

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

Combined Financial Statements

December 31, 2017 and 2016

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Combined Statements of Financial Position	3
Combined Statements of Activities	4
Combined Statements of Functional Expenses	5
Combined Statements of Cash Flows	6
NOTES TO COMBINED FINANCIAL STATEMENTS	7 - 21
SUPPLEMENTARY INFORMATION	
Schedule of Combining Statement of Financial Position	22
Schedule of Combining Statement of Activities	23

Caroline P. Abbott
Jeffrey A. Brovet
Thomas R. Crawford
Amanda P. Habich
Kristen T. Hoyle



David A. Johnson
Chris P. Judy
Geri H. Lail
James K. Tiller
David W. Tucker

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 statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities, functional expenses, and cash flows for the years 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 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 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 Jewish Center as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 22 to 23 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 & Dicks, P.A.

April 27, 2018

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 630,503	\$ 489,506
Accounts Receivable	35,410	30,970
Pledges Receivable, Net of Allowance	276,289	277,030
Prepaid Expenses	22,626	16,646
Investments	2,789,145	2,254,850
Due From Related Party - Current Portion	35,150	30,000
Other Assets	1,700	5,050
	3,790,823	3,104,052
Long-Term Pledges, Net of Allowance	162,798	295,346
Property and Equipment, Net	6,969,587	7,224,587
Due From Related Parties, Net of Current	389,646	402,514
	\$ 11,312,854	\$ 11,026,499
	\$ 11,312,854	\$ 11,026,499
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Current Portion of Long-Term Debt	\$	\$ 3,338,800
Accounts Payable	29,185	24,650
Accrued Payroll Taxes and Benefits	75,850	63,635
Deferred Revenue	77,956	86,780
Other Accrued Liabilities	218	819
	183,209	3,514,684
Long-Term Liabilities:		
Long-Term Debt, Less Current Portion	3,238,800	
	3,422,009	3,514,684
Net Assets:		
Unrestricted	4,542,455	4,647,496
Temporarily Restricted	1,830,776	1,445,381
Permanently Restricted	1,517,614	1,418,938
	7,890,845	7,511,815
Total Liabilities and Net Assets	\$ 11,312,854	\$ 11,026,499
	\$ 11,312,854	\$ 11,026,499

See Accompanying Notes

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
COMBINED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Contributions	\$ 195,649	\$ 206,838	\$ 141,752	\$ 544,239	\$ 110,020	\$ 67,317	\$ 296,756	\$ 474,093
Pledges Income	582,430	181,196		763,626	842,132	155,240		997,372
Grant Income	119,611			119,611	44,049			44,049
Membership Income	873,103			873,103	851,573			851,573
Program Services	719,724			719,724	579,839			579,839
Rental Income	93,441			93,441	106,857			106,857
Interest and Dividend Income	50,463	28,590		79,053	52,279	31,920		84,199
Realized and Unrealized Gain on Investments	4,969	247,652		252,621	269	28,290		28,559
Other Income	193,286			193,286	147,889			147,889
Bi-Annual Israel Trip	103,915			103,915				
Special Events Income, Net	28,806			28,806	19,321			19,321
Total Support and Revenue	2,965,397	664,276	141,752	3,771,425	2,754,228	282,767	296,756	3,333,751
Net Assets Released from Restrictions	321,957	(321,957)			800,606	(800,606)		
Total Support, Revenue and Net Assets Released from Restrictions	3,287,354	342,319	141,752	3,771,425	3,554,834	(517,839)	296,756	3,333,751
Expenses:								
Program	2,980,966			2,980,966	2,565,216			2,565,216
Management and General	126,325			126,325	251,146			251,146
Fundraising	285,104			285,104	237,926			237,926
Total Expenses	3,392,395			3,392,395	3,054,288			3,054,288
Change in Net Assets	(105,041)	342,319	141,752	379,030	500,546	(517,839)	296,756	279,463
Transfer		43,076	(43,076)		(48,453)	48,453		
Net Assets, Beginning of Year	4,647,496	1,445,381	1,418,938	7,511,815	4,195,403	1,914,767	1,122,182	7,232,352
Net Assets, End of Year	\$ 4,542,455	\$ 1,830,776	\$ 1,517,614	\$ 7,890,845	\$ 4,647,496	\$ 1,445,381	\$ 1,418,938	\$ 7,511,815

See Accompanying Notes

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2017 and 2016

	2017				2016			
	Program Expenses	Management and General	Fundraising	Total	Program Expenses	Management and General	Fundraising	Total
Advertising Expense	\$ 82,151	\$ 3,460	\$ 2,578	\$ 88,189	\$ 82,519	\$ 5,566	\$ 14,500	\$ 102,585
Awards and Grants	292,360		32,982	325,342	351,592	4,403	2,446	358,441
Bad Debt Expense	890	93	10,847	11,830	13,091		52,201	65,292
Bank and Investment Charges	113,733	8,581	4,763	127,077	88,665	5,235	2,895	96,795
Bi-Annual Israel Trip	113,411			113,411				
Contract Services	83,025	6,215	2,064	91,304	170,973	3,083	1,713	175,769
Depreciation	230,436	24,115	13,397	267,948	236,960	24,798	13,777	275,535
Fundraising			36,043	36,043			26,743	26,743
Insurance	42,785	4,478	2,488	49,751	43,155	4,516	2,509	50,180
Interest	72,686	7,607	4,226	84,519	66,145	6,922	3,846	76,913
Loss on Disposal		4,241		4,241				
Memberships and Dues	14,798	668	371	15,837	8,985	22	12	9,019
Membership Services	102,400			102,400	67,190	187	177	67,554
Miscellaneous		10,422		10,422				
Occupancy Expense	185,293	10,563	5,868	201,724	184,138	12,810	7,116	204,064
Office Expense	59,860	938	521	61,319	40,870	869	493	42,232
Postage and Printing	23,938	1,407	2,188	27,533	32,981	722	540	34,243
Related Party Refunds	30,000			30,000	30,000			30,000
Salaries and Fringe Benefits	1,438,458	34,378	150,025	1,622,861	1,085,468	176,117	94,847	1,356,432
Staff Development	21,116	1,684	936	23,736	12,526	1,127	626	14,279
Technology Expenses	62,266	6,437	15,230	83,933	37,770	3,878	12,990	54,638
Telephone and Communications	9,848	1,031	573	11,452	8,518	891	495	9,904
Travel, Meetings, and Meals	1,512	7	4	1,523	3,670			3,670
Total Expenses	\$ 2,980,966	\$ 126,325	\$ 285,104	\$ 3,392,395	\$ 2,565,216	\$ 251,146	\$ 237,926	\$ 3,054,288

See Accompanying Notes

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 379,030	\$ 279,463
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Contributions Restricted for Endowments	(141,752)	(296,756)
Depreciation	267,948	275,535
Loss on Disposal	4,241	
Realized and Unrealized Gain on Investments	(252,621)	(28,559)
Changes in Assets and Liabilities that Provided (Used) Cash:		
Accounts Receivable	(4,440)	6,223
Pledges Receivable, Net of Allowance	133,289	58,194
Prepaid Expenses	(5,980)	(1,067)
Due from Related Party	7,718	42,846
Other Assets	3,350	(4,530)
Accounts Payable	4,535	(71,956)
Accrued Payroll Taxes and Benefits	12,215	3,999
Due to Related Party		(136,201)
Deferred Revenue	(8,824)	26,272
Other Accrued Liabilities	(601)	819
	398,108	154,282
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(17,189)	(39,330)
Purchase of Investments	(1,498,977)	(438,260)
Proceeds from Sale of Investments	1,217,303	163,977
	(298,863)	(313,613)
Net Cash Used by Investing Activities		
Cash Flows from Financing Activities:		
Contributions Restricted for Endowments	141,752	296,756
Payments on Long-Term Debt	(100,000)	(400,000)
	41,752	(103,244)
Net Cash Provided (Used) by Financing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	140,997	(262,575)
Cash and Cash Equivalents, Beginning of Year	489,506	752,081
Cash and Cash Equivalents, End of Year	\$ 630,503	\$ 489,506
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	\$ 84,519	\$ 76,913

See Accompanying Notes

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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".

Effective December 31, 2017, the Partnership dissolved and became part of the Federation. There was no consideration received as part of this merger/acquisition.

Principles of Combination

Since the Federation and the Partnership shared 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 financial statements on the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred. The 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 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, 2017 and 2016

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 statements of activities as net assets released from restrictions. Bequests are recorded when the amount and rate of payment is probable.

Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable 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, 2017 and 2016, the adjustment to net present value is immaterial and has not recorded an adjustment.

The Organization uses the allowance method to determine uncollectible pledges receivable. 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 statements of activities. At December 31, 2017 and 2016, 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, 2017 and 2016, the Organization reported deferred revenue of \$77,956 and \$86,780, 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 statements 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 \$18,044 and \$36,683 of cash equivalents at December 31, 2017 and 2016, respectively.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the 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 statements 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, 2017 and 2016

1. Summary of Significant Accounting Policies (Continued)

Property and Equipment (Continued)

Depreciation expense totaled \$267,948 and \$275,535 for the years ended December 31, 2017 and 2016, 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 \$88,189 and \$102,585 for the years ended December 31, 2017 and 2016, respectively.

Derivative Instruments

The Organization used an interest swap agreement to reduce exposure to adverse and unanticipated changes in interest rates. The Organization does not use derivative instruments for trading or speculative purposes. The Organization documents its risk management strategy at the inception and during the term of the transaction. The interest rate swap agreement is recorded on the statement of financial position at its estimated fair value.

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 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, 2017, the Organization's uninsured cash balance was \$261,402.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016 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, 2017 and 2016. 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, 2017</u>				
Board-Designated Funds	\$ 321,943	\$	\$	\$ 321,943
Donor-Restricted Funds	<u> </u>	<u>954,501</u>	<u>1,517,614</u>	<u>2,472,115</u>
Total Funds	<u>\$ 321,943</u>	<u>\$ 954,501</u>	<u>\$ 1,517,614</u>	<u>\$ 2,794,058</u>

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 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>

Changes in endowments for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2016	\$ 54,536	\$ 818,024	\$ 1,418,938	\$ 2,291,498
Transfers from Affiliate Funds		65,944		65,944
Transfers between classifications		43,076	(43,076)	
Investment Income	2,160	28,590		30,750
Net Appreciation	<u>12,240</u>	<u>247,653</u>	<u> </u>	<u>259,893</u>
Total Investment Return	14,400	276,243		290,643
Contributions	333	170,558	141,752	312,643
Appropriations	<u>252,674</u>	<u>(419,344)</u>	<u> </u>	<u>(166,670)</u>
December 31, 2017	<u>\$ 321,943</u>	<u>\$ 954,501</u>	<u>\$ 1,517,614</u>	<u>\$ 2,794,058</u>

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

3. Cash and Investments Held in Endowments (Continued)

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

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, 2017 and 2016.

Endowment assets consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash Held by Broker	\$ 18,044	\$ 36,683
Investments	<u>2,776,014</u>	<u>2,254,815</u>
	<u>\$ 2,794,058</u>	<u>\$ 2,291,498</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.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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.

The accrued holding loss on the interest rate swap agreement has a fair value of \$0 at December 31, 2017 and is considered a level 2 measurement for fair value purposes.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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:

	2017			Total
	Level 1	Level 2	Level 3	
Fixed Income	\$ 552,413	\$	\$	\$ 552,413
International Bonds	551,857			551,857
International Large Cap	679,298			679,298
International Small Cap	55,241			55,241
U.S. Equity Large Cap	550,469			550,469
U.S. Equity Mid Cap	139,887			139,887
U.S. Equity Small Cap	137,132			137,132
Emerging Markets	110,760			110,760
Mutual Funds	12,088			12,088
Total	\$ 2,789,145	\$	\$	\$ 2,789,145

	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

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

4. Fair Value Measurements (Continued)

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 no changes in valuation techniques for these assets and liabilities for the years ended December 31, 2017 and 2016.

5. Long-Term Debt

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

	2017	2016
<p>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 were \$200,000 (assuming the note would be extended through 2035). Interest rate per annum was 68% of 1-month LIBOR +1.8175% (2.237% at December 31, 2016). Principal and any unpaid interest were set to become due in March 2027. The loan was extended during 2015 and had a mandatory tender date of December 31, 2017. During December 2017, the note payable was refinanced. Interest accruing at a rate of 1-month LIBOR + 1.60% (2.97% at December 31, 2017) is due monthly and principal payments are due quarterly, with final payment of all unpaid amounts in April 2035. Principal payments have been prepaid through 2019. The note payable has an optional tender date of December 15, 2022. The note is collateralized by the deed of trust on property (JCC).</p>	\$ 3,238,800	\$ 3,338,800
Less current maturities		3,338,800
	\$ 3,238,800	\$

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

5. Long-Term Debt (Continued)

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

Year Ending December 31	Amount
2018	\$
2019	150,000
2020	150,000
2021	150,000
2022	150,000
Thereafter	2,638,800
	\$ 3,238,800

The carrying value of pledged assets under the Organization's long-term debt was \$6,969,587 as of December 31, 2017.

The note payable has certain restrictive covenants. At December 31, 2017, the Organization was in compliance with these covenants.

The Organization has an interest rate swap agreement with a bank to reduce exposure to adverse and unanticipated changes in interest rates. The agreement is an amortizing swap, which includes an initial notional amount of \$2,488,800, for five years to pay a fixed rate of 2.75% and receive a variable rate based on 68% of one-month LIBOR plus 1.12%. For the year ended December 31, 2017, the amount paid on the swap agreement was \$0 and is included in interest expense in the statement of activities.

6. Restrictions on Assets

The 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.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

6. Restrictions on Assets (Continued)

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

	<u>2017</u>	<u>2016</u>
Subsequent Years	\$ 254,691	\$ 252,411
Long-Term Debt Payments	219,812	317,757
Program Activity	15,178	56,104
Foundation DAF and SD Funds	<u>1,341,095</u>	<u>819,109</u>
	<u>\$ 1,830,776</u>	<u>\$ 1,445,381</u>

7. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 125,000	\$ 125,000
Buildings and Improvements	8,223,632	8,219,132
Furnishings and Equipment	325,576	484,195
Website Costs	28,710	37,215
Software	<u>15,600</u>	<u>15,600</u>
Total Property and Equipment	8,702,918	8,881,142
Less: Accumulated Depreciation	<u>1,733,331</u>	<u>1,656,555</u>
Property and Equipment, Net	<u>\$ 6,969,587</u>	<u>\$ 7,224,587</u>

8. Operating Lease

The Organization leases copiers and other equipment under noncancelable operating lease agreements expiring at various dates through March 2021. 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 \$61,296 and \$50,281 for the years ended December 31, 2017 and 2016, respectively.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

8. Operating Lease (Continued)

Minimum lease payments under these operating leases are as follows:

Year Ending December 31	Amount
2018	\$ 24,296
2019	6,371
2020	5,653
2021	583
	\$ 36,903

9. Pledges Receivable

At December 31, 2017 and 2016, pledges receivable consist of the following:

	2017	2016
Amounts Due:		
Less Than One Year	\$ 297,048	\$ 298,327
One to Five Years	177,778	246,413
More than Five Years		63,375
Value Prior to Allowance	474,826	608,115
Less Allowance for Uncollectible Accounts	(35,739)	(35,739)
	\$ 439,087	\$ 572,376

10. Related Party Transactions

The Organization received pledges and contributions in 2017 and 2016 from Board members totaling \$241,937 and \$290,753, respectively.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 \$424,796 and \$432,514 as of December 31, 2017 and 2016, respectively. The following is a summary of principal to be received by the Organization by year:

	\$
2018	
2019	30,000
2020	30,000
2021	30,000
Thereafter	<u>367,770</u>
Subtotal	457,770
Credit for unpaid pledges	<u>(32,974)</u>
	<u>\$ 424,796</u>

Accounts receivable at December 31, 2017 includes \$7,172 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, 2017 and 2016, to the Organization for the use of facilities. In both 2017 and 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, 2017 and 2016 totaled \$20,288 and \$12,261, respectively.

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016

12. Donated Services

The Organization receives donated services from a variety of unpaid volunteers. No amounts have been recorded in the accompanying statements 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, 2017 and 2016, \$14,500 and 326,135 of pledges were received, respectively. Additionally, during the years ended December 31, 2017 and 2016, \$113,046 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, 2017 and 2016, the Organization credited Lerner for \$22,500 and \$40,764, 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. In December 2017, the Organization's Board of Directors approved \$7,200 from the operating budget for JFNA dues. Because of the uncertainty as to the amount to be paid, back dues have not been recorded.

15. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 27, 2018, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
SCHEDULE OF COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2017

	Durham- Chapel Hill Jewish Federation	Partnership for a Jewish Center	Eliminations	Total
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 624,476	\$ 6,027	\$	\$ 630,503
Accounts Receivable	35,410			35,410
Pledges Receivable, Net of Allowance	265,255	11,034		276,289
Prepaid Expenses	22,626			22,626
Investments Held in Endowments	2,789,145			2,789,145
Due From Related Party, Current Portion	35,150			35,150
Other Assets	1,700			1,700
Total Current Assets	<u>3,773,762</u>	<u>17,061</u>		<u>3,790,823</u>
Long-Term Pledges, Net of Allowance	154,080	8,718		162,798
Property and Equipment, Net	6,969,587			6,969,587
Due From Related Parties, Net of Current	389,646			389,646
Total Assets	<u>\$ 11,287,075</u>	<u>\$ 25,779</u>	<u>\$</u>	<u>\$ 11,312,854</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts Payable	\$ 29,185	\$	\$	\$ 29,185
Payroll Taxes and Benefits				
Withheld and Accrued	75,850			75,850
Deferred Revenue	77,956			77,956
Other Accrued Liabilities	218			218
Total Current Liabilities	<u>183,209</u>			<u>183,209</u>
Long-Term Liabilities:				
Loan Payable	<u>3,238,800</u>			<u>3,238,800</u>
Total Liabilities	<u>3,422,009</u>			<u>3,422,009</u>
Net Assets:				
Unrestricted	4,561,248	(18,793)		4,542,455
Temporarily restricted	1,786,204	44,572		1,830,776
Permanently restricted	1,517,614			1,517,614
Total Net Assets	<u>7,865,066</u>	<u>25,779</u>		<u>7,890,845</u>
Total Liabilities and Net Assets	<u>\$ 11,287,075</u>	<u>\$ 25,779</u>	<u>\$</u>	<u>\$ 11,312,854</u>

**DURHAM-CHAPEL HILL JEWISH FEDERATION
AND THE PARTNERSHIP FOR A JEWISH CENTER**
SCHEDULE OF COMBINING STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

	Unrestricted			Temporarily Restricted			Permanently Restricted	Total
	Durham- Chapel Hill Jewish Federation	Partnership for a Jewish Center	Unrestricted Total	Durham- Chapel Hill Jewish Federation	Partnership for a Jewish Center	Temporarily Restricted Total	Durham- Chapel Hill Jewish Federation	
Support and Revenue:								
Contributions	\$ 195,649	\$	\$ 195,649	\$ 206,838	\$	\$ 206,838	\$ 141,752	\$ 544,239
Pledges Income	582,430		582,430	181,196		181,196		763,626
Grant Income	119,611		119,611					119,611
Membership Income	873,103		873,103					873,103
Program Services	719,724		719,724					719,724
Rental Income	93,441		93,441					93,441
Interest and Dividend Income	50,462	1	50,463	28,590		28,590		79,053
Realized and Unrealized Gain on Investments	4,969		4,969	247,652		247,652		252,621
Other Income	193,286		193,286					193,286
Bi-Annual Israel Trip	103,915		103,915					103,915
Special Events Income, Net	28,806		28,806					28,806
Total Support and Revenue	2,965,396	1	2,965,397	664,276		664,276	141,752	3,771,425
Net Assets Released from Restrictions	296,958	24,999	321,957	(296,958)	(24,999)	(321,957)		
Total Support, Revenue and Net Assets Released from Restrictions	3,262,354	25,000	3,287,354	367,318	(24,999)	342,319	141,752	3,771,425
Expenses:								
Program	2,966,787	14,179	2,980,966					2,980,966
Management and General	126,317	8	126,325					126,325
Fundraising	274,309	10,795	285,104					285,104
Total Expenses	3,367,413	24,982	3,392,395					3,392,395
Change in Net Assets	(105,059)	18	(105,041)	367,318	(24,999)	342,319	141,752	379,030
Transfer				43,076		43,076	(43,076)	
Net Assets, Beginning of Year	4,666,307	(18,811)	4,647,496	1,375,810	69,571	1,445,381	1,418,938	7,511,815
Net Assets, End of Year	\$ 4,561,248	\$ (18,793)	\$ 4,542,455	\$ 1,786,204	\$ 44,572	\$ 1,830,776	\$ 1,517,614	\$ 7,890,845