

**MILWAUKEE JEWISH FEDERATION,  
INC. AND AFFILIATES**

Milwaukee, Wisconsin

**CONSOLIDATED FINANCIAL STATEMENTS**  
Including Independent Auditors' Report

June 30, 2010 and 2009

MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

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Baker Tilly Virchow Krause, LLP  
115 S 84th St, Ste 400  
Milwaukee, WI 53214-1475  
tel 414 777 5500  
fax 414 777 5555  
bakertilly.com

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Milwaukee Jewish Federation, Inc. and Affiliates as of June 30, 2010 and 2009, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These consolidated financial statements are the responsibility of Milwaukee Jewish Federation, Inc. and Affiliates' management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Milwaukee Jewish Federation, Inc. and Affiliates' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Milwaukee Jewish Federation, Inc. and Affiliates as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Milwaukee, Wisconsin  
November 5, 2010

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION June 30, 2010 and 2009

<b>ASSETS</b>		
	2010	2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,106,076	\$ 15,881,622
Investments, at fair value	101,156,090	88,630,612
Pledges receivable	6,761,816	10,399,172
Due from officers and directors	139,234	139,234
Accounts and notes receivable	845,338	1,473,571
Prepaid expenses	89,676	132,294
Land, buildings, and equipment	53,444,424	55,300,297
Other assets	4,982,857	9,777,914
<b>TOTAL ASSETS</b>	<b>\$ 178,525,511</b>	<b>\$ 181,734,716</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,036,750	\$ 797,730
Community allocations payable	4,938,201	5,082,350
Grants and allotments payable	205,080	202,053
Passport to Israel	834,564	864,286
Future payments on trusts and gift annuities	4,414,335	4,395,795
Debt	58,087,606	58,223,452
Interest rate swap	4,940,536	2,357,134
Post-retirement benefit liability	461,440	994,218
Assets held on behalf of cemetery	2,720,878	2,209,655
Total Liabilities	77,639,390	75,126,673
<b>NET ASSETS</b>		
Unrestricted		
Unrestricted reserves	5,868,174	3,813,263
Donor designated funds	12,654,543	11,809,948
Net investment in land, buildings and equipment	7,374,412	11,016,070
Supporting foundations	146,558	164,569
Donor-advised funds	37,141,418	41,661,413
Pledged for future capital and operations	1,932,017	3,991,873
Total Unrestricted	65,117,122	72,457,136
Temporarily restricted		
Residual value of trusts and gift annuities	1,988,331	1,783,558
Scholarships, grants and awards	2,097,163	1,969,481
Purpose restricted	2,414,975	2,648,439
Restricted for agencies	26,002,781	23,025,910
PACE/LOJE funds	1,900,549	1,973,661
Time-restricted - capital campaign	1,365,200	2,749,858
Total Temporarily Restricted	35,768,999	34,150,907
Total Net Assets	100,886,121	106,608,043
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 178,525,511</b>	<b>\$ 181,734,716</b>

See accompanying notes to consolidated financial statements.

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CASH FLOWS Years Ended June 30, 2010 and 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (5,721,922)	\$ (40,498,714)
Reconciling adjustments to cash provided by operating activities:		
Depreciation of buildings and equipment	2,434,062	2,268,826
Loss on disposal of land, buildings and equipment	-	307,221
Realized and unrealized net (gain) loss on investments	(5,758,252)	26,387,962
Change in interest rate swap	2,583,402	2,357,134
Change in value of trusts	384,134	(1,083,082)
Impairment on real estate held for sale	4,830,775	-
Changes in operating assets and liabilities		
Decrease in pledges receivable	3,637,356	5,549,635
Decrease in accounts and notes receivable	628,233	182,288
Decrease in prepaid expenses	42,618	21,115
(Increase) decrease in other assets	(35,718)	(56,705)
Increase (decrease) in accounts payable	239,020	(1,101,690)
Increase (decrease) in community allocations payable	(144,149)	(947,650)
Increase (decrease) in grants and allotments payable	3,027	(22,360)
Decrease in passport to Israel	(29,722)	(32,653)
Decrease in post-retirement benefit liability	(532,778)	(54,458)
Increase (decrease) in assets held on behalf of cemetery	511,223	(575,725)
Net Cash From Operating Activities	3,071,309	(7,298,856)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of land, buildings and equipment	(578,189)	(2,621,836)
Proceeds from disposal of land, buildings and equipment	-	201,281
Purchase of investments	(69,089,487)	(32,940,840)
Proceeds from sale of investments	62,322,261	45,030,689
Net Cash From Investing Activities	(7,345,415)	9,669,294
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments to trust beneficiaries	(365,594)	(502,944)
Repayment of mortgage notes	(135,846)	(125,904)
Net Cash From Financing Activities	(501,440)	(628,848)
<b>Net Change in Cash and Cash Equivalents</b>	(4,775,546)	1,741,590
CASH AND CASH EQUIVALENTS - Beginning of Year	15,881,622	14,140,032
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 11,106,076	\$ 15,881,622
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>		
Interest Paid	\$ 2,295,499	\$ 1,782,089

See accompanying notes to consolidated financial statements.

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

### NOTE A - Purpose and Activities

The consolidated financial statements include the accounts of Milwaukee Jewish Federation, Inc. (the "Federation"), three corporations organized to own and operate housing under Section 202 of the National Housing Act regulated by the U.S. Department of Urban Development ("HUD") and receiving rent subsidies, fourteen charitable trusts, one supporting foundation, and MJF Holdings of Milwaukee, LLC. All intercompany transactions are eliminated.

The Federation is incorporated as a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Through the development of community-wide financial support, planning and allocations, the mission of the Federation is to ensure the continuity of the Jewish people, to enhance the quality of Jewish life and to build a strong, unified and inclusive Jewish community in Milwaukee, in Israel and throughout the world.

### NOTE B - Significant Accounting Policies

**(1) Accounting Basis** - The consolidated financial statements have been prepared under the accrual basis of accounting.

**(2) Basis of Presentation** - The Federation 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. Assets of the restricted classes are created only by donor-imposed restrictions.

**(3) Contributions and Donations** - Contributions and donations received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

**(4) Restricted and Unrestricted Revenue** - Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is 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 consolidated statements of activities as net assets released from restrictions.

**(5) Estimates** - The preparation of consolidated 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010 and 2009

### NOTE B - Significant Accounting Policies (continued)

**(6) Fair Value of Financial Instruments** - The Federation's short term financial instruments consist of the following: cash and cash equivalents, due from officers and directors, accounts and notes receivable, and accounts payable. The carrying values of these short term financial instruments approximate their estimated fair values based on the instruments short term nature.

Investments are reported at fair value based on quoted market prices or in the case of alternative investments, at values provided by the fund managers or general partners based on quoted market prices, if available, or other valuation methods.

Pledges receivable are recorded at their net present value based on discounted cash flows, net of an allowance, and the carrying value approximates fair value.

Gifts of real estate property are recorded at fair value on the date of the gift based on an appraisal. The carrying value is subsequently adjusted for any potential impairment. These assets are generally marketed for sale immediately. Real estate property held for sale is not depreciated. Partnership interests are recorded at estimated fair value at the date of gift and are subsequently adjusted based on the equity method and the carrying value approximates fair value.

The debt of the Federation is stated at cost. The fair value of the Federation's variable rate debt is estimated based on current rates for similar variable rate debt with the same remaining maturities. The Federation also considers its creditworthiness in determining the fair value of its variable rate debt.

The fair value of the Federation's interest rate swap (used for purposes other than trading) is the estimated amount that the Federation would receive, pay to sell, or transfer to another entity with the same credit standing, at the reporting date, taking into account current interest rates and the creditworthiness of the Federation.

The carrying amounts of future payments on trusts and gift annuities are based on life expectancies, quoted market prices, and discount rates. The liability represents the present value of expected obligations and estimates fair value.

The post-retirement benefit liability is recorded at the net present value of the Federation's obligation to pay current and former employees deferred plan benefits and the recorded liability estimates fair value.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and therefore the estimates could differ from actual results.

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010 and 2009

### NOTE B - Significant Accounting Policies (continued)

**(7) Fair Value Measurements** - As defined in current authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Federation uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Federation attempts to utilize valuation methods that maximize the use of observable inputs and minimizes the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods, the Federation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 Quoted market prices in active markets for identical assets or liabilities.

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

The Federation holds as an investment various managed equities, corporate, U.S. government, and municipal bonds, State of Israel bonds, and alternative investments. Fair values of managed equities are based on quoted prices and are classified as level 1. The fair value of corporate, U.S. government, municipal, and State of Israel Bonds and certificates of deposit are based on rates of comparable assets and considered level 2 items. The fair value of alternative investments are based on estimates and valuations provided by investment managers and are level 3. The interest rate swap requires the Federation to pay a fixed rate of 3.07% and the liability is measured at fair value based on the fixed rate of the swap, current interest rates, credit worthiness and the length of the swap agreement. The swap rate is unobservable and is considered a level 3 item. See additional disclosures relating to the interest rate swap at Note B (19) and Note E.

The alternative investments in level 3 are calculated based on the net asset value of the funds. The net asset value was determined on June 30, 2010 and provided by the Federation's investment managers. There are two alternative investment funds and both are invested in private equity. The funds are not listed on a public exchange. There are no unfunded commitments for either fund. At June 30, 2010, one of the funds was providing 45% of redemption requests in cash and the remaining 55% of the redemption request was provided in the form of ownership in a different alternative investment. The other fund allows redemptions on June 30 each year. The Federation must provide written notice of the request 45 days in advance, and the fund has final approval as to whether the redemption will be made.



# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010 and 2009

### NOTE B - Significant Accounting Policies (continued)

#### (7) Fair Value Measurements (continued)

The carrying and estimated fair values of the Federation's significant financial instruments are as follows:

	2010		2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Investments, at fair value	\$ 101,156,090	\$ 101,156,090	\$ 88,630,612	\$ 88,630,612
Other Assets	<u>2,985,620</u>	<u>2,985,620</u>	<u>7,816,395</u>	<u>7,816,395</u>
Total Financial Assets	<u>\$ 104,141,710</u>	<u>\$ 104,141,710</u>	<u>\$ 96,447,007</u>	<u>\$ 96,447,007</u>
Financial liabilities:				
Debt	\$ 58,087,606	\$ 58,087,606	\$ 58,223,452	\$ 58,223,452
Interest rate swap	<u>4,940,536</u>	<u>4,940,536</u>	<u>2,357,134</u>	<u>2,357,134</u>
Total Financial Liabilities	<u>\$ 63,028,142</u>	<u>\$ 63,028,142</u>	<u>\$ 60,580,586</u>	<u>\$ 60,580,586</u>

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments				
State of Israel bonds	\$ 4,496,800	\$ -	\$ 4,496,800	\$ -
Corporate, U.S. government, and municipal bonds	38,370,363	-	38,370,363	-
Managed equities	49,192,734	49,192,734	-	-
Alternative investments	<u>9,096,193</u>	<u>-</u>	<u>-</u>	<u>9,096,193</u>
Total Investments	<u>\$ 101,156,090</u>	<u>\$ 49,192,734</u>	<u>\$ 42,867,163</u>	<u>\$ 9,096,193</u>
Liabilities:				
Interest rate swap	<u>\$ 4,940,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,940,536</u>

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010 and 2009

### NOTE B - Significant Accounting Policies (continued)

#### (7) Fair Value Measurements (continued)

	June 30, 2009			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments:				
Certificates of deposit	\$ 100,000	\$ -	\$ 100,000	\$ -
State of Israel bonds	5,116,300	-	5,116,300	-
Corporate, U.S.				
government, and				
municipal bonds	32,114,496	-	32,114,496	-
Managed equities	39,228,205	39,228,205	-	-
Alternative				
investments	<u>12,071,611</u>	<u>-</u>	<u>-</u>	<u>12,071,611</u>
Total Investments	<u>\$ 88,630,612</u>	<u>\$ 39,228,205</u>	<u>\$ 37,330,796</u>	<u>\$ 12,071,611</u>
Liabilities:				
Interest rate swap	<u>\$ 2,357,134</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,357,134</u>

The changes in Level 3 liabilities measured at fair value on a recurring basis are summarized as follows:

	Alternative Investments	Interest Rate Swap
Balances, July 1, 2008	\$ 16,489,386	\$ -
Net unrealized losses included in change in net assets	<u>(4,417,775)</u>	<u>(2,357,134)</u>
Balances June 30, 2009	12,071,611	(2,357,134)
Purchases, sales, issuances and principal payments, net	(10,695)	-
Net unrealized losses included in change in net asset	<u>(2,964,723)</u>	<u>(2,583,402)</u>
Balances, June 30, 2010	<u>\$ 9,096,193</u>	<u>\$ (4,940,536)</u>

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

### NOTE B - Significant Accounting Policies (continued)

#### (7) Fair Value Measurements (continued)

Unrealized net losses included in change in net assets on investments are reported in the consolidated statements of activities as investment income (loss). Unrealized net losses included in change in net assets on the interest rate swap are reported in the consolidated statements of functional expenses as loss on interest rate swap.

The Federation also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These include assets that are measured for impairment and are summarized below.

	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Property held for sale	\$ 2,985,620	\$ -	\$ -	\$ 2,985,620

  

	June 30, 2009			
	Total	Level 1	Level 2	Level 3
Property held for sale	\$ 7,816,395	\$ -	\$ -	\$ 7,816,395

Fair value of property held for sale is based on estimates provided by local taxing authorities, and therefore, fair value was determined using level 3 criteria. In 2010, the Federation wrote the property held for sale down \$4,830,775, which is reflected as impairment on property held for sale on the consolidated statements of activities.

(7) **Cash Equivalents** are short-term investments with maturities at acquisition of three months or less.

Cash and cash equivalents consisted of the following as of June 30:

	2010	2009
Checking accounts and petty cash	\$ 5,542,045	\$ 8,475,602
Proceeds from tax exempt bonds	2,226,324	2,541,561
Cash held by investment managers	3,337,707	4,864,459
Total	<u>\$ 11,106,076</u>	<u>\$ 15,881,622</u>

The proceeds from tax exempt bonds can only be used for the financing of capital projects (see Note D) and cannot be used in general operations of the Federation.

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010 and 2009

### NOTE B - Significant Accounting Policies (continued)

**(8) Investments** - Various methods and assumptions were used to estimate the fair value of each class of financial instrument. Investments are reported at fair value based on quoted market prices or, in the case of alternative investments, at values provided by the fund managers or general partners based on quoted market prices, if available, or other valuation methods. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). These estimated values are reviewed by management for reasonableness. Investment income or loss and unrealized gains or losses are included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Investment income that is temporarily restricted but whose restrictions are met in the same period are recorded as temporarily restricted investment income and as net assets released from restrictions on the consolidated statements of activities.

The Federation may employ derivatives and other strategies to (1) hedge against market risks, (2) arbitrage mispricing of related securities, and (3) replicate long or short positions more cost-effectively. Accordingly, derivatives in the investment portfolio may include currency forward contracts, interest and currency swaps, call and put options, debt and equity futures contracts, equity swaps, and other vehicles that may be appropriate in certain circumstances. Since the Federation does not strive for higher returns through market timing or by making leveraged market bets, derivatives are not used for speculation.

The Federation's external investment managers are authorized to use specified derivative financial instruments, including futures and forward currency contracts, in managing the assets under their control, subject to restrictions and limitations adopted by the Investment Committee.

Investment income (loss) consisted of the following for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Interest income	\$ 1,369,032	\$ 1,833,565
Dividend income	1,063,637	1,094,918
Unrealized gains (losses)	7,699,929	(17,377,057)
Realized losses	<u>(1,941,677)</u>	<u>(9,010,905)</u>
Total	<u>\$ 8,190,921</u>	<u>\$ (23,459,479)</u>

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010 and 2009

### NOTE B - Significant Accounting Policies (continued)

(9) **Pledges Receivable** - Unconditional promises to give made to the Federation are recorded in the year the pledge is made. The consolidated statements of financial position reflect net pledges receivable after collection reserves based upon historic experience and review of specific accounts, and discounting estimated future collection at the rate of 5% per annum, as summarized below.

	2010			
	Gross Pledges Receivable	Collection Reserves	Present Value Discount	Net Receivables
Annual campaigns	\$ 3,346,988	\$ (433,983)	\$ -	\$ 2,913,005
Community capital campaign	4,368,961	(277,635)	(263,381)	3,827,945
Other campaigns	<u>21,016</u>	<u>(150)</u>	<u>-</u>	<u>20,866</u>
Total	<u>\$ 7,736,965</u>	<u>\$ (711,768)</u>	<u>\$ (263,381)</u>	<u>\$ 6,761,816</u>
	2009			
	Gross Pledges Receivable	Collection Reserves	Present Value Discount	Net Receivables
Annual campaigns	\$ 4,691,231	\$ (369,285)	\$ -	\$ 4,321,946
Community capital campaign	6,885,799	(277,635)	(534,000)	6,074,164
Other campaigns	<u>3,062</u>	<u>-</u>	<u>-</u>	<u>3,062</u>
Total	<u>\$ 11,580,092</u>	<u>\$ (646,920)</u>	<u>\$ (534,000)</u>	<u>\$ 10,399,172</u>

Future expected collections on pledges receivables are summarized below:

	2010	2009
Less than one year	\$ 6,379,765	\$ 10,207,892
One to five years	1,352,200	1,351,200
More than five years	5,000	21,000
Less: Present value discount	(263,381)	(534,000)
Collection reserves	<u>(711,768)</u>	<u>(646,920)</u>
Net pledges receivable	<u>\$ 6,761,816</u>	<u>\$ 10,399,172</u>

(10) **Due From Officer and Directors** - consists of the following at June 30:

	2010	2009
Due from officer under deferred compensation agreement	<u>\$ 139,234</u>	<u>\$ 139,234</u>

## MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010 and 2009

#### NOTE B - Significant Accounting Policies (continued)

(11) **Accounts and Notes Receivable** are presented after reduction for reserves for doubtful collectibility of \$17,980 and \$72,951 at June 30, 2010 and 2009, respectively. Reserves for doubtful accounts are determined based upon historic experience.

(12) **Land, Buildings and Equipment** are recorded at cost or fair market value at date of the gift if donated, and buildings and equipment are depreciated over useful lives ranging from three to forty-five years using the straight-line method. The Federation's capitalization threshold is \$2,500. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. A summary of fixed assets at June 30 is as follows:

	2010	2009
Buildings	\$ 59,638,664	\$ 59,495,086
Equipment	7,060,142	7,032,078
Land and leasehold improvements	4,473,967	4,071,637
Less: Accumulated Depreciation	<u>(17,728,349)</u>	<u>(15,298,504)</u>
Total	<u>\$ 53,444,424</u>	<u>\$ 55,300,297</u>

(13) **Other Assets** consist of the following as of June 30:

	2010	2009
Real estate property held for resale	\$ 2,985,620	\$ 7,816,395
Partnership interests	352,873	358,498
Cash surrender value of life insurance policies	481,873	475,864
Revenue bond issue costs	459,783	477,714
Reserve and replacement funds for HUD properties	<u>702,708</u>	<u>649,443</u>
Total	<u>\$ 4,982,857</u>	<u>\$ 9,777,914</u>

(14) **Accounts Payable** includes \$119,764 and \$124,969 accrued for vacations earned by staff at June 30, 2010 and 2009, respectively.

(15) **Community Allocations Payable** represents grants and allotments that are approved by the Board of Directors in June but are to be paid the following fiscal year.

(16) **Future Payments on Trusts and Gift Annuities** represents a liability for the actuarial present value of future beneficiaries' payments under charitable trusts and gift annuities irrevocably naming the Federation or local Jewish agencies as final recipient of trust assets. In addition, this liability includes the assets of revocable charitable trusts and a liability for the actuarial present value of trust assets reverting to a beneficiary under a charitable lead trust. The present value of the estimated future liabilities was calculated using a 5% rate and applicable mortality tables. Assets held in the trusts and gift annuities totaled \$5,056,995 and \$6,188,755 at June 30, 2010 and 2009, respectively.

(17) **Assets Held on Behalf of Cemetery** represents the excess of investments and other assets over accounts payable of a cemetery transferred to the Federation in 1988. That transfer can be revoked upon sixty days notice to the Federation.

## MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

#### NOTE B - Significant Accounting Policies (continued)

**(18) Postretirement Benefits** are deferred compensation for an active and a retired officer. The Federation does not have any intentions to offer deferred compensation to any other employees or officers.

**(19) Derivatives** - The Federation follows current authoritative guidance to account for its derivative transactions, which consists entirely of an interest rate swap. The guidance requires an organization to recognize all of its derivative instruments as either assets or liabilities in the consolidated statements of financial position at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, whether the hedge is a cash flow or a fair value hedge.

The Federation uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. The change in fair value of the derivative is recognized as a change in net assets in the period of change. The Federation documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Federation's interest rate risk management strategy is to stabilize cash flow requirements by maintaining an interest rate swap contract to convert variable-rate debt to a fixed rate. The Federation does not use derivatives for trading or speculative purposes. No derivative contracts were terminated prior to their maturity during 2010 or 2009. See additional disclosures relating to the interest rate swap at Note B (7) and Note E.

**(20) Campaign Payments from Fund Transfers** - The Federation establishes donor funds to monitor contributions received. Donors may recommend transfers to various campaigns from established donor advised funds. The Federation presents on the consolidated statements of activities gross amounts given to a campaign and presents these transfers as a reduction in revenue on the consolidated statements of activities.

**(21) Income Taxes** - All entities consolidated in these financial statements have been classified as disregarded entities or tax-exempt organizations which are not private foundations under the Internal Revenue Code. There was no income tax expense in 2010 and 2009. Tax is paid only on unrelated business income.

As of June 30, 2010 and 2009, the Federation had no uncertain tax positions. The Federation, along with its subsidiaries, files U.S. Federal and Wisconsin tax-exempt returns.

**(22) Transfers** - During 2010 and 2009, the Federation reviewed donor agreements and it was determined that temporarily restricted net assets should be transferred to unrestricted net assets. The adjustment to correct the classifications are presented in the 2010 and 2009 consolidated statements of activities as transfers.

#### NOTE C - Concentration of Credit Risk

The Federation maintains cash balances at a bank in Milwaukee, Wisconsin which exceeds the federally insured limit of \$250,000. The Federation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010 and 2009

### NOTE D - Long-Term Debt

In 2005, the Federation issued \$46,015,000 in tax-exempt variable rate demand revenue bonds through the Colorado Educational and Cultural Facilities Authority as part of the National Jewish Federation Bond Program. The proceeds are being used to finance capital projects on the Karl Jewish Community Campus, Helfaer Community Services Building, Rainbow Day Camp, Camp Interlaken, the Jewish Community Center Family Park, and Hillel Student Center in Milwaukee, Wisconsin. In addition, \$2,700,000 of outstanding bonds was refinanced, for a total debt of \$48,715,000. In 2008, the Federation issued an additional \$7,000,000 in tax-exempt variable rate demand revenue bonds using the same issuing authority and bond program. Interest on the bonds is based on the Daily Rate, equal to the Securities Industry and Financial Markets Association (SIFMA) index (.31% at June 30, 2010).

\$2,226,324 and \$2,541,561 of the bond issues were unspent as of June 30, 2010 and 2009, respectively. Interest on the bonds is reset daily and payable monthly. The entire principal balance on the \$48,715,000 is due in September of 2035, and the entire \$7,000,000 principal balance is due in November of 2037. Wells Fargo is the Trustee and U.S. Bank is the Letter of Credit provider. Interest expense for the years ended June 30, 2010 and 2009 was \$4,692,430 and \$1,697,852, respectively. The bonds and letters of credit are unsecured. Terms of the letter of credit require the Federation to annually meet a liquidity covenant calculation as of June 30th and an operating surplus covenant for the year ended June 30th. As of June 30, 2010, the Federation was in compliance with all of the established covenants.

The tax exempt variable bonds can be called on a weekly basis by the bondholder. The Federation has a remarketing agreement with the underwriter that provides for a "best efforts" remarketing of the tax exempt bonds. The Federation anticipates that any bonds put back would be resold; however, there can be no guarantee that these bonds can or will be remarketed. The tax exempt bonds are secured by a letter of credit in the amount of \$55,715,000 which expires June 15, 2011.

An amount of \$2,372,606 and \$2,508,452 was outstanding at June 30, 2010 and 2009, respectively under a 7.625% mortgage note insured by HUD on Golda Meir House, a 127-unit project offering federal rent subsidies for the elderly and handicapped. This mortgage is to be satisfied by monthly principal and interest payments of \$26,869 through April 2021. The note is collateralized by the rental property and assignment of rents. Interest expense under this loan was \$185,721 and \$194,299 for the years ended June 30, 2010 and 2009, respectively. Annual reductions in this mortgage debt are scheduled to be \$146,575 in 2011, \$158,150 in 2012, \$170,639 in 2013, \$184,115 in 2014, \$198,655 in 2015, and \$1,514,472 thereafter.

### NOTE E - Derivative Financial Instruments and Hedging Activities

As disclosed in Note D, the Tax Exempt Bonds at the end of 2010 and 2009 in the amount of \$55,715,000, bear interest at a variable rate. To minimize the effect of changes in the market, the Federation entered into an interest rate swap contract during 2009. The Federation will pay US Bank annually 3.065% of the outstanding bond balances. Payments between the two organizations are made monthly to correspond with the payment due on the tax-exempt variable rate demand revenue bonds. The swap contract is dated September 8, 2008 and expires October 1, 2018. The interest rate swap requires the Federation to be in compliance with the Credit Support Document. The Federation was in compliance at June 30, 2010.



## MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

#### NOTE E - Derivative Financial Instruments and Hedging Activities (continued)

The following represents the notional amount hedged, fair value of the interest rate swap outstanding at year end and the amount of exposure recorded in unrestricted net assets for the years ended June 30:

	Notional Amount	June 30 Liability	Year Ended June 30 Loss	Included in the Consolidated Statements of Activities
Interest rate swap 2010	<u>\$ 55,715,000</u>	<u>\$ (4,940,536)</u>	<u>\$ (2,583,402)</u>	Milwaukee programs
Interest rate swap 2009	<u>\$ 55,715,000</u>	<u>\$ (2,357,134)</u>	<u>\$ (2,357,134)</u>	Milwaukee programs

#### NOTE F - Capital Advance

MJF Housing No. 2, Inc. received a \$1,416,400 capital advance from HUD to finance the construction of a low income apartment complex. The advance given to MJF Housing No. 2, Inc. was in the form of a mortgage note which bears no interest and requires no repayment provided that the complex to which it relates remains available for low-income elderly persons in accordance with the appropriate regulations until March 1, 2038. The entire advance is recorded in unrestricted net assets on the accompanying consolidated statements of financial position.

MJF Housing No. 3, Inc. received a \$1,391,400 capital advance from HUD to finance the construction of a low income apartment complex. The advance given to MJF Housing, No. 3, Inc. was in the form of a mortgage note which bears no interest and requires no repayment provided that the complex to which it relates remains available for low-income elderly persons in accordance with the appropriate regulations until November 1, 2038. The entire advance is recorded in unrestricted net assets on the accompanying consolidated statements of financial position.

#### NOTE G - Pensions

The Federation sponsors the Milwaukee Jewish Federation, Inc. 401(k) Retirement Savings Plan covering all employees over the age of twenty-one with at least one year of service. Safe-harbor contributions to a trustee are made semi-monthly at 3% of eligible staff's compensation for those employees projected to work at least 1,000 hours. The Federation can, at its discretion, make an additional contribution of up to 4% at calendar year end. For the fiscal year 2010 and 2009, the total contribution by the Federation was 7% of eligible compensation. Pension expense was \$60,028 and \$141,930 for the fiscal years ended June 30, 2010 and 2009, respectively.

#### NOTE H - Related Parties

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

# MILWAUKEE JEWISH FEDERATION, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010 and 2009

### **NOTE I - Litigation**

Management is not aware of any pending or threatened legal actions involving the Federation. The outcome of legal actions directly involving or indirectly involving the Federation cannot be predicted with certainty. Management believes that the outcome of any of these proceedings, or all of them combined, will not have a material adverse effect on its financial position or activities.

### **NOTE J - Contingencies**

The Federation owns interest in a partnership whose sole asset is land. Management became aware that the land may be contaminated with hazardous materials that could require remediation. No liability is recorded for environmental remediation at June 30, 2010 and 2009 as management cannot reasonably estimate the potential costs. Management believes that any potential liability related to the environmental remediation would be immaterial to the consolidated financial statements.

The Federation currently guarantees the debt of another organization. The amount remaining on the loan at June 30, 2010 was \$341,000.

The Federation agreed to guarantee \$11,060,000 of tax-exempt variable rate demand revenue bonds issued by Madison Hillel through the Colorado Educational and Cultural Facilities Authority as part of the National Jewish Federation Bond Program. The Federation also guaranteed interest due under these bonds. Madison Hillel is a constituent agency of the Federation. Donor advised funds for Madison Hillel are held at the Federation of \$4,947,378 and the Federation would use these investments if needed under the guarantee.

### **NOTE K - Subsequent Events**

The Federation has evaluated subsequent events through November 5, 2010 which is the date that the consolidated financial statements were approved and available to be issued.