

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

Audited Financial Statements

For the year ended December 31, 2018

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Jewish Federation of Southern Arizona, Inc.

We have audited the accompanying financial statements of Jewish Federation of Southern Arizona, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 Southern Arizona, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

LUDWIG KLEWER & RUDNER PLLC

October 2, 2019



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JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,853,481
Accounts receivable, net	83,332
Unconditional promises to give, current portion	3,740,151
Investments - other	317,326
Prepaid expenses and other assets	64,409
Total current assets	6,058,699
Unconditional promises to give, non-current portion	1,170,328
Beneficial interest in funds held by Jewish Community Foundation	9,051,708
Beneficial interest in charitable remainder unitrust	93,579
Property and equipment, net	6,118,950
Total assets	\$ 22,493,264

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 552,950
Allocations payable	43,620
Deferred revenue	33,952
Note payable, current portion	350,000
Total current liabilities	980,522
Note payable, non-current portion	1,097,000
Total liabilities	2,077,522

Net assets:

Without donor restrictions:	
Undesignated	1,098,823
Expended for property and equipment	4,671,950
Designated	7,295,888
Total net assets without donor restrictions	13,066,661
With donor restrictions:	
Time-restricted for future periods	5,631,094
Purpose restrictions	1,382,816
Perpetual in nature	343,933
Underwater endowments	(8,762)
Total net assets with donor restrictions	7,349,081
Total net assets	20,415,742
Total liabilities and net assets	\$ 22,493,264

See independent auditor's report and accompanying notes.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

STATEMENT OF ACTIVITIES
For the year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Contributions, bequests and prior recoveries	\$ 306,789	\$ 5,114,450	\$ 5,421,239
Advertising revenue	420,194	-	420,194
Mission revenue	349,331	-	349,331
Rental income	119,877	-	119,877
Affinity and CRC programming	47,630	-	47,630
Special events	40,519	-	40,519
Education revenue	28,660	-	28,660
Community events and meetings	26,385	-	26,385
In-kind revenue	21,465	-	21,465
Other income	14,049	-	14,049
Outreach revenue	4,451	-	4,451
Interest and dividend income	3,231	-	3,231
Change in value of beneficial interest in charitable remainder unitrust	-	(10,737)	(10,737)
Change in value of beneficial interests in funds held by JCF	(522,584)	(8,127)	(530,711)
Total revenue and other income	859,997	5,095,586	5,955,583
Net assets released from restrictions:			
Purpose restrictions satisfied by expenditures	738,073	(738,073)	-
Expiration of time restrictions	3,869,898	(3,869,898)	-
Release of appropriated accumulated endowment earnings	5,542	(5,542)	-
Total net assets released	4,613,513	(4,613,513)	-
Total revenue and other income	5,473,510	482,073	5,955,583
Allocations and expenses:			
Allocations			
Local agencies and programs	1,391,457	-	1,391,457
JFNA/JCD/Other overseas	711,529	-	711,529
National agencies and special relief	179,856	-	179,856
Total allocations	2,282,842	-	2,282,842
Expenses:			
Program services:			
Federation programs	1,828,716	-	1,828,716
Arizona Jewish Post	482,054	-	482,054
Management and general	1,147,962	-	1,147,962
Fund-raising/campaign expenses	512,306	-	512,306
Special event direct donor benefit costs	88,880	-	88,880
Total expenses	4,059,918	-	4,059,918
Total allocations and expenses	6,342,760	-	6,342,760
Change in net assets	(869,250)	482,073	(387,177)
Net assets, beginning of year	13,935,911	6,867,008	20,802,919
Net assets, end of year	\$ 13,066,661	\$ 7,349,081	\$ 20,415,742

See independent auditor's report and accompanying notes.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2018

	Program Services			Management and General	Fund-raising/ Campaign Expenses	Total
	Federation	Arizona Jewish Post	Total Program Services			
Salaries	\$ 634,159	\$ 277,304	\$ 911,463	\$ 451,229	\$ 323,542	\$ 1,686,234
Other benefits	56,419	22,358	78,777	40,865	35,213	154,855
Payroll taxes	47,432	20,473	67,905	30,620	23,503	122,028
Pension funding	23,504	9,187	32,691	28,817	14,973	76,481
Total personnel	761,514	329,322	1,090,836	551,531	397,231	2,039,598
Missions expense	347,046	-	347,046	-	-	347,046
Professional services	70,512	52,483	122,995	108,932	19,773	251,700
Educational programming and trips	179,326	360	179,686	218	1,168	181,072
Depreciation	-	801	801	151,430	-	152,231
Occupancy	51,734	9,643	61,377	77,691	12,131	151,199
Bad debt expense	86,170	189	86,359	8,034	6,025	100,418
Travel and conferences	70,698	7,300	77,998	8,292	8,904	95,194
Community events and meetings	52,834	1,989	54,823	20,531	9,200	84,554
Printing	15,203	43,093	58,296	6,410	16,697	81,403
Interest	-	-	-	76,307	-	76,307
Repairs and maintenance	1,839	4,731	6,570	65,967	380	72,917
Office and food supplies	25,946	2,883	28,829	23,490	9,073	61,392
Miscellaneous	35,431	6,448	41,879	7,992	1,838	51,709
Publicity and advertising	28,336	150	28,486	5,383	17,350	51,219
Affinity and CRC programming	49,400	-	49,400	-	-	49,400
Insurance	8,590	5,677	14,267	20,934	3	35,204
Postage	1,339	7,105	8,444	7,696	7,133	23,273
Telephone and internet	10,680	3,429	14,109	4,572	3,429	22,110
Awards and scholarships	16,458	-	16,458	1,000	-	17,458
Dues and subscriptions	7,178	2,865	10,043	1,552	914	12,509
Outreach programming	8,482	-	8,482	-	-	8,482
Direct mail	-	3,586	3,586	-	1,057	4,643
Total functional expenses	\$ 1,828,716	\$ 482,054	\$ 2,310,770	\$ 1,147,962	\$ 512,306	\$ 3,971,038

See independent auditor's report and accompanying notes.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

STATEMENT OF CASH FLOWS
For the year ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	\$ (387,177)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	152,231
Reinvested interest	(1,999)
Bad debt expense	100,418
Change in allowance for net present value, unconditional promises to give	(79,773)
Change in provision for uncollectible promises to give	(39,051)
Change in value of beneficial interests in funds held by JCF	527,878
Change in value of beneficial interest in charitable remainder unitrust	10,737
Changes in operating assets and liabilities:	
Accounts receivable	(20,989)
Unconditional promises to give	(448,008)
Prepaid expenses and other assets	88,536
Inventory	3,183
Accounts payable and accrued expenses	(280,182)
Allocations payable	43,620
Deferred revenue	(87,527)
Total adjustments	<u>(30,926)</u>
Net cash used in operating activities	(418,103)
Cash flows from investing activities:	
Contributions to funds held by JCF	(376,367)
Distributions from funds held by JCF	467,164
Purchases of property and equipment	<u>(172,996)</u>
Net cash used in investing activities	(82,199)
Cash flows from financing activities	
Principal payments made on note payable	(303,000)
Collection of contributions restricted for capital purposes	<u>704,581</u>
Net cash provided by financing activities	<u>401,581</u>
Change in cash and cash equivalents	(98,721)
Cash and cash equivalents, beginning of year	<u>1,952,202</u>
Cash and cash equivalents, end of year	<u>\$ 1,853,481</u>
Schedule of cash flow information:	
Cash paid for taxes	<u>\$ -</u>
Cash paid for interest	<u>\$ 76,307</u>
Schedule of noncash investing and financing activities:	
Reinvested interest	<u>\$ 1,999</u>

See independent auditor's report and accompanying notes.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

1. Nature of Activities

The Jewish Federation of Southern Arizona, Inc. (Federation) is an Arizona nonprofit corporation. It serves as the fundraising, administrative and planning organization for various related social service and educational agencies serving the Tucson community, with special emphasis on the Jewish community. The Federation also includes the operations of the Arizona Jewish Post (Post), which publishes a community-wide newspaper reporting on and directed toward the Tucson Jewish community. The primary sources of revenue are from contributions and advertising revenues.

2. Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The financial statements of the Federation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. Revenue is recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

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

- Net assets without donor restrictions – net assets available for use in general operations and not subject to donor (or grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an specific operating purposes and a board-designated endowment.
- Net assets with donor restrictions – net assets subject to donor (or grantor) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Federation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Deferred Revenue

Deferred revenue represents amounts for tuition, mission, event and advertising sales income collected in advance. Revenue is recognized during the month earned.

See independent auditor's report.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

2. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less. Cash and cash equivalents includes \$7,590 at December 31, 2018, held as part of the collateral for the note payable discussed in Note 8. Cash and cash equivalents also includes \$83,069 at December 31, 2018, related to the supplemental retirement plan discussed in Note 14.

The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to \$250,000 per institution. Investments held by other institutions are covered up to \$500,000 under insurance provided by the Securities Investor Protection Corporation (SIPC). However, SIPC does not protect against losses in market value. At December 31, 2018, the Federation had \$1,030,021 in financial institutions in excess of the federally insured limits. It is the opinion of management that the solvency of the referenced financial institution is not of concern at this time.

Accounts Receivable

Accounts receivable are carried at unpaid balances, less an allowance for doubtful accounts. The Federation provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contract, and other circumstances, which may affect the ability of customers to meet their obligation. Receivables are considered impaired if full payments are not received in accordance with the contractual terms. The allowance for doubtful accounts balance was \$2,668 at December 31, 2018. It is the Federation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At December 31, 2018, the Federation had \$1,402 in accounts receivable greater than ninety days past due.

Unconditional Promises to Give and Fundraising Campaigns

The Federation conducts annual and special campaigns to raise funds for allocations to various organizations and programs. Contributions received that are intended to be expended or allocated in a subsequent year are recorded as temporarily restricted net assets until the year designated for use. Unconditional promises to give are recorded when received, and allowances are provided for amounts estimated to be uncollectible and for discounting multi-year promises to net present value.

Investments – Other

Investments - other is comprised of various certificates of deposit held for investment that are not debt securities. The certificates of deposit maturity dates range between February 2019 and October 2019, have annual interest rates ranging between 0.20% and 0.90% and provide for penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Certificates of deposit are recorded at cost which approximates fair market value. Certificates of deposit with original maturities of greater than three months and remaining maturities of less than one year are classified as current, and certificates of deposit with remaining maturities of greater than one year are classified as non-current.

See independent auditor's report.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

2. Summary of Significant Accounting Policies, Continued

Property and Equipment

Purchased property and equipment is recorded at cost, and donated property and equipment is recorded at its estimated fair market value on the date of the donation. The Federation's policy is to capitalize expenditures for property and equipment that exceed \$500 and an estimated useful life of more than one year. The cost of maintenance and repairs is charged to expense in the year incurred. Expenditures that increase the useful lives of assets are capitalized and depreciated. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings, campus planning and improvement	2-39 years
Furniture, fixtures and equipment	2-7 years

Beneficial Interests in Funds Held at JCF

FASB ASC 958-605-50-6 *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* dictates that a transfer of assets to a recipient organization is an equity transaction if all of the following conditions are present:

- The resource provider specifies itself or its affiliate as the beneficiary.
- The resource provider and the recipient organization are financially interrelated organizations.
- Neither the resource provider nor its affiliate expects payment of the transferred assets, although payment of investment return on the transferred assets may be expected.

As discussed in Note 4, the Federation has five funds held at Jewish Community Foundation (JCF) for which these criteria have been met. These funds are reported on the statement of financial position along with the other beneficial interests in funds held at JCF.

Donated Goods, Facilities and Services

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- Those services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although the Federation utilizes the services of many outside volunteers, the fair market value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Income Taxes

The Federation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Federation's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, the Federation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a).

The Federation's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. The Federation holds no uncertain tax positions and therefore, has no policy for evaluating them.

See independent auditor's report.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

2. Summary of Significant Accounting Policies, Continued

Income Taxes, continued

As of December 31, 2018, management is not aware of any uncertain tax positions that are potentially material. In addition, management is not aware of any matters that would cause the Organization to lose its tax-exempt status.

Reclassifications

The balances of net assets with donor restrictions and net assets without donor restrictions at December 31, 2017 have been reclassified, in the amount of \$4,800, to conform to the 2018 net asset presentation.

Advertising Costs

The cost of advertising is expensed when incurred or when the first advertising takes place. The Federation does not participate in direct-response advertising, which requires the capitalization and amortization of related costs.

Expense Allocation

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facility costs and depreciation, which are allocated on a square footage basis. Salaries, wages, benefits, payroll taxes, office expenses, telephone, internet, information technology and other, are allocated on the basis of full-time equivalent positions (FTE). The allocation by FTE to a program or support function is based on annual analysis of time and effort, and allocation updates are applied mid-year if significant changes are noted.

3. Unconditional Promises to Give

Unconditional promises to give consist of the following at December 31, 2018:

	Unconditional Promises	Allowance for Doubtful Promises to Give
2017 regular campaign	\$ 130,596	\$ (3,591)
2018 regular campaign	1,196,422	(32,902)
2019 regular campaign	1,560,268	(42,957)
2020 regular campaign	13,000	(358)
2021 regular campaign	8,000	(220)
Campus Planning fund	312,000	-
Capital Campaign fund	1,822,264	(50,085)
Other	137,289	(3,794)
Total unconditional promises to give	<u>\$ 5,179,838</u>	<u>\$ (133,907)</u>

See independent auditor's report.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

3. Unconditional Promises to Give, Continued

Unconditional promises to give are discounted using the interest rate indicated below and are scheduled to be paid in future years as follows:

Year ended December 31:

2019	\$ 3,874,058
2020	722,047
2021	469,200
2022	86,395
2023	28,138
Total unconditional promises to give	5,179,838
Less interest component at 4.41%	(135,452)
Less allowance of doubtful promises to give	(133,907)
Unconditional promises to give, net	4,910,479
Less current portion	(3,740,151)
Non-current portion	\$ 1,170,328

4. Beneficial Interests in Funds Held by JCF

Beneficial interests in funds held by JCF consists of the following at December 31, 2018:

Pooled investment funds	\$ 8,857,631
Cash surrender value life insurance	194,077
Less restricted for permanent endowments	(150,354)
Available for operations	\$ 8,901,354

As part of the beneficial interests in funds held by JCF, the Federation is holding funds which are interests in the net assets of JCF because they are financially interrelated to the Federation. Interests in the net assets of JCF consists of the following at December 31, 2018:

I. Olson fund	\$ 368,547
C. Wool fund	290,185
D. Oseran fund	260,835
Likens scholarship fund	65,277
F. Rosen fund	11,368
	\$ 996,212

See independent auditor's report.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

5. Beneficial Interest in Charitable Remainder Unitrust

During the year ended December 31, 2015, the Federation was named as the sole remainder beneficiary of a charitable remainder unitrust where JCF is the trustee. Upon the death of the income beneficiaries, the assets of the trust will be distributed to the JCF to establish a permanently-restricted endowment fund for the benefit of the Federation. Changes in the fair value of the Federation's interest in the unitrust assets are reflected as permanently restricted gains or losses on the statements of activities in the period they occur. At December 31, 2018, the value of the beneficial interest in charitable remainder unitrust held by JCF was \$93,579.

6. Property and Equipment

Property and equipment consists of the following at December 31, 2018:

Land	\$ 1,025,738
Buildings and improvements	5,079,949
Furniture, fixtures and equipment	<u>306,151</u>
Total property and equipment	6,411,838
Less accumulated depreciation	<u>(292,888)</u>
Property and equipment, net	<u><u>\$ 6,118,950</u></u>

7. Line of Credit

The Federation has a \$100,000 line of credit that matures on October 4, 2019. The agreement requires monthly interest-only payments with a variable interest rate equal to 1.00% above the lender's prime rate. The prime rate at December 31, 2018 was 5.50%. The line of credit is secured with a money market account that is held at the financial institution. At December 31, 2018, there was no outstanding balance on the line.

8. Note Payable

The note payable consists of the following at December 31, 2018:

Note payable to a bank for construction of the campus building. Interest-only payments calculated on the outstanding balance are due monthly at an annual interest rate of 4.41%; beginning July 24, 2019, quarterly principal payments of \$175,000 will be due until the maturity date of April 24, 2024, at which time all unpaid principal and interest is due; secured by the Federation's operating checking account held at the financial institution. The Federation was in compliance with the required liquidity covenant at December 31, 2018.

	\$ 1,447,000
Less current portion	<u>(350,000)</u>
Non-current portion	<u><u>\$ 1,097,000</u></u>

See independent auditor's report.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

8. Note Payable, Continued

Principal maturities of the note payable are:

Year ended December 31,	
2019	\$ 350,000
2020	700,000
2021	397,000
	<u>\$ 1,447,000</u>

9. Designated Net Assets Without Donor Restrictions

Net assets without donor restrictions have been designated for specific purposes at December 31, 2018:

Board-designated endowment funds	\$ 6,960,192
Other	140,412
Shrinkage reserve	133,099
Concierge and tech program	24,903
Maimonides reserve	15,000
Oleisky scholarship fund	12,538
National special needs reserve	7,684
Mikveh conversion reserve	2,060
	<u>\$ 7,295,888</u>

Board-designated endowment fund activity for the year ended December 31, 2018 is:

	Beginning Balance	Transfers in/ out	Change in Value of Beneficial Interests in Funds Held by JCF	Ending Balance
Council House fund	\$ 4,285,853	\$ (244,032)	\$ (240,871)	\$ 3,800,950
Federation Campaign fund	1,362,603	(54,504)	(78,416)	1,229,683
A. Alexander reserve fund	487,324	(24,554)	(27,142)	435,628
CJE M. Roland fund	470,144	(23,838)	(26,224)	420,082
I. Olson Fund	-	375,000	(6,453)	368,547
C. Wool Fund	320,434	(11,755)	(18,494)	290,185
D. Oseran Fund	287,570	(10,365)	(16,371)	260,834
Community Builders reserves	82,593	-	(4,955)	77,638
Likens Scholarship	69,443	-	(4,166)	65,277
F. Rosen Fund	12,554	(461)	(725)	11,368
	<u>\$ 7,378,518</u>	<u>\$ 5,491</u>	<u>\$ (423,817)</u>	<u>\$ 6,960,192</u>

See independent auditor's report.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2018:

Subject to expenditure for specified purpose:

LEAF	\$ 206,792
Capital Campaign	195,650
JCF Donor Designated funds	193,562
CRC friends/special projects/supplemental giving	94,888
Prepayment of pledges/designated gifts	91,515
Designated local agency	90,296
Coalition for Jewish Education and educational awards	89,461
Federation events and programs	84,607
Miscellaneous Israel and overseas programs	75,059
CRC Interfaith Mission	66,494
Professional Awards	61,753
Strategic planning and Outreach	48,688
Security	48,500
Israel Center	35,337
Birthright Israel	214
	<u>1,382,816</u>

Subject to the passage of time and purpose restrictions:

2018 net campaign	3,409,524
2019 net campaign	2,178,308
Arizona Jewish Post/Fed Web	20,262
2020 net campaign	15,000
2021 net campaign	8,000
	<u>5,631,094</u>

Endowments:

Subject to appropriation and expenditure:

Underwater endowments	(8,762)
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Endowments:

Not subject to spending policy or appropriation - beneficial interest in funds held at JCF, original perpetual gifts

343,933

Net assets with donor restrictions

\$ 7,349,081

See independent auditor's report.

JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

10. Net Assets With Donor Restrictions, Continued

Activity in net assets with donor restrictions is comprised of the following for the year ended December 31, 2018:

	Contributions	Change in Value of Beneficial Interests in Funds Held by JCF	Releases	Transfers/ deficient funds
Subject to expenditure for specified purpose:				
LEAF	\$ 14,589	-	(92,500)	178,186
Capital Campaign	77,895	-	(117,313)	-
JCF Donor Designated funds	-	(3,020)	-	-
CRC friends/special projects/ supplemental giving	19,760	(698)	(112,945)	55,000
Prepayment of pledges/ designated gifts	-	-	-	(18,450)
Designated local agency	27,841	-	(212,448)	224,600
Coalition for Jewish Education and educational awards	58,405	-	(44,185)	20,000
Federation events and programs	84,840	-	(47,539)	-
Miscellaneous Israel and overseas programs	86,043	-	(129,389)	22,711
CRC Interfaith Mission	-	(4,244)	-	-
Professional Awards	-	(1,745)	(1,000)	-
Strategic planning and Outreach	383,000	-	(18,290)	(373,200)
Security	48,500	-	-	-
Israel Center	34,673	-	(55,850)	139
Birthright Israel	15,700	-	(15,600)	-
	851,246	(9,707)	(847,059)	108,986
Subject to the passage of time and purpose restrictions:				
2017 net campaign	500	-	(3,354,117)	(5,811)
2018 net campaign	1,972,840	-	-	(402,378)
2019 net campaign	2,246,602	-	-	(83,454)
Arizona Jewish Post/Fed Web	20,262	-	(24,138)	-
2020 net campaign	15,000	-	-	-
2021 net campaign	8,000	-	-	-
	4,263,204	-	(3,378,255)	(491,643)
Endowments:				
Subject to appropriation and expenditure:				
Accumulated endowment earnings	-	1,580	-	(5,542)
Not subject to appropriation and expenditure:				
Charitable remainder unitrust	-	(10,737)	-	-
	\$ 5,114,450	\$ (18,864)	\$ (4,225,314)	\$ (388,199)

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JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

11. Endowments

The Federation's endowments consist of ten individual funds established under either donor restriction or as designated by the Board of Directors for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Arizona adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (the Act). The Board of Directors of the Federation has interpreted the Act 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, the Federation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent 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 organization in a manner consistent with the standard of prudence prescribed by the Act.

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

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Federation
- The investment policies of the Federation

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Federation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, accumulated deficiencies of this nature that are reported in net assets with donor restrictions were \$8,762 of December 31, 2018, and the related original corpus was \$250,354.

Return Objectives and Risk Parameters

The Federation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Federation's current endowment assets are subject to the investment policies of the Jewish Community Foundation of Southern Arizona. Endowment assets include those assets of donor-restricted funds that the Federation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming moderate level of investment risk.

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JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

11. Endowments, Continued

Investment Strategies

To satisfy its long-term rate-of-return objectives, the Federation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Federation targets a diversified asset allocation that places a greater emphasis on equity-based investment to achieve its long-term objectives within prudent risk constraints. The primary purpose of the Federation is the preservation and protection of the property donated or bequeathed to the Federation and to provide additional funding for grants while creating a reserve for emergency purposes.

Spending Policy

The Federation's endowment funds are held at JCF. The Federation has adopted the spending policy of JCF for these funds. Temporarily restricted accumulated earnings on these endowments are released from temporarily restricted net assets when distributed by JCF and the related restriction (if any) has been met. JCF has adopted a policy of appropriating for distribution each year between 3.5% and 5% of its endowment value (4% for the year ended December 31, 2018). The rate is determined based on consideration of the net 10-year average total return, the current management fees owed to JCF for endowment funds, the average consumer price index for the most recent 10 years and the long-term expected return on its endowments. The spending rate is applied to the average fund balance from the preceding 12 quarters to arrive at the annual distribution amount. This is consistent with JCF's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through return.

Endowment Fund Net Assets

Endowment fund net asset activity consists of the following for the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, December 31, 2017	\$ 7,378,518	\$ 354,670	\$ 7,733,188
Contributions	-	-	-
Change in value of beneficial interest in charitable remainder unitrust	-	(10,737)	(10,737)
Change in value of beneficial interests in funds held at JCF	(423,817)	-	(423,817)
Transfers between funds	5,491	-	5,491
Balance, December 31, 2018	<u>\$ 6,960,192</u>	<u>\$ 343,933</u>	<u>\$ 7,304,125</u>

12. Commitments and Contingencies

Lease Commitments

The Federation has entered into various leases for office space and equipment with expiration dates ranging from June 2019 through August 2022. During the year ended December 31, 2018, rent expense under these agreements was \$37,704. Future minimum lease payments under these agreements are:

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JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

12. Commitments and Contingencies, Continued

Lease Commitments, continued

Year ended December 31,	
2019	\$ 24,281
2020	9,599
2021	9,059
2022	4,960
Total future minimum lease payments	<u>\$ 47,899</u>

Line of Credit Security

During the year ended December 31, 2014, the Tucson Jewish Community Center (JCC) entered into a line of credit agreement with a bank in the amount of \$4,500,000. The Federation holds the ground lease for the JCC facility. In connection with the terms of the JCC bank line of credit, the Federation, as lessor under the ground lease, consented to the deed of trust for the JCC building and land as security for the line of credit. In the event of a default on the line of credit, the bank has the right to acquire the leasehold interest in the JCC property, however, the bank agrees that the Federation has the right (but not the obligation) to cure any breach or default. The consent also prohibits the Federation from modifying, terminating or canceling the lease with the JCC under certain conditions. The line of credit expires on December 31, 2019. As of December 31, 2018, there have been no defaults on the line of credit held by the JCC.

13. Lease Income

The Federation leases a portion of its operating facility to the Jewish Community Foundation of Southern Arizona (JCF) under an operating lease that expires during September 2022 with an option to extend the lease for four additional five-year terms. In addition, The Federation leased office space to Jewish Family and Children's Services of Southern Arizona (JF&CS) under an operating lease that expired during June 2018. Both JCF and JF&CS are affiliates and considered related parties as defined by the Federation in Note 15. Total associated rental income for the year ended December 31, 2018 was \$119,877. Future minimum lease payments expected to be received under the JCF lease are:

Year ended December 31,	
2019	\$ 99,500
2020	97,500
2021	95,500
2022	70,500
Total future minimum lease income	<u>\$ 363,000</u>

14. Retirement Plans

The Federation is an affiliate under the JCC's 401(k) plan. Employees are eligible to participate in the 401(k) plan upon reaching age 21. There is no minimum service requirement and employees are eligible to defer compensation into the plan upon employment. The total contribution to the benefit plans for the year ended December 31, 2018 was \$67,295.

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JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

14. Retirement Plans, Continued

The Federation has established a supplemental retirement plan for a member of management. A trust has been established to hold the assets of the plan. The Federation makes contributions to the plan equal to 9% of the participant's eligible compensation, less any amount contributed to the profit sharing plan on behalf of the participant. The plan is fully funded. The plan participant and his beneficiaries have no preferred claim on, or any beneficial interest in, any asset of the trust other than deferred salaries and the related investment earnings. Accordingly, no liability for the present value of future retirement benefits payable has been recorded. The total contribution to this plan for the year ended December 31, 2018 was \$9,185 and is included with cash and cash equivalents. Cash equivalents and accrued expenses each include \$92,712 at December 31, 2018 related to this supplemental retirement plan.

15. Related Party Transactions

The Federation discloses all transactions with affiliates and community partners as related party transactions. The Federation had the following related party transactions during the year ended December 31, 2018:

Tucson Jewish Community Center (JCC):

- JCC's use of the Federation land for its facility per ground lease dated March 28, 1989.
- The Federation's Board of Directors approved core base allocations distributable over the course of the year ended December 31, 2018 in the amount of \$286,461.
- Other distributions comprising of donor designated gifts, grants, and/or funds from Federal programs during the year ended December 31, 2018 totaled \$25,830.

Jewish Family and Children's Services, Inc. (JF&CS):

- The Federation has successor beneficial title to all land recorded in the financial statements of JF&CS with legal title vested in a landholding trust. JF&CS has beneficial title the right of occupancy and control under the trust agreement.
- The Federation's Board of Directors approved core base allocations distributed during the year ended December 31, 2018 in the amount of \$256,636.
- The Federation's Board of Directors approved funding for the Tucson Jewish Relief (L.E.A.F.), Seniors and Disabled Task Force, and Holocaust Survivors programming during the year ended December 31, 2018. Distributions during the year totaled \$97,500.
- Other distributions to JF&CS during the year ended December 31, 2018 were comprised of donor designated gifts, grants and funds from Federation programs totaling \$12,088.
- As discussed in Note 13, during the year ended December 31, 2018, the Federation recognized rental income from JF&CS in the amount of \$5,652.

Handmaker Jewish Services for the Aging (HJSA):

- The Federation has beneficial title to the Rosemont property recorded in the financial statements of HJSA with legal title vested in a landholding trust. HJSA had the right of occupancy and control under the trust agreement.

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JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

15. Related Party Transactions, Continued

Handmaker Jewish Services for the Aging (HJSA), continued:

- During May 2014, the Federation approved securing a \$2.5 million loan for HJSA with the property described above. The beneficiary title of the property was transferred to HJSA for purposes of providing security to the lender. Once the loan was approved and finalized, the beneficiary title was transferred back to the landholding trust naming the Federation as beneficiary.
- The Federation's Board of Directors approved core base allocations distributed during the year ended December 31, 2018 in the amount of \$94,290.

Hillel Foundation at the University of Arizona (Hillel):

- The Federation has beneficial title to all land recorded in the financial statements of Hillel with legal title vested in a landholding trust. Hillel has the right of occupancy and control under the trust agreement.
- The Federation's Board of Directors approved core base allocations distributed during the year ended December 31, 2018 in the amount of \$106,318.
- Other distributions to Hillel during the year ended December 31, 2018 were comprised of donor designated gifts, grants and funds from Federation programs totaling \$44,300.

Tucson Hebrew Academy (THA):

- THA's use of Federation land for its facility per ground lease dated February 11, 1994.
- The Federation's Board of Directors approved core base allocations distributed during the year ended December 31, 2018 in the amount of \$137,368.
- Other distributions to THA during the year ended December 31, 2018 were comprised of donor designated gifts, grants and funds from Federation programs totaling \$71,000.

Jewish Community Foundation of Southern Arizona (JCF):

- During the year ended December 31, 2018, the Federation received \$2,022,727 in contributions from philanthropic funds, \$103,270 in grants and sponsorships from JCF, and \$248,124 in contributions from funds held for the benefit of the Federation at JCF.
- During the year ended December 31, 2018, JCF was covered under the Federation's Commercial Building and Liability insurance, as well as the Federation's Directors and Officers policies. JCF's employees are participants, when eligible, in the dental, vision, and health plans administered by the Federation.
- At December 31, 2018, the JCF had approximately \$15.6 million in deposits, including the beneficial interests in funds in the amount of \$9,051,708, noted on page 2, which are held for the benefit of the Federation. The JCF is the trustee of a charitable remainder unitrust held for the benefit of the Federation. At December 31, 2018, the value of the charitable remainder unitrust was \$93,579. See Note 5 for information relating to the charitable remainder unitrust. See Note 17 for information relating to the income recorded for the beneficial interests in funds and in the charitable remainder unitrust held at JCF during the year ended December 31, 2018.
- As discussed in Note 13, during the year ended December 31, 2018, the Federation recognized rental income from the JCF in the amount of \$109,684.

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JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

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For the year ended December 31, 2018

15. Related Party Transactions, Continued

- During the year ended December 31, 2018, the Federation awarded compelling needs allocations to JCF totaling \$30,000.
- At December 31, 2018, allocations payable to JCF totaled \$12,000.
- During the year ended December 31, 2018, the Federation awarded funds to JCF for competitive grants from the Federation's Senior and Disabled Task Force Council House fund in the amount of \$38,602.

Jewish History Museum (JHM):

- The Federation's Board of Directors approved core base allocations distributed during the year ended December 31, 2018 in the amount of \$60,780.
- Other distributions to JHM during the year ended December 31, 2018 were comprised of donor designated gifts, grants and funds from Federation programs totaling \$48,168.

16. Liquidity and Availability of Resources

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the statement of financial position date are comprised of:

Cash and cash equivalents	\$ 1,853,481
Accounts receivable, net	83,332
Unconditional promises to give, current	3,740,151
Investments - other	317,326
Available assets included in beneficial interest in funds held by Jewish Community Foundation	<u>1,505,466</u>
Total financial assets available within one year	<u>7,499,756</u>
Less:	
Amounts unavailable for general expenditures within one year due to:	
Cash designated for supplemental retirement plan	(92,712)
Purpose restrictions	<u>(1,382,816)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 6,024,228</u>

The Federation structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Federation invests cash in excess of weekly requirements in short-term investments and in pooled investments through the Jewish Community Foundation. To help manage unanticipated liquidity needs, the Federation has a committed line of credit of \$100,000, which it could draw upon.

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17. Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Federation has the ability to access.
- Level 2: Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

The asset 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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

- *Beneficial interest in funds held by JCF:* Valued at fair value of the underlying pooled funds, cash surrender value and equity interests as reported by JCF.
- *Beneficial interest in charitable remainder unitrust:* Valued at fair value of the underlying pooled funds as reported by JCF.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. 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.

The Federation does not have level 1 or level 2 assets. Fair values of level 3 assets measured on a recurring basis are as follows at December 31, 2018:

Beneficial interests in funds held by JCF:

Pooled funds	\$ 8,857,631
Cash surrender value life insurance	194,077

Total beneficial interest in funds held by JCF	<u>\$ 9,051,708</u>
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Beneficial interest in charitable remainder unitrust	<u>\$ 93,579</u>
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JEWISH FEDERATION OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

17. Fair Value Measurements, Continued

The tables below summarize the changes in the fair value of the Federation's level 3 assets for the year ended December 31, 2018:

Beneficial Interests in Funds Held by JCF

Balance, beginning of year	\$ 9,670,383
Change in value of funds held by JCF	(527,878)
Contributions to funds held by JCF	376,368
Distributions from funds held by JCF	(467,165)
Balance, end of year	<u>\$ 9,051,708</u>

Beneficial Interest in Charitable Remainder Unitrust

Balance, beginning of year	\$ 104,316
Change in value of charitable remainder unitrust held by JCF	(2,934)
Distributions to annuitant	(7,803)
Balance, end of year	<u>\$ 93,579</u>

18. Subsequent Events

Subsequent to December 31, 2018, the Federation extended a line of credit to Handmaker Jewish Services for the Aging, a related party. The line of credit is in the amount of \$500,000 bears interest at the rate of 4% and is secured by real property. As of the date of the audit report, there is an outstanding balance of \$153,861 on the line of credit.

The Federation was unaware of any additional subsequent events as of October 2, 2019, the date the financial statements were available to be issued.