

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**

Combined Financial Statements

December 31, 2016 (Audited) and 2015 (Unaudited)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Durham-Chapel Hill Jewish Federation and
The Partnership for a Jewish Center
Raleigh, North Carolina

We have audited the accompanying combined financial statements of Durham-Chapel Hill Jewish Federation (a nonprofit organization) and The Partnership for a Jewish Center (a nonprofit organization), which comprise the combined statement of financial position as of December 31, 2016, and the related combined statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Durham-Chapel Hill Jewish Federation and The Partnership for a Jewish Center as of December 31, 2016, 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 of America.

Report on 2015 Financial Statements

The combined financial statements of Durham-Chapel Hill Jewish Federation and The Partnership for a Jewish Center as of December 31, 2015, were reviewed by other accountants whose report dated May 20, 2016, stated, based on their procedures, they were not aware of any material modifications that should be made to those combined financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the combined financial statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information on pages 21 to 22 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Thomas, Judy & Ducka, P.A.

April 18, 2017

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u> (Audited)	<u>2015</u> (Unaudited)
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 489,506	\$ 752,081
Accounts Receivable	30,970	37,193
Pledges Receivable, Net of Allowance	277,030	358,265
Prepaid Expenses	16,646	15,579
Investments	2,254,850	1,952,008
Due From Related Party - Current Portion	30,000	60,000
Other Assets	5,050	520
	<hr/>	<hr/>
Total Current Assets	3,104,052	3,175,646
Long-Term Pledges, Net of Allowance	295,346	272,305
Property and Equipment, Net	7,224,587	7,460,792
Due From Related Parties, Net of Current	402,514	415,360
	<hr/>	<hr/>
Total Assets	<u>\$ 11,026,499</u>	<u>\$ 11,324,103</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 3,338,800	\$ 200,000
Accounts Payable	24,650	96,606
Accrued Payroll Taxes and Benefits	63,635	59,636
Due to Related Party		136,201
Deferred Revenue	86,780	60,508
Other Accrued Liabilities	819	
	<hr/>	<hr/>
Total Current Liabilities	3,514,684	552,951
Long-Term Liabilities:		
Long-Term Debt, Less Current Portion		3,538,800
	<hr/>	<hr/>
Total Liabilities	3,514,684	4,091,751
Net Assets:		
Unrestricted	4,647,496	4,195,403
Temporarily Restricted	1,445,381	1,914,767
Permanently Restricted	1,418,938	1,122,182
	<hr/>	<hr/>
Total Net Assets	7,511,815	7,232,352
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 11,026,499</u>	<u>\$ 11,324,103</u>

See Accompanying Notes

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
COMBINED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2016 and 2015

	2016 (Audited)				2015 (Unaudited)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Contributions	\$ 110,020	\$ 67,317	\$ 296,756	\$ 474,093	\$ 63,115	\$ 399,042	\$ 111,978	\$ 574,135
Pledges Income	842,132	155,240		997,372	340,352	979,085		1,319,437
Grant Income	44,049			44,049	14,750			14,750
Membership Income	851,573			851,573	828,472			828,472
Program Services	579,839			579,839	597,244			597,244
Rental Income	106,857			106,857	102,699			102,699
Interest and Dividend Income	52,279	31,920		84,199	2	32,818		32,820
Realized and Unrealized Gain (Loss) on Investments	269	28,290		28,559	(43,282)	(51,446)		(94,728)
Other Income	147,889			147,889	89,515			89,515
Special Events Income, Net	19,321			19,321	6,455			6,455
Total Support and Revenue	2,754,228	282,767	296,756	3,333,751	1,999,322	1,359,499	111,978	3,470,799
Net Assets Released from Restrictions	800,606	(800,606)			1,234,538	(1,234,538)		
Total Support, Revenue and Net Assets Released from Restrictions	3,554,834	(517,839)	296,756	3,333,751	3,233,860	124,961	111,978	3,470,799
Expenses:								
Program Expenses	2,565,216			2,565,216	3,005,405			3,005,405
Management and General	251,146			251,146	230,524			230,524
Fundraising	237,926			237,926	175,725			175,725
Total Expenses	3,054,288			3,054,288	3,411,654			3,411,654
Change in Net Assets	500,546	(517,839)	296,756	279,463	(177,794)	124,961	111,978	59,145
Transfer	(48,453)	48,453						
Net Assets, Beginning of Year	4,195,403	1,914,767	1,122,182	7,232,352	4,373,197	1,789,806	1,010,204	7,173,207
Net Assets, End of Year	<u>\$ 4,647,496</u>	<u>\$ 1,445,381</u>	<u>\$ 1,418,938</u>	<u>\$ 7,511,815</u>	<u>\$ 4,195,403</u>	<u>\$ 1,914,767</u>	<u>\$ 1,122,182</u>	<u>\$ 7,232,352</u>

See Accompanying Notes

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2016 and 2015

	2016 (Audited)				2015 (Unaudited)			
	Program Expenses	Management and General	Fundraising	Total	Program Expenses	Management and General	Fundraising	Total
Advertising Expense	\$ 82,519	\$ 5,566	\$ 14,500	\$ 102,585	\$ 97,065	\$ 9,727	\$ 5,396	\$ 112,188
Awards and Grants	351,592	4,403	2,446	358,441	606,855	8,089	4,488	619,432
Bad Debt Expense	13,091		52,201	65,292	134,500		55,223	189,723
Bank and Investment Charges	88,665	5,235	2,895	96,795	80,950	5,098	2,572	88,620
Contract Services	170,973	3,083	1,713	175,769	126,957	14,226	955	142,138
Depreciation	236,960	24,798	13,777	275,535	251,346	25,187	13,973	290,506
Insurance	43,155	4,516	2,509	50,180	42,572	4,266	2,368	49,206
Interest	66,145	6,922	3,846	76,913	60,763	6,089	3,377	70,229
Memberships and Dues	8,985	22	12	9,019	7,844	397		8,241
Occupancy Expense	184,138	12,810	7,116	204,064	194,635	18,810	10,435	223,880
Office Expense	40,870	869	493	42,232	15,249	1,517	844	17,610
Postage and Printing	32,981	722	540	34,243	11,533	2,506	562	14,601
Membership Services	67,190	187	177	67,554	191,059	16,224	9,023	216,306
Fundraising			26,743	26,743				
Related Party Refunds	30,000			30,000				
Salaries and Fringe Benefits	1,085,468	176,117	94,847	1,356,432	1,121,381	112,368	62,332	1,296,081
Staff Development	12,526	1,127	626	14,279	9,781	767	345	10,893
Technology Expenses	37,770	3,878	12,990	54,638	45,355	4,545	2,521	52,421
Telephone and Communications	8,518	891	495	9,904	6,693	671	372	7,736
Travel, Meetings, and Meals	3,670			3,670	867	37	939	1,843
Total Expenses	\$ 2,565,216	\$ 251,146	\$ 237,926	\$ 3,054,288	\$ 3,005,405	\$ 230,524	\$ 175,725	\$ 3,411,654

See Accompanying Notes

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016 (Audited)	2015 (Unaudited)
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 279,463	\$ 59,145
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Contributions Restricted for Endowments	(296,756)	(111,978)
Depreciation	275,535	290,506
Realized and Unrealized (Gain) on investments	(28,559)	94,728
Changes in Assets and Liabilities that Provided (Used) Cash:		
Accounts Receivable	6,223	(4,702)
Pledges Receivable, Net	58,194	(34,689)
Prepaid Expenses	(1,067)	2,711
Due from Related Party	42,846	93,300
Other Assets	(4,530)	
Accounts Payable	(71,956)	78,212
Accrued Payroll Taxes and Benefits	3,999	(14,636)
Due to Related Party	(136,201)	136,201
Other Accrued Liabilities	819	
Deferred Revenue	26,272	(8,635)
Net Cash Provided by Operating Activities	<u>154,282</u>	<u>580,163</u>
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(39,330)	(10,701)
Purchase of Investments	(438,260)	(587,153)
Proceeds from Sale of Investments	163,977	701,918
Net Cash Provided (Used) by Investing Activities	<u>(313,613)</u>	<u>104,064</u>
Cash Flows from Financing Activities:		
Contributions Restricted for Endowments	296,756	111,978
Payments on Long-Term Debt	(400,000)	(576,946)
Net Cash Used by Financing Activities	<u>(103,244)</u>	<u>(464,968)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(262,575)	219,259
Cash and Cash Equivalents, Beginning of Year	<u>752,081</u>	<u>532,822</u>
Cash and Cash Equivalents, End of Year	<u>\$ 489,506</u>	<u>\$ 752,081</u>
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	<u>\$ 76,913</u>	<u>\$ 70,229</u>

See Accompanying Notes

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2016 (Audited) and 2015 (Unaudited)

1. Summary of Significant Accounting Policies

Operations

The Durham-Chapel Hill Jewish Federation (the “Federation”) is a not-for-profit corporation organized under the laws of the State of North Carolina in 1998. The Federation was formed to strengthen and enrich the Jewish community locally, in Israel, and throughout the world. The fundraising efforts of the Federation support a broad range of services including direct aid, education, cultural activities, social services, and recreational and social activities for all ages within the community.

The Partnership for a Jewish Center (the “Partnership”) was also organized in the Durham-Chapel Hill area. Since 2007, the Partnership has been responsible for fundraising for construction of the Early Childhood Pavilion of the Lerner Jewish Community Day School (“Lerner School”), a related party, and also for the creation of a multipurpose community center in Durham, North Carolina, the Charlotte and Dick Levin Jewish Community Center (“JCC”), which opened in June 2011.

The Durham-Chapel Hill Jewish Federation and The Partnership for a Jewish Center are collectively referred to as the “Organization”.

Principles of Combination

Since the Federation and the Partnership share common charitable activities, the two entities are combined for financial reporting purposes. Accordingly, the accompanying combined financial statements of the Organization include the accounts of the Federation and the Partnership after elimination of intercompany transactions.

Basis of Presentation

The Organization prepares its combined financial statements on the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred. The combined financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB) ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under these provisions, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The Organization has also adopted Financial Accounting Standards Board Accounting Standards Codification (FASB) ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. Under these provisions, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of donor restrictions.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2016 (Audited) and 2015 (Unaudited)

1. Summary of Significant Accounting Policies (Continued)

Contributions, Grants and Bequests

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Bequests are recorded when the amount and rate of payment is probable.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts would be included in contribution revenue. The Organization has determined that at December 31, 2016 and 2015, the adjustment to net present value is immaterial and has not recorded an adjustment.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made and the uncollectible amounts are charged as a loss in the combined statements of activities. At December 31, 2016 and 2015, allowance for uncollectible promises to give was \$35,739.

Membership Income and Program Services

Membership income and program services income for the Organization are recorded when the membership period or program has occurred. At December 31, 2016 and 2015, the Organization reported deferred revenue of \$86,780 and \$60,508, respectively, related to memberships and programs which have not yet occurred but for which payments have been received.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers cash on hand, cash in demand deposit accounts, and all short-term debt securities with a maturity of three months or less to be cash equivalents. The Organization had \$36,683 and \$112,148 of cash equivalents at December 31, 2016 and 2015, respectively.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2016 (Audited) and 2015 (Unaudited)

1. Summary of Significant Accounting Policies (Continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Donated securities are recorded at their fair values on the dates of the gifts and, except where otherwise required by the donor or Board of Directors, are immediately sold by the Organization.

Income Taxes

The Organization is exempt from income taxes as a not-for-profit religious organization under IRS code section 501(c)(3). In addition, the Organization has been approved under Internal Revenue Code for recognition as a public charity and not as a private foundation.

Accounting for Uncertainty in Income Taxes

As of December 31, 2016, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the combined financial statements. The Organization is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services based on percentages provided by management.

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original cost or donated value of \$1,000 or more and an estimated useful life of more than one year. Purchased property and equipment are carried at cost. Donations of equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. In the absence of such stipulations, contributions of equipment are recorded as unrestricted assets. Depreciation and amortization are computed using the straight-line method over the estimated useful lives as follows:

Buildings and Improvements	39	years
Furnishings and Equipment	5 - 7	years
Website Costs	5	years
Software	5	years

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2016 (Audited) and 2015 (Unaudited)

1. Summary of Significant Accounting Policies (Continued)

Property and Equipment (Continued)

Depreciation expense totaled \$275,535 and \$290,506 for the years ended December 31, 2016 and 2015, respectively.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may differ from those estimates.

Advertising

The Organization expenses advertising costs when incurred. Advertising expense totaled \$102,585 and \$112,188 for the years ended December 31, 2016 and 2015, respectively.

Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the combined statements of financial position.

2. Concentrations of Credit Risk

The Organization occasionally maintains deposits in excess of federally insured limits. These are identified as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions. The Federal Deposit Insurance Corporation insures up to \$250,000 for all accounts held at a single institution. As of December 31, 2016 and 2015, the Organization's uninsured cash balance was \$198,982 and \$287,000, respectively.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2016 (Audited) and 2015 (Unaudited)

3. Cash and Investments Held in Endowments

Cash and investments in endowments includes permanently restricted endowment funds, as well as funds that are temporarily restricted. These funds are managed by an investment manager and at December 31, 2016 and 2015 were invested in corporate bonds, various mutual funds, a foreign bond, and a money market fund. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – North Carolina G.S. 116, Chapter 36E, *Uniform Prudent Management of Institutional Funds Act (“UPMIFA”)* was signed into law March 2009 and is applied to the Organization’s endowment funds existing at December 31, 2016 and 2015. The Board of Directors interprets UPMIFA as requiring the preservation of the fair value of the original endowment gift as of the gift date of the donor-restricted funds absent explicit donor stipulations to the contrary. As a result of this interpretation and subject to the donor restrictions, the Organization classifies as permanently restricted net assets (a) the original value of endowment gifts donated to the permanent endowment, (b) the original value of subsequent endowment 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 assets are 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 UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2016</u>				
Board-Designated Funds	\$ 54,536	\$	\$	\$ 54,536
Donor-Restricted Funds	<u> </u>	<u>818,024</u>	<u>1,418,938</u>	<u>2,236,962</u>
Total Funds	<u>\$ 54,536</u>	<u>\$ 818,024</u>	<u>\$ 1,418,938</u>	<u>\$ 2,291,498</u>

**DURHAM-CHAPEL HILL JEWISH FEDERATION
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NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2016 (Audited) and 2015 (Unaudited)

3. Cash and Investments Held in Endowments (Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2015</u>				
Board-Designated Funds	\$ 53,258	\$	\$	\$ 53,258
Donor-Restricted Funds	<u> </u>	<u>888,716</u>	<u>1,122,182</u>	<u>2,010,898</u>
Total Funds	<u>\$ 53,258</u>	<u>\$ 888,716</u>	<u>\$ 1,122,182</u>	<u>\$ 2,064,156</u>

Changes in endowments for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2015	\$ 53,258	\$ 888,716	\$ 1,122,182	\$ 2,064,156
Investment Income	1,009	31,920		32,929
Net Appreciation (Depreciation)	<u>269</u>	<u>28,290</u>	<u> </u>	<u>28,559</u>
Total Investment Return	1,278	60,210		61,488
Contributions		67,319	296,756	364,075
Appropriations	<u> </u>	<u>(198,221)</u>	<u> </u>	<u>(198,221)</u>
December 31, 2016	<u>\$ 54,536</u>	<u>\$ 818,024</u>	<u>\$ 1,418,938</u>	<u>\$ 2,291,498</u>

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2016 (Audited) and 2015 (Unaudited)

3. Cash and Investments Held in Endowments (Continued)

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
December 31, 2014	\$ 60,317	\$ 1,090,980	\$ 1,010,204	\$ 2,161,501
Investment Income	2,137	77,145		79,282
Net Appreciation (Depreciation)	(2,796)	(120,640)		(123,436)
Total Investment Return	(659)	(43,495)		(44,154)
Contributions	65,376	521,947	111,978	699,301
Appropriations	(71,776)	(680,716)		(752,492)
December 31, 2015	<u>\$ 53,258</u>	<u>\$ 888,716</u>	<u>\$ 1,122,182</u>	<u>\$ 2,064,156</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature are reported as negative unrestricted net assets in the schedules above. There were no deficiencies at December 31, 2016 and 2015.

Cash and investments in endowments break down as follows at December 31, 2016 and 2015:

	2016	2015
Cash Held by Broker	\$ 36,683	\$ 112,148
Investments	<u>2,254,815</u>	<u>1,952,008</u>
	<u>\$ 2,291,498</u>	<u>\$ 2,064,156</u>

The ultimate responsibility for managing the cash and investments of the Organization rests with the Board of Directors, which may delegate responsibility to the Foundation Investment Committee of the Board of Directors.

Investment Objectives – The investment objective is to achieve a competitive rate of total return on assets over multi-year periods in order to preserve the real value of the Organization’s assets and support the Organization’s long-term needs. Total return is defined as income plus realized and unrealized gains, less realized and unrealized losses and expenses.

Spending Policy – For unrestricted and temporarily restricted assets, appropriations will be made as needed to satisfy the restrictions.

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4. Fair Value Measurements

The FASB established a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value of investments. 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 Organization 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.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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4. Fair Value Measurements (Continued)

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 Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Management has categorized investments as follows:

	2016			Total
	Level 1	Level 2	Level 3	
Fixed Income	\$ 434,461	\$	\$	\$ 434,461
International Bonds	343,672			343,672
International Large Cap	307,218			307,218
International Small Cap	32,097			32,097
U.S. Equity Large Cap	580,247			580,247
U.S. Equity Mid Cap	200,380			200,380
U.S. Equity Small Cap	81,390			81,390
Emerging Markets	93,770			93,770
Alternative Investments	181,615			181,615
Total	\$ 2,254,850	\$	\$	\$ 2,254,850

	2015			Total
	Level 1	Level 2	Level 3	
Taxable Bonds	\$	\$ 273,294	\$	\$ 273,294
International Bonds		315,197		315,197
U.S. Equities	536,887			536,887
International Equities	649,526			649,526
Diversifying Assets		177,104		177,104
Total	\$ 1,186,413	\$ 765,595	\$	\$ 1,952,008

Changes in Fair Value Levels – The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Change in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. There have been no changes in Level 1 and Level 2 and no changes in valuation techniques for these assets and liabilities for the years ended December 31, 2016 and 2015.

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5. Long-Term Debt

The Organization's long-term debt as of December 31 consists of the following:

	2016	2015
Note payable to a bank, due in annual principal payments in accordance with agreement of \$290,000 in 2014. Annual principal payments in 2015 through 2035 are \$200,000 (assuming the note is extended through 2035). Interest rate per annum is 68% of 1-month LIBOR +1.8175% (2.237% at December 31, 2016). Principal and any unpaid interest are due in March 2027. The note is collateralized by the deed of trust on property (JCC). The loan was extended during 2015 and now has a mandatory tender date of December 31, 2017.	\$ 3,338,800	\$ 3,738,800
Less current maturities	3,338,800	200,000
	\$	\$ 3,538,800

The aggregate maturities of the long-term debt are as follows:

Year Ending December 31	Amount
2017	\$ 3,538,000

The carrying value of pledged assets under the Organization's long-term debt was \$7,224,587 as of December 31, 2016.

The notes payable have certain restrictive covenants. At December 31, 2016, the Organization was in compliance with these covenants.

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6. Restrictions on Assets

The combined financial statements report amounts separately by class of net assets as follows:

- a. Undesignated net assets are those currently available for use in the Organization.
- b. Temporarily restricted net assets are those stipulated by donors for specific operating purposes or those not currently available for use until commitments regarding their use have been fulfilled.
- c. Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Organization's general activities.

Temporarily restricted net assets consist of cash and investments and represent resources restricted for the following purposes at December 31:

	2016	2015
Subsequent Years	\$ 252,411	\$ 336,232
Long-Term Debt Payments	317,757	372,000
Program Activity	56,104	372,818
Foundation DAF and SD Funds	819,109	833,717
	\$ 1,445,381	\$ 1,914,767

7. Property and Equipment

Property and equipment consists of the following at December 31:

	2016	2015
Land	\$ 125,000	\$ 125,000
Buildings and Improvements	8,219,132	8,200,537
Furnishings and Equipment	484,195	463,460
Website Costs	37,215	37,215
Software	15,600	15,600
Total Property and Equipment	8,881,142	8,841,812
Less: Accumulated Depreciation	1,656,555	1,381,020
Property and Equipment, Net	\$ 7,224,587	\$ 7,460,792

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8. Operating Lease

The Organization leases copiers and other equipment under noncancelable operating lease agreements expiring at various dates through September 2020. Additionally, the Organization has various short-term and month-to-month leases. Monthly installments range from \$196 to \$2,393. Rent expense related to these leases totaled \$50,281 and \$57,895 for the years ended December 31, 2016 and 2015, respectively.

Minimum lease payments under these operating leases are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2017	\$ 33,936
2018	20,797
2019	2,872
2020	<u>2,154</u>
	<u>\$ 59,759</u>

9. Pledges Receivable

At December 31, 2016 and 2015, pledges receivable consist of the following:

	<u>2016</u>	<u>2015</u>
Amounts Due:		
Less Than One Year	\$ 298,327	\$ 358,265
One to Five Years	246,413	308,044
More than Five Years	<u>63,375</u>	
Value Prior to Allowance	608,115	666,309
Less Allowance for Uncollectible Accounts	<u>(35,739)</u>	<u>(35,739)</u>
	<u>\$ 572,376</u>	<u>\$ 630,570</u>

10. Related Party Transactions

The Organization received pledges and contributions in 2016 and 2015 from Board members totaling \$290,753 and \$269,320, respectively.

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10. Related Party Transactions (Continued)

During the construction phase of its Early Childhood Pavilion, the Lerner School agreed to pay the Organization for a portion of the construction costs. The key elements of this arrangement include:

1. The implied interest rate is variable and determined by the Organization's interest rate on the bank loan from BB&T (currently 68% of One-Month LIBOR + 1.8175%)
2. Interest began accruing in May 2012
3. Principal payments will be determined by collections of Organization pledges receivable, and based on current expectations for collections (both amounts and timing)
4. Annual principal payments will vary depending on Organization pledges collected.

All pledges received are allocated 85% to the Organization and 15% against the Lerner School debt owed. The balance due from the School was \$432,514 and \$475,360 as of December 31, 2016 and 2015, respectively. The following is a summary of principal to be received by the Organization by year:

2017		\$	30,000
2018			30,000
2019			30,000
Thereafter			<u>390,270</u>
Subtotal			480,270
Credit for unpaid pledges			<u>(47,756)</u>
			<u>\$ 432,514</u>

Accounts receivable at December 31, 2016 includes \$7,964 from the Lerner School, for rental fees and various shared operating expenses.

The Lerner School paid \$60,000 in rent for each of the years ending December 31, 2016 and 2015, to the Organization for the use of facilities. In 2016, the Organization issued a usage fee refund in the amount of \$30,000 as a result of the Organization using some of the space reserved for the School throughout the year.

11. Retirement Plan

The Organization has adopted a retirement plan in accordance with Section 403(b)(7) of the Internal Revenue Code. The plan allows for the deferment of income to the employees by means of investing in a tax shelter account. The plan allows employer and employee contributions. Contributions by the Organization to the plan on behalf of the employees for the years ended December 31, 2016 and 2015 totaled \$12,261 and \$10,043, respectively.

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12. Donated Services

The Organization receives donated services from a variety of unpaid volunteers. No amounts have been recorded in the accompanying combined statement of activities because the criteria for recognition of such volunteer effort has not been satisfied.

13. Reduce or Retire the Debt Campaign

In the second quarter of 2015, the Organization embarked upon a campaign to reduce and/or retire the outstanding debt owed to its bank. During the years ended December 31, 2016 and 2015, \$326,135 and \$622,000 of pledges were received, respectively. Additionally, during the years ended December 31, 2016 and 2015, \$358,000 and \$271,764 was collected, respectively. Although the Organization is primarily liable for the loan, an agreement exists wherein the Lerner Day School ("Lerner") contributes 15% towards the repayment of the loan. Lerner will also receive 15% credit against the note receivable in Note 10 for all money collected to retire the debt. For the years ended December 31, 2016 and 2015, the Organization credited Lerner for \$50,440 and \$93,300, respectively, representing 15% of Retire the Community Debt payments and 15% of the pledged amount.

14. Commitments and Contingencies

The Organization is currently in negotiations with the JFNA, their national affiliate, for back dues owed. The amounts billed to the Organization were \$129,000; however, the Organization feels confident a much lower amount will be agreed upon. Because of the uncertainty as to the amount to be paid, back dues have not been recorded.

15. Reclassifications

Certain amounts in the 2015 combined financial statements have been reclassified to conform to the 2016 presentation. These reclassifications had no impact on change in net assets or net assets.

16. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 18, 2017, which is the date the financial statements were available to be issued, and has determined there was nothing significant.

SUPPLEMENTARY INFORMATION

**DURHAM-CHAPEL HILL JEWISH FEDERATION
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SCHEDULE OF COMBINING STATEMENTS OF FINANCIAL POSITION
December 31, 2016

	Durham- Chapel Hill Jewish Federation	Partnership for a Jewish Center	Eliminations	Total
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 483,497	\$ 6,009	\$	\$ 489,506
Accounts Receivable	30,970			30,970
Pledges Receivable, Net of Allowance	247,942	29,088		277,030
Prepaid Expenses	16,646			16,646
Investments Held in Endowments	2,254,850			2,254,850
Due From Related Party, Current Portion	30,000			30,000
Other Assets	5,050			5,050
Total Current Assets	<u>3,068,955</u>	<u>35,097</u>		<u>3,104,052</u>
Long-Term Pledges, Net of Allowance	279,683	15,663		295,346
Property and Equipment, Net	7,224,587			7,224,587
Due From Related Parties, Net of Current	402,514			402,514
Total Assets	<u>\$ 10,975,739</u>	<u>\$ 50,760</u>	<u>\$</u>	<u>\$ 11,026,499</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts Payable	\$ 24,650	\$	\$	\$ 24,650
Payroll Taxes and Benefits				
Withheld and Accrued	63,635			63,635
Deferred Revenue	86,780			86,780
Other Accrued Liabilities	819			819
Current Portion of Debt	3,338,800			3,338,800
Total Current Liabilities	<u>3,514,684</u>			<u>3,514,684</u>
Total Liabilities	<u>3,514,684</u>			<u>3,514,684</u>
Net Assets:				
Unrestricted	4,666,307	(18,811)		4,647,496
Temporarily restricted	1,375,810	69,571		1,445,381
Permanently restricted	1,418,938			1,418,938
Total Net Assets	<u>7,461,055</u>	<u>50,760</u>		<u>7,511,815</u>
Total Liabilities and Net Assets	<u>\$ 10,975,739</u>	<u>\$ 50,760</u>	<u>\$</u>	<u>\$ 11,026,499</u>

**DURHAM-CHAPEL HILL JEWISH FEDERATION
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SCHEDULE OF COMBINING STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

	Unrestricted			Unrestricted Total	Temporarily Restricted			Temporarily Restricted Total	Permanently Restricted	
	Durham- Chapel Hill Jewish Federation	Partnership for a Jewish Center	Eliminations		Durham- Chapel Hill Jewish Federation	Partnership for a Jewish Center	Eliminations		Durham- Chapel Hill Jewish Federation	Total
Support and Revenue:										
Contributions	\$ 186,426	\$	\$ (76,406)	\$ 110,020	\$ 67,317	\$	\$	\$ 67,317	\$ 296,756	\$ 474,093
Pledges Income	842,132			842,132	155,240			155,240		997,372
Grant Income	44,049			44,049						44,049
Membership Income	851,573			851,573						851,573
Program Services	579,839			579,839						579,839
Rental Income	106,857			106,857						106,857
Interest and Dividend Income Realized and Unrealized	52,276	3		52,279	31,920			31,920		84,199
Gain (Loss) on Investments	269			269	28,290			28,290		28,559
Other Income	147,889			147,889						147,889
Special Events Income, Net	19,321			19,321						19,321
Total Support and Revenue	2,830,631	3	(76,406)	2,754,228	282,767			282,767	296,756	3,333,751
Net Assets Released from Restrictions	800,606			800,606	(800,606)			(800,606)		
Total Support, Revenue and Net Assets Released from Restrictions	3,631,237	3	(76,406)	3,554,834	(517,839)			(517,839)	296,756	3,333,751
Expenses:										
Program Expenses	2,565,216	76,406	(76,406)	2,565,216						2,565,216
Management and General	251,123	23		251,146						251,146
Fundraising	211,014	26,912		237,926						237,926
Total Expenses	3,027,353	103,341	(76,406)	3,054,288						3,054,288
Change in Net Assets	603,884	(103,338)		500,546	(517,839)			(517,839)	296,756	279,463
Transfer		(48,453)		(48,453)		48,453		48,453		
Net Assets, Beginning of Year	4,062,423	132,980		4,195,403	1,893,649	21,118		1,914,767	1,122,182	7,232,352
Net Assets, End of Year	\$ 4,666,307	\$ (18,811)	\$	\$ 4,647,496	\$ 1,375,810	\$ 69,571	\$	\$ 1,445,381	\$ 1,418,938	\$ 7,511,815