

**Milwaukee Jewish Federation, Inc.
and Affiliates**

Milwaukee, Wisconsin

Consolidated Financial Statements

Year Ended June 30, 2015

Milwaukee Jewish Federation, Inc. and Affiliates

Consolidated Financial Statements

Year Ended June 30, 2015

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Independent Auditor's Report

Board of Directors
Milwaukee Jewish Federation, Inc. and Affiliates
Milwaukee, Wisconsin

We have audited the accompanying consolidated financial statements of Milwaukee Jewish Federation, Inc. (a nonprofit organization) and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Milwaukee Jewish Federation, Inc. and Affiliates as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States.

Prior Period Adjustment

As discussed in Note 20 to the consolidated financial statements, amounts previously reported for unrestricted, temporarily restricted, and permanently restricted net assets as of July 1, 2014, have been restated to correct an error. Our opinion is not modified with respect to that matter.

Wipfli LLP

Wipfli LLP

Milwaukee, Wisconsin

November 24, 2015

Milwaukee Jewish Federation, Inc. and Affiliates

Consolidated Statement of Financial Position

June 30, 2015

| <i>Assets</i> | |
|-----------------------------------------------------------|-----------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 13,838,425 |
| Current portion of pledges receivable | 2,722,447 |
| Current portion of accounts and note receivable | 708,078 |
| Prepaid expenses | 326,871 |
| <hr/> | |
| Total current assets | 17,595,821 |
| <hr/> | |
| Long-term assets: | |
| Investments, at fair value | 149,357,485 |
| Property and equipment - Net | 40,406,547 |
| Pledges receivable, less current portion | 276,833 |
| Accounts and notes receivable - Net, less current portion | 3,582,953 |
| Donated real estate held for sale | 2,080,400 |
| Donated works of art held for sale | 2,483,892 |
| Other assets | 3,667,348 |
| <hr/> | |
| Total long-term assets | 201,855,458 |
| <hr/> | |
| TOTAL ASSETS | \$ 219,451,279 |

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets

Current liabilities:

| | |
|-----------------------------------------------|--------------|
| Accounts payable and accrued expenses | \$ 1,885,758 |
| Community allocations payable | 3,702,681 |
| Current maturities of long-term debt | 122,698 |
| Current payments on trusts and gift annuities | 401,657 |

| | |
|---------------------------|-----------|
| Total current liabilities | 6,112,794 |
|---------------------------|-----------|

Long-term liabilities:

| | |
|-------------------------------------------------------------|------------|
| Long-term debt, less current maturities | 59,938,699 |
| Payments on trusts and gift annuities, less current portion | 4,832,530 |
| Passport to Israel | 495,797 |
| Interest rate swaps | 4,273,731 |
| Post-retirement benefit liability | 33,400 |
| Agency endowment funds | 23,959,288 |
| Assets held on behalf of cemetery | 3,557,887 |

| | |
|-----------------------------|------------|
| Total long-term liabilities | 97,091,332 |
|-----------------------------|------------|

| | |
|-------------------|-------------|
| Total liabilities | 103,204,126 |
|-------------------|-------------|

Net assets:

| | |
|------------------------|------------|
| Unrestricted | 78,855,005 |
| Temporarily restricted | 24,009,114 |
| Permanently restricted | 13,383,034 |

| | |
|------------------|-------------|
| Total net assets | 116,247,153 |
|------------------|-------------|

| | |
|-----------------------------------------|-----------------------|
| TOTAL LIABILITIES AND NET ASSETS | \$ 219,451,279 |
|-----------------------------------------|-----------------------|

Milwaukee Jewish Federation, Inc. and Affiliates

Consolidated Statement of Activities

Year Ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------------------------------------------|---------------|------------------------|------------------------|----------------|
| Support and revenue: | | | | |
| Campaign support: | | | | |
| Annual and capital campaign support | \$ 5,794,320 | \$ - | \$ - | \$ 5,794,320 |
| Campaign payments from fund transfers | (2,360,885) | - | - | (2,360,885) |
| Total campaign support | 3,433,435 | - | - | 3,433,435 |
| Other contribution support | 18,582,196 | 5,069,626 | 4,541,963 | 28,193,785 |
| Investment income | 3,179,418 | 2,333,954 | - | 5,513,372 |
| Rental income | 3,282,174 | - | - | 3,282,174 |
| Programs and events revenue | 439,640 | - | - | 439,640 |
| Loss on sale of land and property | (175,000) | - | - | (175,000) |
| Impairment loss on donated real estate held for sale | (83,088) | - | - | (83,088) |
| Other income | 1,226,317 | 223,938 | - | 1,450,255 |
| Net assets released from restrictions | 2,653,854 | (2,653,854) | - | - |
| Total support and revenue | 32,538,946 | 4,973,664 | 4,541,963 | 42,054,573 |
| Expenses: | | | | |
| Allocations to local agencies | 4,821,940 | - | - | 4,821,940 |
| Allocations to national agencies | 466,362 | - | - | 466,362 |
| Allocations to Israel and overseas | 1,956,539 | - | - | 1,956,539 |
| Grants | 10,605,889 | - | - | 10,605,889 |
| Milwaukee programs | 10,447,690 | - | - | 10,447,690 |
| Scholarships | 568,150 | - | - | 568,150 |
| Administration and planning | 1,231,798 | - | - | 1,231,798 |
| Fundraising | 1,783,529 | - | - | 1,783,529 |
| Total expenses | 31,881,897 | - | - | 31,881,897 |
| Change in net assets before gain on interest rate swaps | 657,049 | 4,973,664 | 4,541,963 | 10,172,676 |
| Gain on interest rate swaps | 646,919 | - | - | 646,919 |
| Total change in net assets | 1,303,968 | 4,973,664 | 4,541,963 | 10,819,595 |
| Restated net assets at beginning of year | 77,551,037 | 19,035,450 | 8,841,071 | 105,427,558 |
| Net assets at end of year | \$ 78,855,005 | \$ 24,009,114 | \$ 13,383,034 | \$ 116,247,153 |

See accompanying notes to consolidated financial statements.

Milwaukee Jewish Federation, Inc. and Affiliates

Consolidated Statement of Cash Flows

Year Ended June 30, 2015

Increase (decrease) in cash and cash equivalents:

Cash flows from operating activities:

| | |
|---------------------------------------------------------------------------------------------|---------------|
| Change in net assets | \$ 10,819,595 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Contributions designated for permanent endowment | (4,541,963) |
| Bad debt expense | 64,426 |
| Depreciation | 2,291,179 |
| Loss on disposal of property and equipment | 10,312 |
| Net realized and unrealized gains on investments | (1,815,437) |
| Amortization of revenue bond and debt issuance costs | 33,069 |
| Loss on sale of land and property | 175,000 |
| Donation of works of art held for sale | (2,483,892) |
| Impairment loss on donated real estate held for sale | 83,088 |
| Gain on interest rate swaps | (646,919) |
| Change in value of trusts | 2,229,435 |
| Deferred tax provision | 46,000 |
| Changes in operating assets and liabilities: | |
| Pledges receivable | 854,082 |
| Accounts and notes receivable | (624,006) |
| Prepaid expenses | (100,781) |
| Accounts payable and accrued expenses | 418,872 |
| Community allocations payable | 3,702,681 |
| Passport to Israel | (34,634) |
| Agency endowment funds | (359,041) |
| Assets held on behalf of cemetery | 179,167 |

| | |
|-------------------------------------------|------------|
| Net cash provided by operating activities | 10,300,233 |
|-------------------------------------------|------------|

Milwaukee Jewish Federation, Inc. and Affiliates

Consolidated Statement of Cash Flows (Continued)

Year Ended June 30, 2015

Increase (decrease) in cash and cash equivalents (Continued):

Cash flows from investing activities:

| | |
|--------------------------------------------------------------|---------------|
| Purchases of property and equipment | (665,025) |
| Purchase of investments | (116,618,587) |
| Proceeds from sales of investments | 107,218,383 |
| Increase in partnership interests | (9,119) |
| Increase in cash surrender value of life insurance | (34,978) |
| Decrease in reserve and replacement funds for HUD properties | 204,517 |

| | |
|---------------------------------------|-------------|
| Net cash used in investing activities | (9,904,809) |
|---------------------------------------|-------------|

Cash flows from financing activities:

| | |
|-------------------------------------------------|-----------|
| Contribution designated for permanent endowment | 4,541,963 |
| Payments to trust beneficiaries | (451,417) |
| Repayment on long-term debt | (119,918) |

| | |
|-------------------------------------------|-----------|
| Net cash provided by financing activities | 3,970,628 |
|-------------------------------------------|-----------|

| | |
|------------------------------------------------|-----------|
| Net increase in cash and cash equivalents | 4,366,052 |
| Cash and cash equivalents at beginning of year | 9,472,373 |

| | |
|------------------------------------------|---------------|
| Cash and cash equivalents at end of year | \$ 13,838,425 |
|------------------------------------------|---------------|

Supplemental cash flow information:

| | |
|------------------------|--------------|
| Cash paid for interest | \$ 2,179,468 |
|------------------------|--------------|

Milwaukee Jewish Federation, Inc. and Affiliates

Consolidated Statement of Functional Expenses

Year Ended June 30, 2015

| | Administration and Planning | Fundraising | Local Allocations, Grants, Programs, and Awards | Israel, Overseas, and National Charities Allocations and Grants | Total |
|------------------------------------|--------------------------------|---------------------|-------------------------------------------------------|-----------------------------------------------------------------------------|----------------------|
| Allocations | \$ - | \$ - | \$ 4,821,940 | \$ 2,422,901 | \$ 7,244,841 |
| Grants | - | - | 7,340,499 | 3,265,390 | 10,605,889 |
| Interest and related fees | - | - | 2,216,932 | - | 2,216,932 |
| Miscellaneous | 1,053 | 1,737 | 493,266 | - | 496,056 |
| Professional services | 12,256 | 141,749 | 624,649 | - | 778,654 |
| Buildings/Cemetery operations | - | - | 2,527,125 | - | 2,527,125 |
| Newspaper | - | - | 58,518 | - | 58,518 |
| Salaries and benefits | 1,104,065 | 1,343,544 | 1,182,005 | - | 3,629,614 |
| Marketing and communications | 1,095 | 16,163 | 44,115 | - | 61,373 |
| Office operations | 42,107 | 100,741 | 130,205 | - | 273,053 |
| Occupancy and insurance | 44,929 | 86,129 | 214,226 | - | 345,284 |
| Information systems administration | 8,498 | 17,071 | 12,831 | - | 38,400 |
| Professional development | 15,278 | 21,221 | 13,924 | - | 50,423 |
| Programs and events | 2,517 | 55,174 | 605,646 | - | 663,337 |
| Scholarships and awards | - | - | 568,150 | - | 568,150 |
| Depreciation and amortization | - | - | 2,324,248 | - | 2,324,248 |
| Total expenses | \$ 1,231,798 | \$ 1,783,529 | \$ 23,178,279 | \$ 5,688,291 | \$ 31,881,897 |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies**

Nature of Activities

Milwaukee Jewish Federation, Inc. is a nonprofit organization whose mission, through the development of community-wide financial support, planning, and allocations, is to ensure the continuity of the Jewish people, to enhance the quality of Jewish life, and to build a strong, unified, and inclusive Jewish community in Milwaukee, in Israel, and throughout the world.

Consolidated Financial Statements

The accompanying consolidated financial statements include the accounts of the Milwaukee Jewish Federation, Inc.; three corporations, MJF Housing No. 2, Inc., and MJF Housing No. 3, Inc., organized to own and operate housing under Section 202 of the National Housing Act, and MJF Golda Meir Housing, Inc., organized to own and operate housing under Section 207 pursuant to Section 223(f) of the National Housing Act, regulated by the U.S. Department of Housing and Urban Development (“HUD”); ten charitable trusts; and one supporting foundation (Blumenthal Family Supporting Foundation) (collectively the “Federation”). All material intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“GAAP”).

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in accordance with GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Cash and Cash Equivalents

The Federation considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Investments and Investment Income

Investments are recorded at fair value. Donated investments are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received. The Federation records the change in ownership of bonds and stocks on the day a trade is made.

Investment income (including realized and unrealized gains and losses, interest, and dividends) is reported as unrestricted or temporarily restricted revenue based on donor designation, law, or appropriations approved by the Board of Directors.

Fair Value Measurements

The Federation measures fair value of its financial instruments using a three-tier hierarchy which prioritizes the inputs used in measuring 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 Federation determines fair value by:

- Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical asset or liabilities in active markets that the Federation has the ability to access.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Fair Value Measurements (Continued)

- Level 2 inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in active 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.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Pledges Receivable

Pledges are recorded as receivables in the year pledged. Pledges and other promises to give whose eventual uses are restricted by the donors are recorded as increases in temporarily restricted net assets. Unrestricted pledges to be collected in future periods are also recorded as an increase to temporarily restricted net assets and reclassified to unrestricted net assets when received. Pledges whose ultimate purpose has been met in the current period but the cash has not been received are recorded as unrestricted net assets.

Management individually reviews all past due pledge receivable balances and estimates the portion, if any, of the balance that will not be collected. The carrying amounts of pledges receivable are reduced by collection reserves that reflect management's estimate of uncollectible amounts.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Pledges Receivable (Continued)

Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on pledges is computed using a 2% rate for the year ended June 30, 2015. The amortization of the discount is recognized as contribution income over the duration of the pledge.

Accounts and Notes Receivable and Credit Policy

Accounts receivable are uncollateralized obligations due on normal trade terms and are stated at the amount management expects to collect from outstanding balances. Payments of accounts receivable are allocated to the specific invoices identified on the client's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

Notes receivable includes an amount lent to an area business by a donor who endorsed the note to the Federation in January 2012. The note is due in annual interest-only payments of \$1,170 with a final payment of principal and interest due January 29, 2021.

Notes receivable also includes a \$3,000,000 loan agreement with the Harry & Rose Samson Family Jewish Community Center (the "JCC").

Management individually reviews all past due accounts and notes receivable balances and estimates the portion, if any, of the balance that will not be collected. The carrying amount of accounts and notes receivable is reduced by an allowance that reflects management's estimate of uncollectible amounts.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. All acquisitions of property and equipment in excess of \$2,500 and all expenditures for repairs, maintenance, improvements, and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements that do not prolong the useful lives of assets are expensed as incurred. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Useful lives range from 3 to 30 years for equipment and 10 to 45 years for buildings and land improvements.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donated Real Estate Held for Sale

The Federation receives gifts of real estate, which are recorded at fair value on the date the gifts are received. The fair value of the property is typically based on appraisals. These assets are generally marketed for sale immediately. The donated real estate held for sale is not depreciated; instead it is reviewed periodically for impairment, with the carrying value of the property adjusted for any impairment losses.

Management has determined that certain real estate properties held for sale were impaired and recorded a loss on impairment of \$83,088 during the year ended June 30, 2015. Property assessments were utilized in determining fair value of the real estate.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Donated Works of Art Held for Sale

The Federation receives gifts of artwork which do not meet the criteria to be defined as a collection as the artwork is not held for public exhibition, education, or research. The gifts of artwork are recorded at fair value on the date the gifts are received. The fair value of the artwork is typically based on appraisals. The artwork is generally marketed for sale immediately. The donated artwork held for sale is not depreciated; instead it is reviewed periodically for impairment, with the carrying value of the artwork adjusted for any impairment losses.

Revenue Bond and HUD-Insured Note Issuance Costs

Revenue bond and HUD-insured debt issuance costs, included with other assets in the accompanying consolidated statement of financial position, have been capitalized and are being amortized over the related debt term using the straight-line method, which approximates the interest method.

Reserve and Replacement Funds for HUD Properties

A replacement reserve is funded monthly and is held by the mortgagee. With HUD's approval, these funds may be used for the replacement of property or other operating expenses.

A reserve fund is maintained in a separate trust fund. The escrow exists to cover any shortfalls in cash available to make interest payments due on the revenue bonds underlying the Federation's HUD coinsured mortgage.

Both the reserve and replacement funds are included with other assets in the accompanying consolidated statement of financial position.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Community Allocations Payable

Community allocations payable represent grants and allotments that are generally approved by the Board of Directors in June and paid the following fiscal year. Total cash paid for community allocations during the year ended June 30, 2015 was \$3,542,160.

Payments on Trusts and Gift Annuities

Payments on trusts and gift annuities represent a liability for the actuarial present value of future beneficiaries' payments under charitable trusts and gift annuities irrevocably naming the Federation or local Jewish agencies as final recipient of trust assets. In addition, this liability includes the assets of revocable charitable trusts and a liability for the actuarial present value of trust assets reverting to a beneficiary under a charitable lead trust. The present value of the estimated future liabilities was calculated using rates between 5.25% and 8.00% and applicable mortality tables. Assets held in trusts and gift annuities totaled \$8,876,862 at June 30, 2015, and are included in investments in the accompanying consolidated statement of financial position.

Passport to Israel

Passport to Israel is a program used to encourage donors to send their children to Israel. Donor contributions are matched by the donor's synagogue and the Federation. These funds are held by the Federation on behalf of the donors and are invested in the Federation's fixed pool investments with the capital appreciation added to the donor's account. Expenses incurred on the child's trip to Israel may be reimbursed from this account.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Interest Rate Swaps

The Federation uses interest rate swaps to manage its risk related to interest rate movements. The Federation's risk management strategy is to stabilize cash flow variability on its variable rate debt with interest rate swaps. At the inception of the swap agreements, the Federation documented its risk management strategy and assessed the interest rate swaps' effectiveness at producing offsetting cash flows. The interest rate swaps have been deemed effective in achieving their objectives and have been designated as cash flow hedges.

The interest rate swaps are reported at fair value in the accompanying consolidated statement of financial position, with the change in fair value shown as gain (loss) on interest rate swaps in the accompanying consolidated statement of activities.

Post-Retirement Benefit Liability

The post-retirement benefit liability consists of deferred compensation for four retired employees. The Federation does not offer deferred compensation to any other employees or officers.

Agency Endowment Funds

The Federation recognizes a liability when it receives a transfer of assets and the resource provider (i.e. a not-for-profit organization) specifies itself or an affiliate as the beneficiary, even if the resource provider explicitly grants the Federation variance power. The Federation, when accepting cash or other financial assets from a not-for-profit organization, recognizes the fair value of those assets as a liability to the specified beneficiary (generally the same not-for-profit organization) concurrent with recognition of the assets received from the not-for-profit organization if the Federation agrees to any of the following: (1) use of those assets on behalf of the not-for-profit organization, (2) transfer of those assets to the not-for-profit organization, (3) use of the return on those assets to benefit the not-for-profit organization, or (4) application of any of the above to an unaffiliated specified beneficiary determined by the not-for-profit organization.

When a third-party donor explicitly grants the Federation variance power, the Federation will recognize the fair value of any assets it receives as a contribution.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Assets Held on Behalf of Cemetery

Cemetery property and equipment and an investment portfolio intended to satisfy cemetery operating expenses were transferred to the Federation in 1988. The assets are included in the Federation's investments and property and equipment; cemetery payables are included in the Federation's accounts payable and accrued expenses in the accompanying consolidated statement of financial position. The excess of cemetery assets over liabilities is recorded as a long-term liability in the accompanying consolidated statement of financial position as the entire transfer is revocable upon 60 days-notice to or from the Federation.

Classification of Net Assets

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Federation and changes therein are classified and reported as follows:

- *Unrestricted net assets* are the assets of the Federation that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.
- *Temporarily restricted net assets* are those whose use by the Federation has been limited by donors to a specific time period or purpose. As the restrictions are met, the temporarily restricted net assets are released and recognized as unrestricted support.
- *Permanently restricted net assets* are those amounts contributed by donors with the intent that the principal be maintained in perpetuity. Donors have specified that investment income from invested principal be used for charitable, educational, or religious purposes within the scope of the Federation, either directly or by contributions to other organizations.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Campaign Payments From Fund Transfers

Donors may recommend transfers to various campaigns from established donor advised funds. The Federation presents these transfers as a reduction in annual and capital campaign support on the accompanying consolidated statement of activities.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Federation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift was deemed unconditional. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the consolidated financial statements.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Tax Status

The Milwaukee Jewish Federation, Inc. is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Milwaukee Jewish Federation, Inc. is also exempt from state income taxes on related income. All other entities consolidated in these financial statements have been classified as disregarded entities or tax-exempt organizations under the Code, with the exception of MJF Golda Meir Housing, Inc.

MJF Golda Meir Housing, Inc. is classified as a for-profit corporation. MJF Golda Meir Housing, Inc. accounts for income taxes pursuant to the asset and liability method. Accordingly, the current or deferred tax consequences of a transaction are measured by applying the provision of enacted tax laws to determine the amount of taxes payable currently or in future years. Deferred income taxes are provided for temporary differences between the income tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible.

The Federation recognizes the benefits of a tax position only after determining whether it is more likely than not that the taxing authority would sustain the tax position upon examination of the technical merits of the tax position assuming the taxing authority has full knowledge of all information. The Federation recorded no assets or liabilities related to uncertain tax positions. Tax returns for MJF Golda Meir Housing, Inc. for the fiscal years 2012 and beyond remain subject to examination by the applicable taxing authorities. Tax returns for Milwaukee Jewish Federation, Inc. for the fiscal years 2012 and beyond remain subject to examination by the applicable taxing authorities.

Subsequent Events

Subsequent events have been evaluated through November 24, 2015, which is the date the consolidated financial statements were issued.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2 Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of June 30, 2015:

| | |
|----------------------------------|---------------|
| Checking accounts and petty cash | \$ 4,609,666 |
| Cash held by bond trustee | 55,161 |
| Cash held by investment managers | 9,173,598 |
| <hr/> | |
| Total cash and cash equivalents | \$ 13,838,425 |
| <hr/> | |

Cash held by bond trustee is utilized to pay one month of interest on the tax-exempt bonds (see Note 9). Cash held by investment managers is held on behalf of donors to the Jewish Community Foundation. These two cash sources cannot be used for the general operations of the Federation.

Note 3 Pledges Receivable

Pledges receivable consisted of the following at June 30, 2015:

| | Gross Pledges Receivable | Collection Reserves | Unamortized Discount | Net Pledges Receivable |
|----------------------------|--------------------------------|------------------------|-------------------------|---------------------------|
| Annual campaigns | \$ 3,751,640 | \$ (954,005) | \$ (5,846) | \$ 2,791,789 |
| Community capital campaign | 254,334 | (243,334) | (98) | 10,902 |
| Other campaigns | 198,927 | - | (2,338) | 196,589 |
| <hr/> | | | | |
| Totals | \$ 4,204,901 | \$ (1,197,339) | \$ (8,282) | \$ 2,999,280 |
| <hr/> | | | | |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 3 Pledges Receivable (Continued)

Pledges receivable are expected to be collected as follows at June 30, 2015:

| | |
|------------------------------------------------|--------------|
| Less than one year | \$ 3,919,786 |
| One to five years | 285,115 |
| <hr/> | |
| Gross pledges receivable | 4,204,901 |
| Less: | |
| Unamortized discount | 8,282 |
| Collection reserves | 1,197,339 |
| <hr/> | |
| Pledges receivable - Net | 2,999,280 |
| Less: Current portion | 2,722,447 |
| <hr/> | |
| Pledges receivable - Net, less current portion | \$ 276,833 |
| <hr/> | |

Note 4 Accounts and Notes Receivable

Accounts and notes receivable included the following at June 30, 2015:

| | |
|-----------------------------------------------------------|--------------|
| Receivable from charitable trust | \$ 467,488 |
| Loans to Jewish Community Center | 3,004,166 |
| WJGBP insurance receivable | 30,080 |
| Bequests receivable | 446,104 |
| Note receivable | 91,355 |
| Student loans receivable | 2,648 |
| Chronicle advertising sales receivable | 13,175 |
| Rent receivable | 56,867 |
| Other receivables | 199,713 |
| <hr/> | |
| Gross accounts and notes receivable | 4,311,596 |
| Less: Allowance for doubtful accounts | 20,565 |
| <hr/> | |
| Total accounts and notes receivable - Net | 4,291,031 |
| Less: Current portion | 708,078 |
| <hr/> | |
| Accounts and notes receivable - Net, less current portion | \$ 3,582,953 |
| <hr/> | |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 4 **Accounts and Notes Receivable** (Continued)

The Federation loaned \$2,400,000 in June 2005 and \$600,000 in October 2007 to the JCC to finance certain capital improvements. The loan agreements bear interest on the unpaid principal at the same rates per annum paid by the Federation on their tax-exempt bonds (1.19% at June 30, 2015, see Note 9). The loan agreements mature September 1, 2035 and are subject to mandatory prepayment of principal immediately upon payment of principal by the Federation on their tax-exempt bonds. The JCC is required to maintain funds held in the Federation's investments, at an assessed level deemed appropriate by the Federation, in order for the JCC to adequately discharge their loans when due. The balance in the JCC's capital reserve account at June 30, 2015 totaled \$1,736,465.

Note 5 **Investments**

Investments stated at fair value included the following at June 30, 2015:

| | |
|-------------------------------------------------|----------------|
| State of Israel bonds | \$ 2,145,100 |
| Corporate, U.S. government, and municipal bonds | 12,556,096 |
| Common and preferred stock | 10,189,605 |
| Mutual funds | 73,666,635 |
| Alternative investments | 50,800,049 |
| <hr/> | |
| Total investments | \$ 149,357,485 |
| <hr/> <hr/> | |

Investment income for the year ended June 30, 2015 was as follows:

| | |
|---------------------------|--------------|
| Interest income | \$ 2,052,437 |
| Dividend income | 1,645,498 |
| Unrealized gains (losses) | (1,943,945) |
| Realized gains | 3,759,382 |
| <hr/> | |
| Total investment income | \$ 5,513,372 |
| <hr/> <hr/> | |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 5 **Investments** (Continued)

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Note 6 **Fair Value Measurements**

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

- Cash equivalents, consisting mainly of money market funds, are valued using \$1 as the net asset value (NAV).
- State of Israel bonds are valued at cost, which approximates fair value.
- Corporate, U.S. government, and municipal bonds are valued using quotes from pricing vendors based on recent trading activity and other observable market data.
- Common and preferred stock is valued based on quoted market prices.
- Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Federation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Federation are deemed to be actively traded.
- Alternative investments are valued based on estimates and valuations provided by investment managers which use pricing models and other unobservable inputs to value the investments.
- Pledges receivable are valued at the present value of estimated future cash flows.
- Future payments on trusts and gift annuities are valued at the present value of estimated future cash flows based on life expectancies, quoted market prices, and discount rates.
- The interest rate swaps are valued using discounted cash flows based on yield curves and other factors.
- The post-retirement benefit liability is recorded at the present value of the Federation's obligation to pay current and former employees deferred plan benefits.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6 Fair Value Measurements (Continued)

Information regarding assets measured at fair value on a recurring basis as of June 30, 2015, was as follows:

| | Fair Value Measurements Using | | | Total at Fair Value |
|----------------------------------------|-------------------------------|---------------|---------------|------------------------|
| | Level 1 | Level 2 | Level 3 | |
| Investments: | | | | |
| State of Israel bonds | \$ - | \$ 2,145,100 | \$ - | \$ 2,145,100 |
| Corporate bonds | - | 6,566,257 | - | 6,566,257 |
| U.S. government and municipal bonds | - | 5,989,839 | - | 5,989,839 |
| Common stock: | | | | |
| Domestic equities | 9,300,288 | - | - | 9,300,288 |
| Foreign equities | 786,694 | - | - | 786,694 |
| Preferred stock | 102,623 | - | - | 102,623 |
| Equity mutual funds: | | | | |
| Domestic equities | 27,561,418 | - | - | 27,561,418 |
| Foreign equities | 23,092,828 | - | - | 23,092,828 |
| Fixed income mutual funds | 23,012,389 | - | - | 23,012,389 |
| Alternative investments: | | | | |
| Private equity funds | - | - | 607,483 | 607,483 |
| Hedge funds | - | - | 276,393 | 276,393 |
| Other alternative investments | - | - | 34,226,253 | 34,226,253 |
| Other structured products | - | - | 15,689,920 | 15,689,920 |
| Total investments | 83,856,240 | 14,701,196 | 50,800,049 | 149,357,485 |
| Cash equivalents | - | 9,173,598 | - | 9,173,598 |
| Pledges receivable | - | 2,999,280 | - | 2,999,280 |
| Total assets | \$ 83,856,240 | \$ 26,874,074 | \$ 50,800,049 | \$ 161,530,363 |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6 Fair Value Measurements (Continued)

Information regarding liabilities measured at fair value on a recurring basis as of June 30, 2015, was as follows:

| | Fair Value Measurements Using | | | Total at Fair Value |
|----------------------------------------------|-------------------------------|--------------|-----------|------------------------|
| | Level 1 | Level 2 | Level 3 | |
| Future payments on trusts and gift annuities | \$ - | \$ 5,234,187 | \$ - | \$ 5,234,187 |
| Interest rate swaps | - | 4,273,731 | - | 4,273,731 |
| Post-retirement benefit liability | - | - | 33,400 | 33,400 |
| Total liabilities | \$ - | \$ 9,507,918 | \$ 33,400 | \$ 9,541,318 |

Based on the Federation's borrowing rates currently available for bonds with similar terms and maturities, management has estimated that the carrying value of long-term debt approximates fair value.

The Federation also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These include assets measured at the lower of carrying value or market, less costs to sell, and had a fair value below carrying value at June 30, 2015:

| | Fair Value Measurements Using | | | Total at Fair Value |
|---------------------------|-------------------------------|--------------|---------|------------------------|
| | Level 1 | Level 2 | Level 3 | |
| Real estate held for sale | \$ - | \$ 1,423,100 | \$ - | \$ 1,423,100 |

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

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6 Fair Value Measurements (Continued)

The table below sets forth a summary of changes in fair value of the Federation's level 3 assets and liabilities for the year ended June 30, 2015:

| | Alternative Investments | Post-Retirement Benefit Liability |
|------------------------|----------------------------|--------------------------------------|
| Balance, July 1, 2014 | \$ 45,318,672 | \$ (33,400) |
| Income | 2,565,031 | - |
| Purchases | 3,002,378 | - |
| Sales | (86,032) | - |
| Balance, June 30, 2015 | \$ 50,800,049 | \$ (33,400) |

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 820-10-55-103 requires, for all Level 3 fair value measurements, the disclosure of the quantitative information about significant unobservable inputs used. An exception to providing additional quantitative measure is allowed when unadjusted third-party pricing is used, assuming the additional qualitative information is provided to obtain comfort with the third-party price provided.

The private equity funds, hedge funds, other alternative investments, and other structured products are valued at NAV of the underlying investments as reported by the fund manager. Adjustments to the reported NAV may be made by the fund manager based on various factors, including but not limited to the attributes of the interest held, including the rights and obligations, any restrictions on liquidity of such interests, and the fair value of the investment portfolio. These values are reviewed each month by the fund manager's investment committee.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6 Fair Value Measurements (Continued)

The following table presents additional information about the Federation's investments whose fair value is estimated using the reported NAV at June 30, 2015:

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|------------------------------------------------------------------|------------|----------------------|----------------------|--------------------------|
| Hedge funds: | | | | |
| Goldman Sachs Hedge Fund Partners Plus, LTD Class A Series 1 (A) | \$ 34,286 | \$ - | I | I |
| Goldman Sachs Long-Short Partners (B) | 242,107 | - | I | I |
| Other alternative investments and structured products: | | | | |
| EnTrust Capital Diversified Fund QP LTD (C) | 2,289,099 | - | II | II |
| Rock Creek Georgetown Fund LTD (D) | 12,001,758 | - | II | II |
| Stark Investments (E) | 132,586 | - | I | I |
| Greenlight Capital (F) | 2,383,069 | - | NAV on June 30 | 45 Days |
| PRISA fund (G) | 12,809,746 | - | Quarterly | 90 Days |
| Clarion Lion Properties Real Estate Fund (H) | 4,609,995 | 2,500,000 | Quarterly | 90 Days |
| AQR Global Risk Premium Enhanced | | | | |
| Liquidity Fund (I) | 6,191,348 | - | Weekly | 5 Days |
| Crescent Capital (J) | 9,023,154 | - | III | 60 Days |
| Northwestern Mutual - Whole Life Insurance | 475,418 | - | N/A | N/A |
| Private equity funds: | | | | |
| Goldman Sachs Vintage Fund IV Offshore, LP (K) | 377,447 | 159,488 | IV | IV |
| Goldman Sachs Distressed Managers Fund IV LP (L) | 230,036 | 134,552 | IV | IV |

- I. These funds are currently in the liquidation process. Liquidity is determined by market conditions.
- II. The funds call for periodic redemptions each calendar quarter with 90 days notice.
- III. Withdrawals are allowed as of the close of business on the last business day of February, May, August, and November.
- IV. These funds have a 10-year lockup period.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6 Fair Value Measurements (Continued)

- (A) The Goldman Sachs Hedge Fund Partners Plus, LTD Class A series 1 is currently in liquidation.
- (B) Goldman Sachs Long-Short Partners is currently in liquidation.
- (C) EnTrust Capital Diversified Fund QP LTD is an exempted company incorporated under the laws of the Cayman Islands. The fund invests substantially all of its net assets in an international business company incorporated under the laws of the British Virgin Islands, EnTrust Capital Diversified Fund LTD (the "Master Fund"), under a master-feeder agreement. The structure of the Master Fund allocates its assets among a diversified group of alternative investment fund managers, commonly referred to as a "fund of funds." The investment strategies may utilize a variety of financial instruments in their trading strategies and invest in U.S. and non-U.S. equities and equity-related securities, debt securities, options, futures, forwards, swap contracts, repurchase agreements, private placements, and commodities.
- (D) Rock Creek Georgetown Fund LTD is an exempted company incorporated under the laws of the Cayman Islands. The structure of the fund allocates its assets among a diversified group of alternative investment fund managers, which is commonly referred to as a "fund of funds." The investment strategies may include, but are not limited to, pairs trading, market neutral equity, merger arbitrage, long/short equity, long concentrated, long biased, short biased, and event driven investment strategies.
- (E) The Stark Investments are currently in liquidation.
- (F) The Greenlight Capital fund seeks to maximize capital by buying securities with trading values materially lower than their intrinsic values and by selling short securities with trading values materially higher than their intrinsic values. The fund aims to achieve high absolute rates of return while minimizing the risk of capital loss. The fund invests on a concentrated, hedged basis in U.S. equities and debt securities and event-related/special situation investments. The fund also invests in non-U.S. equities on a more limited basis with the bulk of this exposure in developed Europe.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6 Fair Value Measurements (Continued)

- (G) The PRISA fund is a broadly diversified equity real estate portfolio that invests primarily in existing, income-producing properties with strong cash flows that are expected to increase over time and thereby provide the potential for capital appreciation. The fund makes investments in office, retail, industrial, apartment, hotel, and storage properties. The fund may also hold a modest amount of unimproved land or other property types. Investments are made through direct property ownership, or indirectly through such vehicles as joint ventures, general or limited partnerships, limited liability companies, mortgage loans and other loan types, including mezzanine debt and debt secured by an interest in the borrowing entity or interest in companies or entities that directly or indirectly hold real estate or real estate interests.
- (H) The Clarion Lion Properties Real Estate Fund is a core-style, open-end real estate fund that holds a strategically diversified portfolio of real estate assets across the four main property types in major markets located throughout the United States. The primary performance objective is to combine attractive income yield with long-term capital growth.
- (I) AQR Global Risk Premium Enhanced Liquidity Fund (“AQR”) invests in a diversified set of global risk premiums including global developed and emerging equities, U.S. small-cap and mid-cap equities, global developed and inflation-protected bonds, commodity futures, and swaps. AQR seeks to implement a broadly diversified and higher long-term risk-adjusted return from a combination of these investments.
- (J) Crescent Capital is a limited partnership whose investment objective principally targets below investment grade debt securities, including senior secured loans, public high yield securities, and private high yield debt. Crescent Capital may also invest in other asset classes, including similar securities of foreign issuers. The limited partnership will not utilize leverage, engage in short selling, or invest in derivatives. Crescent Capital will not invest in distressed securities, but may continue to hold or add to a fixed income security of a company that subsequently declares bankruptcy or otherwise engages in a bankruptcy-type reorganization. As a secondary objective, Crescent Capital seeks capital appreciation, but only when consistent with the primary investment objective.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6 Fair Value Measurements (Continued)

- (K) Goldman Sachs Vintage Funds IV Offshore, LP is focused on acquiring portfolios of private equity assets, including interests in existing limited partnerships, interests in portfolios of direct company investments, and other structured liquidity or capital solutions, including securitizations and co-investments. The funds source opportunities from sellers and general partners around the world, acquiring and structuring portfolio of private equity partnerships and underlying portfolio companies, across various leveraged buyout, distressed, mezzanine, growth capital, and venture capital strategies.
- (L) Goldman Sachs Distressed Managers Fund IV LP invests in partnerships and other funds that focus primarily in distressed securities. The partnerships invest mainly in private equity and control-oriented distressed investments, small and medium-sized companies in North America, and small and mid-market companies in distressed and special situations across multiple industries, with a particular focus on the technology, consumer, financial, and healthcare sectors. These distressed securities are based in businesses that are experiencing operational, financial, or situational distress, such as corporate orphan, non-core or underperforming assets, liquidity driven opportunities, instancing involving ownership conflict, and out-of-favor businesses or industries.

Note 7 Property and Equipment

Property and equipment consisted of the following at June 30, 2015:

| | |
|---------------------------------|---------------|
| Land and improvements | \$ 3,300,576 |
| Buildings | 58,123,964 |
| Equipment | 7,338,218 |
| Construction in progress | 126,653 |
| <hr/> | |
| Total property and equipment | 68,889,411 |
| Less - Accumulated depreciation | 28,482,864 |
| <hr/> | |
| Property and equipment - Net | \$ 40,406,547 |
| <hr/> | |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 8 Other Assets

Other assets consisted of the following at June 30, 2015:

| | |
|--------------------------------------------------------|--------------|
| Partnership interests | \$ 396,835 |
| Cash surrender value of life insurance policies | 1,635,680 |
| Revenue bond and HUD-insured debt issuance costs - Net | 702,043 |
| Reserve and replacement funds for HUD properties | 932,790 |
| <hr/> | |
| Total other assets | \$ 3,667,348 |
| <hr/> | |

Note 9 Long-Term Debt

Long-term debt consisted of the following at June 30, 2015:

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Colorado Education and Cultural Facilities Authority Demand Revenue Bonds, Series O-1, \$48,715,000 of principal maturing in September 2035 and \$5,625,000 of principal maturing in November 2037; interest rate of 1.19% at June 30, 2015. | \$ 54,340,000 |
| HUD-insured 2.50% Mortgage Note, with monthly principal and interest payments of \$20,992 through February 2048; secured by rental property and assignment of rents. | 5,619,730 |
| Term loan, monthly principal payments of \$833 plus interest at 3.30% with a final payment of all outstanding principal and interest due June 1, 2019. | 101,667 |
| <hr/> | |
| Total long-term debt | 60,061,397 |
| Less current maturities | 122,698 |
| <hr/> | |
| Long-term portion | \$ 59,938,699 |
| <hr/> | |

Interest expense for the year ended June 30, 2015 was \$2,178,918.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 9 Long-Term Debt (Continued)

Demand Revenue Bonds

In December 2012, the Federation issued \$54,340,000 in tax-exempt variable rate demand revenue bonds (the "Series O-1 Bonds") through the Colorado Educational and Cultural Facilities Authority as part of the National Jewish Federation Bond Program. Interest expense on the Series O-1 Bonds is based on the Daily Rate, equal to the Securities Industry and Financial Markets Association (SIFMA) index, is reset daily, and is payable monthly.

At June 30, 2015, \$55,161 of cash was held by the bond trustee for payment of interest on the tax-exempt bonds (see Note 2).

Wells Fargo is the Trustee and U.S. Bank is the Initial Holder of the Series O-1 Bonds. The bonds are secured by certain assets of the Federation. Terms of the bond agreement require the Federation to meet semi-annual liquidity covenants measured as of June 30, and December 31. As of June 30, 2015, management believes the Federation was in compliance with all established covenants.

Required Payments of Principal

Required payments of principal on the long-term debt, including current maturities, are summarized as follows:

| | Demand Revenue Bonds | Mortgage Note | Term Loan | Total |
|------------|-------------------------|---------------|------------|---------------|
| 2016 | \$ - | \$ 112,698 | \$ 10,000 | \$ 122,698 |
| 2017 | - | 115,548 | 10,000 | 125,548 |
| 2018 | - | 118,470 | 10,000 | 128,470 |
| 2019 | - | 121,466 | 10,000 | 131,466 |
| 2020 | - | 124,537 | 10,000 | 134,537 |
| Thereafter | 54,340,000 | 5,027,011 | 51,667 | 59,418,678 |
| Total | \$ 54,340,000 | \$ 5,619,730 | \$ 101,667 | \$ 60,061,397 |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 10 Interest Rate Swaps

As disclosed in Note 9, the Series O-1 Bonds totaling \$54,340,000 bear interest at variable rates. To minimize the effect of changes in the market, the Federation entered into an interest rate swap contract which is dated September 8, 2008, and two additional interest rate swap contracts dated December 3, 2012.

The first interest rate swap expires October 1, 2018, and hedges a notional amount of \$54,340,000 at June 30, 2015. Under this agreement the Federation pays U.S. Bank a fixed rate of 3.065% and receives 70% of LIBOR.

The second interest rate swap expires October 1, 2018, and hedges a notional amount of \$27,170,000. Under this agreement, the Federation pays U.S. Bank a floating rate of 70% of LIBOR and receives a fixed rate of 0.5322%.

The third interest rate swap becomes effective October 1, 2018, expires October 3, 2022, and hedges a notional amount of \$27,170,000. Under this agreement, the Federation pays U.S. Bank a fixed rate of 2.156% and receives a floating rate of 75% of LIBOR.

The following represents the fair value of the interest rate swaps as of June 30, 2015, and the amount of gain or loss recorded in unrestricted net assets for the year ended June 30, 2015:

| | Liability at June 30, 2015 | Gain (Loss) Year Ended June 30, 2015 |
|---------------------------|-------------------------------|--------------------------------------------|
| First interest rate swap | \$ 3,895,974 | \$ 865,668 |
| Second interest rate swap | 254,836 | 231,430 |
| Third interest rate swap | 122,921 | (450,179) |
| Totals | \$ 4,273,731 | \$ 646,919 |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 10 Interest Rate Swaps (Continued)

Payments between the Federation and U.S. Bank are made monthly to correspond with the interest payments due on the tax-exempt variable rate demand revenue bonds. The interest rate swaps require the Federation to be in compliance with the Credit Support Document. Management believes the Federation was in compliance with the Credit Support Document at June 30, 2015.

Note 11 Unrestricted and Temporarily Restricted Net Assets

Unrestricted Net Assets

Unrestricted net assets which have been designated for various purposes consisted of the following at June 30, 2015:

| | |
|------------------------------------------|----------------------|
| Unrestricted reserves | \$ 2,125,812 |
| Donor-designated funds | 26,354,598 |
| Net investment in property and equipment | 12,438,158 |
| Supporting foundations | 145,529 |
| Donor-advised funds | 37,790,908 |
| <hr/> | |
| Total unrestricted net assets | <u>\$ 78,855,005</u> |

- Unrestricted reserves consist of lifetime gifts, bequests, and the investment return on all funds within this category. Distributions are made at the discretion of the Federation.
- Donor-designated funds consist of individual contributions received by the Federation in the form of lifetime gifts, bequests, or transfers from existing funds and trusts. Distributions are made, in keeping with the wishes expressed by the donors, by the Jewish Community Foundation's Endowment Committee. The Federation has final authority and discretion over the funds.
- Net investments in property and equipment consist of all fixed assets net of depreciation and liabilities.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 11 **Unrestricted and Temporarily Restricted Net Assets** (Continued)

Unrestricted Net Assets (Continued)

- Supporting foundations consist of affiliated entities within the Federation. Supporting foundations are separate nonprofit vehicles with their own board of directors and the same tax benefits for the donors that they would receive for contributions made directly to the Federation. Distributions are made at the direction of the supporting foundations' officers and boards who are under the control of the Federation.
- Donor-advised funds are established by donors during their lifetimes and are similar to private foundations. Donors contribute cash, or appreciated securities and real property which are usually liquidated soon after being gifted. The proceeds are invested and controlled by the Federation but the donors retain the privilege of making recommendations for charitable distributions.

Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2015:

| | |
|---------------------------------------------|----------------------|
| Residual value of trusts and gift annuities | \$ 3,810,207 |
| Scholarships, grants, and awards | 2,491,021 |
| Purpose-restricted | 5,463,908 |
| Restricted for agencies | 9,511,298 |
| PACE/LOJE funds | 2,455,853 |
| Time-restricted - Annual campaign | 194,263 |
| Time-restricted - Capital campaign | 4,902 |
| Time-restricted - Other | 77,662 |
| <hr/> | |
| Total temporarily restricted net assets | <u>\$ 24,009,114</u> |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 11 **Unrestricted and Temporarily Restricted Net Assets** (Continued)

Temporarily Restricted Net Assets (Continued)

- Residual value of trusts and gift annuities consist of split-interest gifts where the donor receives income from the trust or annuity for lifetime or a term of years and, upon the death of the donor or the end of the term, the Federation receives the remaining principal. The remainder can become either a restricted or unrestricted gift to the Federation, depending on the terms of the original agreement.
- Scholarships, grants, and awards are funds that were established to support a specific class of people, including teenagers, college students, and young leadership volunteers, by awarding them scholarships or grants based on the actions of the Federation committees established for that purpose.
- Purpose-restricted funds are created by donors to provide support for the programs and services of the Federation that they wish to support. The fund agreements provide for the manner and frequency of distributions in keeping with the federation's spending discipline.
- Agency funds are gifts made to the Jewish Community Foundation for the exclusive use and benefit of communal agencies, schools, and synagogues. The funds are invested and controlled by the Jewish Community Foundation, but can only be accessed at the request of the entity that established the funds.
- PACE/LOJE funds are contributed by donors who wish to designate their giving to the annual campaign of the Federation. Each year a distribution is made from each fund in the name of the donors to that year's campaign.
- Time-restricted – Annual and Capital campaign relates to the annual and capital campaign pledges that are due in future periods.
- Time-restricted – Other relates to pledges receivable whose use is restricted to the development of an outdoor space dedicated to life after the Holocaust and for other restricted purposes.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 11 **Unrestricted and Temporarily Restricted Net Assets** (Continued)

Temporarily Restricted Net Assets (Continued)

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by the donor during the year ended June 30, 2015 as follows:

| | |
|---------------------------------------------|--------------|
| Residual value of trusts and gift annuities | \$ 283,098 |
| Scholarships, grants, and awards | 666,560 |
| Purpose-restricted | 165,140 |
| Restricted for agencies | 1,146,433 |
| PACE/LOJE funds (recharacterization) | 131,889 |
| Time-restricted - Annual campaign | 210,446 |
| Time-restricted - Capital campaign | 5,786 |
| Time-restricted - Other | 44,502 |
| | <hr/> |
| Net assets released from restrictions | \$ 2,653,854 |

Note 12 **Endowments**

The Federation has received several gifts in which the donors have stipulated that the gift amount be invested and maintained permanently to generate annual income for various Federation purposes. These funds are maintained by the Federation in various investments and the Federation is responsible for investment decisions. The Federation determines the income available for distribution using the total return method. Distributions are made annually in amounts determined by the Endowment Committee of the Federation.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 12 Endowments (Continued)

The Board of Directors of the Federation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Wisconsin state legislature, as requiring the Federation to preserve the fair value of the donor's original gift, as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Federation classifies as permanently restricted net assets (a) the original value of the donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gifts to the permanent restricted endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Federation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Federation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the various funds, (b) the purposes of the donor-restricted endowment funds, (c) general economic conditions, (d) the possible effect of inflation and deflation, (e) the expected total return from income and the appreciation of investments, (f) other resources of the High School, and (g) the Federation's investment policies.

The Federation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to preserve the purchasing power of the endowment assets. Under the Federation's investment policy, as approved by the Board of Directors, the endowment assets are invested in a manner to protect principal, grow the aggregate portfolio value in excess of the rate of inflation and achieve an effective annual rate of return that is equal to or greater than the designated benchmarks for the various types of investment vehicles, and to ensure that any risk assumed is commensurate with the given investment vehicle and the Federation's objectives.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 12 **Endowments** (Continued)

To achieve its investment goals, the Federation targets an asset allocation that will achieve a balanced return of current income and long-term growth of principal while exercising risk control. The Federation's asset allocations include a blend of equity and debt securities and cash equivalents.

Interest, dividends and net appreciation in fair value of endowment funds on donor restricted endowment funds are classified as temporarily restricted net assets until appropriated for expenditure by the Board of Directors.

Endowment Net Assets

Endowment net assets consisted of the following at June 30, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------------|--------------|---------------------------|---------------------------|---------------|
| Donor designated endowment funds | \$ (14,007) | \$ 411,728 | \$ 13,383,034 | \$ 13,780,755 |

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

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|--------------|---------------------------|---------------------------|---------------|
| Endowments at July 1, 2014 | \$ 47,232 | \$ 292,043 | \$ 8,841,071 | \$ 9,180,346 |
| Contributions | - | - | 4,541,963 | 4,541,963 |
| Investment income | 129,849 | 389,913 | - | 519,762 |
| Administrative fees | (21,562) | (97,568) | - | (119,130) |
| Appropriation for expenditure | (169,526) | (172,660) | - | (342,186) |
| Endowments at June 30, 2015 | \$ (14,007) | \$ 411,728 | \$ 13,383,034 | \$ 13,780,755 |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 12 **Endowments** (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the historical dollar value of the fund. In accordance with GAAP, deficiencies of \$14,007 are reported in unrestricted net assets as of June 30, 2015. These deficiencies resulted from unfavorable market fluctuations and appropriations for programs deemed prudent by the Board of Directors.

Note 13 **Capital Advances**

MJF Housing No. 2, Inc. and MJF Housing No. 3, Inc. received a \$1,416,400 and \$1,391,400 capital advance, respectively, from HUD to finance construction of low-income apartment complexes. The advances given were in the form of mortgage notes which bear no interest and require no repayments provided that the complexes to which the mortgage notes relate remain available for low-income elderly persons in accordance with the appropriate regulations until March 1, 2038. It is management's intent to continue operating these complexes in accordance with these restrictions; therefore, the advances were recorded as unrestricted net assets in the accompanying consolidated statement of financial position.

Note 14 **Benefit Plan**

The Federation sponsors the Milwaukee Jewish Federation, Inc. 401(k) Retirement Savings Plan covering all employees over the age of 21 with at least one year of service. Safe-harbor contributions to a trustee are made semimonthly at 3% of eligible staff's compensation. The Federation can, at its discretion, make an additional contribution of up to 4% of eligible staff compensation at calendar year-end. The Federation contributed 4% of eligible compensation for the year ended June 30, 2015. Benefit plan expense was \$106,794 for the year ended June 30, 2015.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 15 **Related Parties**

Board and staff members typically make contributions to the various campaigns of the Federation. Board members may be employees of firms with which the Federation conducts business. Board members may also be with firms or foundations that contribute funds or provide contributed services to the Federation. Board members abstain from voting on business transactions that involve any potential related parties.

Note 16 **Contingencies**

The Federation owns an interest in a partnership whose sole asset is land. Management is aware that the land may be contaminated with hazardous materials that could require remediation. Management believes that any potential liability related to the environmental remediation would be immaterial to the consolidated financial statements and; accordingly, no liability has been recorded for the environmental remediation at June 30, 2015.

The Federation agreed to guarantee \$11,060,000 of tax-exempt variable rate demand revenue bonds issued by Madison Hillel through the Colorado Educational and Cultural Facilities Authority as part of the National Jewish Federation Bond Program. The Federation also guaranteed interest due on these bonds. Madison Hillel is a constituent agency of the Federation. Constituent agencies must meet the standards and qualifications contained in the Federation's Principles of Affiliation, including holding a 501(c)(3) determination letter from the Internal Revenue Service and providing program services to the Jewish community in the Milwaukee area. Capital campaign funds from Madison Hillel of \$7,724,010 are held at the Federation, and the Federation would use these investments, if needed, to pay any amounts obligated under the guarantee.

Note 17 **Concentration of Credit Risk**

The Federation maintains depository relationships with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Depository accounts at these institutions are insured by the FDIC up to specified limits. Balances in excess of FDIC limits are uninsured. The Federation has not experienced any losses with these accounts and management believes the Federation is not exposed to any significant risk on cash and cash equivalents.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 18 Income Taxes

The provision for income taxes is included in Milwaukee programs on the consolidated statement of activities and consists of the following:

| | | |
|----------------------------------|----|---------|
| Current tax provision: | | |
| Federal | \$ | 38,172 |
| State | | 16,148 |
| <hr/> | | |
| Total current tax provision | | 54,320 |
| <hr/> | | |
| Deferred tax provision: | | |
| Federal | | 39,000 |
| State | | 7,000 |
| <hr/> | | |
| Total deferred tax provision | | 46,000 |
| <hr/> | | |
| Total provision for income taxes | \$ | 100,320 |

Net deferred tax liabilities are classified in the accompanying consolidated statements of financial position as follows:

| | | |
|----------------------------|----|--------|
| Current liabilities | \$ | 10,000 |
| Long-term liabilities | | 36,000 |
| <hr/> | | |
| Net deferred tax liability | \$ | 46,000 |

Noncurrent deferred tax liabilities are included in accrued expenses in the accompanying statement of financial position and are the result of differences in the basis and depreciation methods of the rental property and the deferred financing costs related to the HUD-insured mortgage note. Current deferred tax liabilities are a result of prepaid insurance being deducted for tax purposes when paid and are included in accrued expenses in the accompanying consolidated statement of financial position.

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 19 Milwaukee Programs

Milwaukee programs in the accompanying consolidated statements of activities for the year ended June 30, 2015. includes the following:

| | |
|------------------------------------|----------------------|
| Federation direct services | \$ 1,631,489 |
| HUD properties | 1,242,164 |
| Federation properties | 6,189,171 |
| Jewish Community Relations Council | 188,544 |
| Jewish Community Foundation | 973,730 |
| Other | 222,592 |
| <hr/> | |
| Total Milwaukee programs | <u>\$ 10,447,690</u> |

Note 20 Prior Period Adjustment

During the year ended June 30, 2015, the Federation identified certain errors in amounts previously reported in the 2014 consolidated financial statements. Amounts previously reported for unrestricted, temporarily restricted, and permanently restricted net assets as of July 1, 2014, have been restated to correct an error as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Assets |
|---------------------------------------------|----------------------|---------------------------|---------------------------|-----------------------|
| As previously reported for June 30, 2014 | \$ 78,041,011 | \$ 51,448,112 | \$ - | \$ 129,489,123 |
| Adjustment A | 256,764 | - | - | 256,764 |
| Adjustment B | (746,738) | (8,094,333) | 8,841,071 | - |
| Adjustment C | - | (24,318,329) | - | (24,318,329) |
| <hr/> | | | | |
| Restated for July 1, 2014 | <u>\$ 77,551,037</u> | <u>\$ 19,035,450</u> | <u>\$ 8,841,071</u> | <u>\$ 105,427,558</u> |

Milwaukee Jewish Federation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 20 **Prior Period Adjustment** (Continued)

Adjustment A: Notes receivable were understated by \$3,000,000 and property and equipment were overstated by \$2,563,236 at June 30, 2014. The Federation improperly recognized certain capital improvements owned by the JCC at original cost of \$3,538,770 less accumulated depreciation of \$795,534, at June 30, 2014. The purchases were financed by the JCC through \$3,000,000 of loan agreements issued by the Federation in June 2005, and October 2007. The Federation did not record the note agreements at the time of the transactions.

Adjustment B: Contributions and support designated by donors for permanent endowment were improperly recognized as increases to unrestricted and temporarily restricted net assets in prior years. Permanently restricted endowments at June 30, 2014 totaled \$8,841,071.

Adjustment C: Cash and other assets received from resource providers which were required to be accounted for as agency endowment funds and included in liabilities under GAAP were improperly recognized as increases to temporarily restricted net assets in prior years. Agency endowment funds totaled \$24,318,329 at June 30, 2014.