686	385,547
Events	299,038	-	-	299,038
Other operating costs	60,435	4,557	47,965	112,957
Travel and meetings	74,167	4,353	13,636	92,156
Total Expenses	\$ 5,196,145	\$ 299,133	\$ 1,097,047	\$ 6,592,325

	2018			
	Program Operations	Management & General	Fundraising	Total
Expenses				
Contributions and grants	\$ 2,332,010	\$ -	\$ -	\$ 2,332,010
Salaries and benefits	1,309,357	164,365	742,836	2,216,558
Professional fees	370,817	136,371	26,365	533,553
Events	363,321	-	-	363,321
Facilities and equipment	194,094	19,410	109,987	323,491
Travel and meetings	236,960	2,623	11,641	251,224
Other operating costs	126,316	3,736	58,808	188,860
Total Expenses	\$ 4,932,875	\$ 326,505	\$ 949,637	\$ 6,209,017

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

JEWISH FEDERATION OF SAN DIEGO COUNTY

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ (727,473)	\$ 6,079,182
Adjustments to reconcile change in net assets to net cash flows (used in) provided by operating activities:		
Depreciation	36,536	34,719
Net realized gain on investments	(139)	(56,929)
Net unrealized gain on investments	(2,213)	(56,103)
Net unrealized gain on beneficial interest in assets held by others	(419,423)	(744,381)
Decrease (increase) in:		
Pledges receivable, net	112,427	50,011
Note receivable	21,352	21,098
Other current assets	(117,935)	155,299
Prepaid expenses	1,967	(31,960)
Increase (decrease) in:		
Accounts payable and accrued expenses	190,380	(58,292)
Grants payable to Jewish Federations of North America - U.S.	-	75,900
Grants payable to Jewish Federations of North America - Israel	(35,440)	(153,743)
Grants payable to Jewish Federations of North America - Overseas	(47,000)	(56,740)
Grants payable to local initiatives	349,520	(167,734)
Net Cash Flows (Used in) Provided by Operating Activities	(637,441)	5,090,327
Cash Flows from Investing Activities		
Purchases of investments	(578,062)	(1,725,987)
Proceeds from sales of investments	963,204	1,880,410
Contributions under beneficial interest in assets held by others	(50,000)	(5,927,268)
Distributions from beneficial interest in assets held by others	569,221	500,041
Purchases of property and equipment	(22,439)	(22,886)
Net Cash Flows Provided by (Used in) Investing Activities	881,924	(5,295,690)
Net Change in Cash	244,483	(205,363)
Cash		
Beginning	198,240	403,603
Ending	<u>\$ 442,723</u>	<u>\$ 198,240</u>

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

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Nature of Activities

Organization: Jewish Federation of San Diego County (“Federation”) is a California not-for-profit organization formed in 1936 and is one of 148 Jewish Federations in North America. Supported by thousands of generous donors and volunteers, Federation is dedicated to building a vibrant, caring, connected, and enduring Jewish community.

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

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

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

Note 2. Summary of Significant Accounting Policies and Other Information

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

Adopted Accounting Pronouncements: Federation has implemented all applicable accounting pronouncements within the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) that are in effect as of June 30, 2019 and 2018, including the accounting pronouncement discussed below.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies and Other Information (Continued)

On August 18, 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 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 of resources, and the lack of consistency in the type of information provided about expenses and investment return. Federation has adjusted the presentation of these financial statements accordingly. This ASU has been applied retrospectively to all periods presented (see Note 3).

Federation does not believe there are any other new ASU’s issued by the FASB that might have a material impact on its financial position or results of activities.

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

Pledges Receivable: Pledges receivable represent a donor’s promise to give to Federation and are reported at the amount Federation expects to collect from outstanding balances. Management determines the reserve for uncollectible pledges by specific identification of delinquent accounts, history of collections, past write-offs, and estimated uncollectible balances. Pledges receivable are written off when deemed uncollectible. The balance at year-end reflects pledges due from donors and is expected to be fully collected within one year. In accordance with FASB ASC 950-605-45-5, *Other Presentations Matters – Contributions Received*, pledges receivable are considered to be without donor restrictions as Federation’s donors have specified that their pledges are to be used to support activities of the 2019 and 2018 campaign years or years ended June 30, 2019 or 2018, respectively. Pledges without donor restrictions that are expected to be collected in future years are recorded at the net present value of estimated future cash receipts. Pledges receivable are discounted using a risk adjusted rate of return. Conditional pledges are not reported as income until the conditions are substantially met. Pledges receivable are stated net of a reserve for uncollectible pledges of \$68,777 and \$103,093 as of June 30, 2019 and 2018, respectively.

Beneficial Interest in Assets Held by Others: FASB ASC 958, *Not-for-Profit Entities*, requires a specified beneficiary to recognize its right to the assets held by a recipient entity as an asset unless the recipient entity has variance power. Federation is named as the sole beneficiary of an endowment fund held at the JCF. Federation reports this fund as a beneficial interest in assets held by others in the statements of financial position. Annual fair value remeasurements to the beneficial interest are reported as increases or decreases in the statements of financial position and as a change in value of beneficial interests within contribution income in the statements of activities (see Note 6).

Fixed Assets and Depreciation: Federation capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, Federation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Federation reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies and Other Information (Continued)

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Description	Useful Life
Leasehold improvements	5-15 years
Computer hardware and software	3-10 years
Office furniture and equipment	3-5 years

Maintenance and repairs are charged to expense as incurred. Upon sale or disposition of land, buildings or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resulting gains or losses are then recorded in the statements of activities.

Grants Payable: Federation provides grants to partner agencies to support and strengthen Jewish life locally and globally. All grants are approved by the Board of Directors. Grant expenditures are recognized in the period in which the grant is approved and communicated, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and grants payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the net present value of expected future payments discounted using a risk adjusted rate at each grant date for a commensurate period. At June 30, 2019, the entire grants payable balance is expected to be paid in the following fiscal year. The entire grants payable balance at June 30, 2018 was paid during 2019.

Compensated Absences: Vested and accumulated vacation is recorded as an expense and liability as benefits accrue to employees. The accrued vacation liability totaled \$188,488 and \$90,492 at June 30, 2019 and 2018, respectively, and is included in accounts payable and accrued expenses in the statements of financial position.

Net Assets: Federation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Federation. These net assets may be used at the discretion of Federation's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Federation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2019 and 2018, Federation had net assets with donor restrictions of \$12,100,361 and \$12,258,192, respectively.

FASB has issued reporting standards for endowments of not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies and Other Information (Continued)

The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds (see Note 13).

Contributions: Contributions are recognized when the donor makes a promise to give to Federation that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restriction if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions to be received in future periods are discounted at a risk-adjusted rate. Amortization of discounts are recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Investments acquired by gift are recorded at fair value on the date of gift. Realized and unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

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

	2019	2018
Reserve at Beginning of Year	\$ 103,093	\$ 103,217
Provision/net recovery for uncollectible pledges:		
Provision for current year receivables	89,807	73,394
Recoveries of prior year reserved receivables/reduction of reserve	(67,323)	(57,992)
Total provision	22,484	15,402
Less: Write-offs of receivables against allowance	(56,800)	(15,526)
Reserve at End of Year	\$ 68,777	\$ 103,093

Bad debt expense recorded in the statements of activities for the years ended June 30, 2019 and 2018 was \$21,165 and \$164,260, respectively.

Donated Services and Office Facilities: Federation utilized the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended June 30, 2019 and 2018 did not meet the requirements above, therefore no amounts were recognized in the financial statements.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies and Other Information (Continued)

Functional Expense Allocation: The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates of management. The expenses that are allocated and their method of allocation include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Contributions and grants	Use of expense
Salaries and benefits	Time and effort
Professional fees	Time and effort and use of expense
Facilities and equipment	Time and effort
Events	Use of expense
Other operating costs	Use of expense
Travel and meetings	Use of expense

Income Taxes: Federation is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code except for taxes on net unrelated business income. Since Federation has no obligation for unrelated business income tax for the years ended June 30, 2019 and 2018, no provisions for federal or state income taxes have been made.

In accordance with FASB ASC 740, *Accounting for Uncertainty in Income Taxes*, Federation evaluates annually any uncertain tax positions taken or expected to be taken in a tax return by applying a threshold of more-likely-than-not for recognition. Management evaluated its tax positions and determined that it has no uncertain tax positions at June 30, 2019 and 2018. There have been no related tax penalties or interest, which would be classified as tax expense in the statements of activities.

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

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

Concentrations of Credit Risk: Federation maintains its cash balance at one financial institution which is secured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Cash balances in the amounts of \$242,176 and \$0 as of June 30, 2019 and 2018, respectively, were not insured by the FDIC. Federation has not experienced any losses in this account and does not believe it is exposed to any significant credit risk on its cash deposit account.

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

Evaluation of Subsequent Events: Federation has evaluated subsequent events through the date these financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure in the financial statements.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Change in Accounting Principle

During 2019, Federation adopted the provisions of ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This change had no impact on the total change in net assets for 2018. A summary of the changes by financial statement area applicable to Federation is as follows:

Statement of financial position:

- The standard now requires that the statement of financial position distinguish between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted, and permanently restricted.

Statement of activities:

- The standard now requires Federation to report expenses by both nature and function, either in the statement of activities, as a separate financial statement, or within the notes, including a description of methods of allocation utilized. The standard also now requires Federation to net internal and external investment expense with investment return.

Notes to financial statements:

- The standard now requires enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows, including a description of the time horizon used to manage its liquidity and near-term availability and demands for cash as of the reporting date.

Note 4. Availability and Liquidity of Financial Assets

The following represents Federation's financial assets at June 30:

	2019	2018
Financial assets at year-end:		
Cash	\$ 442,723	\$ 198,240
Investments	3,701,859	4,084,649
Pledges receivable, net	2,172,386	2,284,813
Note receivable	38,158	59,510
Other current assets	323,221	205,286
Beneficial interest in assets held by others	11,878,772	11,978,570
Total Financial Assets	18,557,119	18,811,068
Less: Amounts not available to be used within one year		
Cash with donor restrictions	(117,528)	(178,756)
Beneficial interest in assets held by others	(11,878,772)	(11,978,570)
Note receivable, less current portion	(16,253)	(37,605)
Investments with donor restrictions	(104,061)	(100,866)
Financial Assets Available To Meet General Expenditures Over The Next Twelve Months	\$ 6,440,505	\$ 6,515,271

As part of Federation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. At the Board's discretion, distributions may be made from the Quasi-Endowment to help manage unanticipated liquidity needs, but it is Federation's intent to retain the Quasi-Endowment (see Note 13). Federation maintains cash and investments without donor restrictions which account for 22.10% and 22.51% of total assets for the years ended June 30, 2019 and 2018, respectively, to help manage unanticipated liquidity needs. Receivables are subject to implied time restrictions but are expected to be collected within one year.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 5. Analysis of Investments

Federation maintains its investments at the JCF. The funds held at the JCF are invested in investment pools. The Short-Term Pool is a cash equivalent pool that seeks principal preservation by investing in certificates of deposit, securities issued or guaranteed by the U.S. government, and other cash equivalents. The Endowment Pool invests in domestic and international equities, fixed income, real assets, and alternative investments consisting of commodities and hedge funds of funds. The Real Property consists of burial plots donated to Federation. Investments consist of the following at June 30:

	2019	2018
Endowment Pool	\$ 2,259,798	\$ 2,170,683
Short-Term Pool	1,392,424	1,871,163
Real Property	49,637	42,803
Total Investments	\$ 3,701,859	\$ 4,084,649

Statements of Financial Position Classifications at June 30:

	2019	2018
Unrestricted Foundations Fund	\$ 2,259,798	\$ 2,170,683
Indigent Burial Fund	104,061	100,866
Operating Fund	1,338,000	1,813,100
Total Investments	\$ 3,701,859	\$ 4,084,649

Note 6. Beneficial Interest in Assets Held by Others

In 2017, the Board of Directors ("Board") elected to create a permanent endowment fund, a separate legal entity named The Endowment for Federation ("Endowment") to be held at the JCF whereby Federation is the sole beneficiary. The Endowment does not meet the requirements of consolidation under U.S. GAAP, rather upon transfer of funds, Federation recorded a beneficial interest in assets held by others ("Beneficial Interest") for their interest in this Endowment. Federation transferred funds in the amount of \$50,000 and \$5,927,268 during the years ended June 30, 2019 and 2018, respectively. Federation received distributions from the Beneficial Interest totaling \$569,221 and \$500,041 for the years ended June 30, 2019 and 2018, respectively.

In accordance with U.S. GAAP, Federation remeasures fair value of the Beneficial Interest annually and records the change in fair value within total revenue and support in the statements of activities. Unrealized gain on the change in fair value of the Beneficial Interest was \$419,423 and \$744,381 resulting in ending values of \$11,878,772 and \$11,978,570 at June 30, 2019 and 2018, respectively.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 7. Fair Value Measurements

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

The three-level hierarchy for fair value measurements is defined as follows:

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

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

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

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

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

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 7. Fair Value Measurements (Continued)

The following is a summary of Federation's assets and liabilities measured at fair value within the fair value hierarchy as of June 30, 2019:

Assets at Fair Value as of June 30, 2019

Description	Unadjusted Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Balance as of June 30, 2019
Investments				
Endowment Pool				
Unrestricted Foundations Fund	\$ -	\$ -	\$ 2,259,798	\$ 2,259,798
Total Endowment Pool	-	-	2,259,798	2,259,798
Short-Term Pool				
Operating Fund	-	1,338,000	-	1,338,000
Indigent Burial Fund	-	-	54,424	54,424
Total Short-Term Pool	-	1,338,000	54,424	1,392,424
Real Estate				
Indigent Burial Fund	-	-	49,637	49,637
Total Real Estate	-	-	49,637	49,637
Total Investments	-	1,338,000	2,363,859	3,701,859
Beneficial Interest in Assets Held by Others	-	-	11,878,772	11,878,772
Pledges Receivable, Net	-	-	2,172,386	2,172,386
Total	\$ -	\$ 1,338,000	\$ 16,415,017	\$ 17,753,017

Liabilities at Fair Value as of June 30, 2019

Description	Unadjusted Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Balance as of June 30, 2019
Grants Payable, Net	\$ -	\$ -	\$ 2,709,857	\$ 2,709,857

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 7. Fair Value Measurements (Continued)

The following tables summarize the changes in Federation's Level 3 assets and liabilities for the year ended June 30, 2019:

Level 3 Assets For the Year Ended June 30, 2019

Description	Endowment Pool	Short-Term Pool	Real Estate	Beneficial Interest in Assets Held by Others	Pledges Receivable, Net	Balance as of June 30, 2019
Beginning Balance, July 1, 2018	\$ 2,170,683	\$ 58,063	\$ 42,803	\$ 11,978,570	\$ 2,284,813	\$ 16,534,932
Realized and unrealized gains (losses)	89,115	(639)	1,694	419,423	-	509,593
Purchases and contributions	-	-	15,344	50,000	6,739,542	6,804,886
Sales, distributions, and collections	-	(3,000)	(10,204)	(569,221)	(6,850,171)	(7,432,596)
Net change in discount	-	-	-	-	(1,798)	(1,798)
Transfers in (out) of Level 3	-	-	-	-	-	-
Ending Balance, June 30, 2019	\$ 2,259,798	\$ 54,424	\$ 49,637	\$ 11,878,772	\$ 2,172,386	\$ 16,415,017

Level 3 Liabilities for the Year Ended June 30, 2019

Description	Grants Payable, Net as of June 30, 2019
Beginning Balance, July 1, 2018	\$ 2,442,777
Grants awarded	961,900
Grants paid	(694,820)
Transfers in (out) of Level 3	-
Ending Balance, June 30, 2019	\$ 2,709,857

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 7. Fair Value Measurements (Continued)

The following is a summary of Federation's assets and liabilities measured at fair value within the fair value hierarchy as of June 30, 2018:

Assets at Fair Value as of June 30, 2018

Description	Unadjusted Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Balance as of June 30, 2018
Investments				
Endowment Pool				
Unrestricted Foundations Fund	\$ -	\$ -	\$ 2,170,683	\$ 2,170,683
Total Endowment Pool	-	-	2,170,683	2,170,683
Short-Term Pool				
Operating Fund	-	1,813,100	-	1,813,100
Indigent Burial Fund	-	-	58,063	58,063
Total Short-Term Pool	-	1,813,100	58,063	1,871,163
Real Estate				
Indigent Burial Fund	-	-	42,803	42,803
Total Real Estate	-	-	42,803	42,803
Total Investments	-	1,813,100	2,271,549	4,084,649
Beneficial Interest in Assets Held by Others	-	-	11,978,570	11,978,570
Pledges Receivable, Net	-	-	2,284,813	2,284,813
Total	\$ -	\$ 1,813,100	\$ 16,534,932	\$ 18,348,032

Liabilities at Fair Value as of June 30, 2018

Description	Unadjusted Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Balance as of June 30, 2018
Grants Payable, Net	\$ -	\$ -	\$ 2,442,777	\$ 2,442,777
	-	-	2,442,777	2,442,777

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 7. Fair Value Measurements (Continued)

The following tables summarize the changes in Federation's Level 3 assets and liabilities for the year ended June 30, 2018:

Level 3 Assets for the Year Ended June 30, 2018

Description	Endowment Pool	Short-Term Pool	Real Estate	Beneficial Interest in Assets Held by		Pledges Receivable, Net	Balance as of June 30, 2018
				Others			
Beginning Balance, July 1, 2017	\$ 2,255,120	\$ 65,694	\$ 23,899	\$ 5,806,962	\$ 2,334,824	\$ 10,486,499	
Realized and unrealized gains (losses)	223,563	(2,850)	3,404	744,381	-	968,498	
Purchases and contributions	317,629	-	15,500	5,927,268	7,419,747	13,680,144	
Sales, distributions, and collections	(625,629)	(4,781)	-	(500,041)	(7,463,406)	(8,593,857)	
Net change in discount	-	-	-	-	(6,352)	(6,352)	
Transfers in (out) of Level 3	-	-	-	-	-	-	
Ending Balance, June 30, 2018	\$ 2,170,683	\$ 58,063	\$ 42,803	\$ 11,978,570	\$ 2,284,813	\$ 16,534,932	

Level 3 Liabilities for the Year Ended June 30, 2018

	Grants Payable, Net as of June 30, 2018
Beginning Balance, July 1, 2017	\$ 2,745,094
Grants awarded	647,827
Grants paid	(950,144)
Transfers in (out) of Level 3	-
Ending Balance, June 30, 2018	\$ 2,442,777

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Pledges Receivable, Net

Pledges receivable are valued at the net present value of expected future cash inflows which approximates fair value. In accordance with FASB ASC 820, *Fair Value Measurements*, pledges receivable due for payment in less than one year are considered short term and not discounted for present value purposes. All pledges receivable were due for payment within one fiscal year after June 30, 2019 and 2018.

Pledges receivable, net of allowance for doubtful accounts consist of the following at June 30:

Description	2019	2018
Receivables due in less than one year	\$ 2,241,163	\$ 2,387,906
Less: Reserve for uncollectible pledges	(68,777)	(103,093)
Pledges Receivable, Net	\$ 2,172,386	\$ 2,284,813

As of June 30, 2018, Federation had a conditional pledge receivable totaling \$1,247,550 from a major donor to co-fund MOTIV, a multi-faceted Jewish Teen Initiative in San Diego County that was initially pledged in 2017. The pledge is conditioned upon Federation raising a 1-to-1 matching from other sources over a three year period. During 2019, Federation raised \$592,147 and the balance was matched under this conditional pledge. The 2019 matching funds are recorded as contributions in the statement of activities with no outstanding receivable at June 30, 2019. The balance remaining under this conditional pledge as of June 30, 2019 is \$655,403.

Note 9. Note Receivable

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

	2019	2018
Promissory note with UJF dated January 1, 2014. Interest payments due in quarterly installments at 1.20% per annum beginning January 1, 2014, matures December 1, 2020. UJF to pay thirty-two payments of \$5,476 each at quarterly intervals on the first day of each quarter beginning April 1, 2014. Payments will be applied to principal and interest.	\$ 38,158	\$ 59,510
Less: Current Portion	(21,905)	(21,905)
Note Receivable, Less Current Portion	\$ 16,253	\$ 37,605

Interest income of \$552 and \$807 was recognized during the years ended June 30, 2019 and 2018, respectively.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 10. Fixed Assets, Net

Fixed assets, net of accumulated depreciation, consist of the following at June 30:

Description	2019	2018
Leasehold improvements	\$ 359,618	\$ 359,618
Computer hardware and software	229,238	252,426
Office furniture and equipment	158,456	187,708
Subtotal	<u>747,312</u>	<u>799,752</u>
Less: Accumulated Depreciation	(632,573)	(670,916)
Total Fixed Assets, Net	<u><u>\$ 114,739</u></u>	<u><u>\$ 128,836</u></u>

Depreciation expense was \$36,536 and \$34,719 for the years ended June 30, 2019 and 2018, respectively.

Note 11. Grants Payable

Grants payable consists of approved grant commitments. Grants payable due in greater than one year are discounted to present value using risk-adjusted rates of return. At June 30, 2019, the entire grants payable balance is expected to be paid in the following fiscal year.

Federation raised funds as part of the 2014 Israel Emergency Relief Campaign and the remaining balance of the funds raised is shown as grants payable in the amount of \$1,794,949 as of June 30, 2019 and 2018. Federation intends to make distributions from these funds support the construction of the Sha'ar HaNegev Sport and Cultural Center. No discount is made on these grants as the time of distribution is uncertain.

Note 12. Net Assets

Net assets without donor restrictions were as follows for the years ended June 30:

	2019	2018
Quasi endowment	\$ 2,259,798	\$ 2,170,683
Undesignated	1,082,995	1,741,752
Total Net Assets without Donor Restrictions	<u><u>\$ 3,342,793</u></u>	<u><u>\$ 3,912,435</u></u>

Net assets with donor restrictions were as follows for the years ended June 30:

	2019	2018
Beneficial interest in assets held by others	\$ 11,878,772	\$ 11,978,570
Pledges receivable	117,528	178,756
Burial fund	104,061	100,866
Total Net Assets with Donor Restrictions	<u><u>\$ 12,100,361</u></u>	<u><u>\$ 12,258,192</u></u>

Net assets released from net assets with donor restrictions were as follows for the years ended June 30:

	2019	2018
Beneficial interest in assets held by others	\$ 569,221	\$ 500,041
Pledges receivable	186,227	405,955
Burial fund	13,204	4,782
Total Net Assets Released from Donor Restrictions	<u><u>\$ 768,652</u></u>	<u><u>\$ 910,778</u></u>

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 13. Endowment Net Assets

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

Federation has interpreted the enacted version of the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Federation classifies as net assets with donor restrictions (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, (3) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instrument at the time of the accumulation is added to the fund.

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

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

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires Federation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in nets assets without donor restriction totaled \$0 at June 30, 2019 and 2018.

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

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

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

Federation has a policy of appropriating for distribution each year an amount up to 7% of the fair value of the twelve-quarter rolling average of the assets associated with the endowment as of the quarter prior to the year end. In establishing this policy, Federation considered the long-term expected return on its endowment. Over the long-term, Federation expects the current spending policy to allow the endowment to meet the needs of Federation. This is consistent with Federation's objectives to balance purchasing power of the endowment assets held in perpetuity, provide additional growth through new gifts and investments returns, as well as provide a funding source for investment in Federation programs and services. No distributions were made for the years ended June 30, 2019 and 2018.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 13. Endowment Net Assets (Continued)

In 1998, Federation’s Board voted to earmark a portion of net assets without donor restriction as a Board Designated – Quasi Endowment. The earmarked funds are to be invested with earnings available for unrestricted use by Federation.

In 2018, the Board released \$118,000 from the Board Restricted Quasi-Endowment to operations, and \$490,000 for additional funding of the Endowment. Federation’s management and Board have approved a plan to recover the deficit of \$251,520 incurred in the year ended June 30, 2018 in the next fiscal year. The deficit was recovered as of June 30, 2019.

The Board can elect to end its restriction on these assets and remove the assets from the quasi-endowment at any time it chooses. The Board performs an annual analysis of its designated assets in comparison to the assets available for designation to determine if restrictions should be amended. In 2019, the Board released \$0 from the Board Restricted Quasi-Endowment to operations, and \$0 for additional funding of the Endowment.

Endowment composition by type of fund as of June 30:

	2019	2018
Board Designated Operations Fund - Quasi Endowment	<u>\$ 2,259,798</u>	<u>\$ 2,170,683</u>
Total Endowment Net Assets	<u>\$ 2,259,798</u>	<u>\$ 2,170,683</u>

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 13. Endowment Net Assets (Continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets at June 30, 2017	\$ 2,240,425	\$ 14,695	\$ 2,255,120
Investment Return			
Interest and dividends	109,976	3,607	113,583
Net realized and unrealized gains (losses)	113,078	(46)	113,032
Investment expenses	(2,425)	(73)	(2,498)
Total Net Investment Income	220,629	3,488	224,117
Transfers			
Board designated transfers	(172,371)	(18,183)	(190,554)
Transfer to endowment	(118,000)	-	(118,000)
Appropriation of endowment net assets	-	-	-
Endowment Net Assets at June 30, 2018	\$ 2,170,683	\$ -	\$ 2,170,683
Investment Return			
Interest and dividends	88,778	-	88,778
Net realized and unrealized gains	2,352	-	2,352
Investment expenses	(2,015)	-	(2,015)
Total Net Investment Income	89,115	-	89,115
Transfers			
Board designated transfers	-	-	-
Transfer to endowment	-	-	-
Appropriation of endowment net assets	-	-	-
Endowment Net Assets at June 30, 2019	\$ 2,259,798	\$ -	\$ 2,259,798

Federation has a beneficial interest in certain endowment funds held by JCF, in which Federation has recorded this asset in the accompanying financial statements as Federation maintains variance power over these funds. JCF's spending policy is to disburse 5% annually, based upon endowment principal market value. If the market value of the endowment principal of any fund, at the end of each month, is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received. The distributions are used to further Federation's mission. Federation received \$569,221 and \$500,041 in distributions from these funds for the years ended June 30, 2019 and 2018, respectively. The fair value of the beneficial interest in these funds at the JCF totaled \$11,878,772 and \$11,978,570 at June 30, 2019 and 2018, respectively.

JEWISH FEDERATION OF SAN DIEGO COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 14. Retirement Plan

Federation provides a 403(b) Thrift Plan (the "Plan"), which is administered by Mutual of America. The Plan covers substantially all of Federation's full-time employees. Federation made contributions to the Plan for eligible employees equal to the lesser of 50% of the participant's contributions during the Plan year or 2.5% of the participants' eligible compensation. Federation's contributions to the Plan totaled \$81,945 and \$16,458 for the years ended June 30, 2019 and 2018, respectively. Federation incurred no administrative expenses on this Plan in 2019 and 2018.

Note 15. Analysis of Operating Lease

Federation leases its office facilities from UJF, a related party, and is in the seventh year of a ten-year lease with options for four additional five-year terms. Federation paid rent to UJF totaling \$126,996 and \$127,070, for 2019 and 2018, respectively, utilizing a co-operative cost sharing model for all building tenants for each of the years ended June 30, 2019 and 2018 (see Note 16).

Future minimum payments under the non-cancelable operating lease as of June 30, 2019 are as follows:

Years ending June 30:	
2020	\$ 129,536
2021	132,127
2022	134,769
Thereafter	-
Total	\$ 396,432

Note 16. Related Party Transactions

Two officers of Federation serve as officers of UJF. Federation provides support services to UJF and pays UJF for rent. Federation charged UJF support services fees of \$83,004 and \$82,116 for the years ended June 30, 2019 and 2018, respectively, and paid rent in the amount of \$126,996 and \$127,070 for the years ended June 30, 2019 and 2018, respectively. Amounts and Due From UJF as of June 30, 2019 and 2018 amounted to \$119,742 and \$46,413, respectively (see Note 9 and Note 15).