

# Milwaukee Jewish Federation, Inc.

Milwaukee, Wisconsin

Consolidated Financial Statements

Years Ended June 30, 2017 and 2016



**MILWAUKEE**  
JEWISH FEDERATION

**WIPFLi**<sup>LLP</sup>  
CPAs and Consultants

# Milwaukee Jewish Federation, Inc.

Years Ended June 30, 2017 and 2016

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## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Milwaukee Jewish Federation, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Milwaukee Jewish Federation, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP

Milwaukee, Wisconsin  
October 23, 2017

# Milwaukee Jewish Federation, Inc.

## Consolidated Statements of Financial Position

June 30, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 11,881,066	\$ 9,811,575
Current portion of pledges receivable	2,917,964	2,568,131
Current portion of accounts and notes receivable	4,745,579	576,757
Prepaid expenses	184,502	190,116
Total current assets	19,729,111	13,146,579
Long-term assets:		
Investments	165,495,178	154,745,605
Property and equipment - Net	36,099,709	38,314,352
Pledges receivable - Net, less current portion	351,076	233,333
Accounts and notes receivable - Net, less current portion	3,557,929	3,554,426
Donated real estate held for sale	1,943,500	1,943,500
Donated works of art held for sale	2,473,892	2,479,572
Other assets	2,938,059	2,921,556
Total long-term assets	212,859,343	204,192,344
<b>TOTAL ASSETS</b>	<b>\$ 232,588,454</b>	<b>\$ 217,338,923</b>

# Milwaukee Jewish Federation, Inc.

## Consolidated Statements of Financial Position (Continued)

June 30, 2017 and 2016

Liabilities and Net Assets	2017	2016
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,950,330	\$ 1,714,237
Community allocations payable	3,888,115	3,702,680
Current maturities of long-term debt	128,470	125,548
Current portion of capital lease obligation	3,772	-
Current liability for trusts and gift annuities	373,396	355,258
<b>Total current liabilities</b>	<b>6,344,083</b>	<b>5,897,723</b>
Long-term liabilities:		
Long-term debt, less current maturities - Net	59,051,212	59,146,361
Capital lease obligation, less current portion	12,257	-
Liability for trusts and gift annuities, less current portion	3,282,439	4,383,487
Passport to Israel	444,417	465,350
Interest rate swaps	2,220,103	4,488,015
Deferred income taxes	91,000	72,000
Post-retirement benefit liability	31,000	33,400
Agency endowment funds	24,684,588	22,473,399
Assets held on behalf of cemetery	3,662,848	3,512,126
<b>Total long-term liabilities</b>	<b>93,479,864</b>	<b>94,574,138</b>
<b>Total liabilities</b>	<b>99,823,947</b>	<b>100,471,861</b>
Net assets:		
Unrestricted	91,071,638	80,178,899
Temporarily restricted	26,081,908	22,204,331
Permanently restricted	15,610,961	14,483,832
<b>Total net assets</b>	<b>132,764,507</b>	<b>116,867,062</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 232,588,454</b>	<b>\$ 217,338,923</b>

See accompanying notes to consolidated financial statements.

# Milwaukee Jewish Federation, Inc.

## Consolidated Statements of Activities

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Campaign support:				
Annual and capital campaign support	\$ 7,041,028	\$ -	\$ -	\$ 7,041,028
Campaign payments from fund transfers	(2,950,366)	-	-	(2,950,366)
Total campaign support	4,090,662	-	-	4,090,662
Other contribution support	14,428,340	1,885,510	1,127,129	17,440,979
Investment income	10,380,013	3,989,513	-	14,369,526
Rental income	3,441,913	-	-	3,441,913
Programs and events revenue	313,372	-	-	313,372
Other income (loss)	1,256,536	(321,925)	-	934,611
Net assets released from restrictions	1,675,521	(1,675,521)	-	-
Total support and revenue	35,586,357	3,877,577	1,127,129	40,591,063
Expenses:				
Allocations to local agencies	2,621,109	-	-	2,621,109
Allocations to national agencies	260,103	-	-	260,103
Allocations to Israel and overseas	1,071,903	-	-	1,071,903
Grants	8,392,228	-	-	8,392,228
Milwaukee programs	10,935,534	-	-	10,935,534
Scholarships and awards	574,375	-	-	574,375
Administration and planning	1,155,907	-	-	1,155,907
Fundraising	1,950,371	-	-	1,950,371
Total expenses	26,961,530	-	-	26,961,530
Change in net assets before change in value of interest rate swaps	8,624,827	3,877,577	1,127,129	13,629,533
Change in value of interest rate swaps	2,267,912	-	-	2,267,912
Total change in net assets	10,892,739	3,877,577	1,127,129	15,897,445
Net assets at beginning of year	80,178,899	22,204,331	14,483,832	116,867,062
Net assets at end of year	\$ 91,071,638	\$ 26,081,908	\$ 15,610,961	\$ 132,764,507

# Milwaukee Jewish Federation, Inc.

## Consolidated Statements of Activities (Continued)

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Campaign support:				
Annual and capital campaign support	\$ 6,330,120	\$ -	\$ -	\$ 6,330,120
Campaign payments from fund transfers	(2,447,404)	-	-	(2,447,404)
Total campaign support	3,882,716	-	-	3,882,716
Other contribution support	17,866,745	387,451	1,100,798	19,354,994
Investment income (loss)	594,151	(107,450)	-	486,701
Rental income	3,368,608	-	-	3,368,608
Programs and events revenue	382,714	-	-	382,714
Impairment loss on donated real estate held for sale	(136,900)	-	-	(136,900)
Other income	1,364,465	156,765	-	1,521,230
Net assets released from restrictions	2,241,549	(2,241,549)	-	-
Total support and revenue	29,564,048	(1,804,783)	1,100,798	28,860,063
Expenses:				
Allocations to local agencies	2,457,683	-	-	2,457,683
Allocations to national agencies	233,182	-	-	233,182
Allocations to Israel and overseas	1,011,815	-	-	1,011,815
Grants	9,790,808	-	-	9,790,808
Milwaukee programs	10,640,502	-	-	10,640,502
Scholarships and awards	551,969	-	-	551,969
Administration and planning	1,258,348	-	-	1,258,348
Fundraising	2,081,563	-	-	2,081,563
Total expenses	28,025,870	-	-	28,025,870
Change in net assets before change in value of interest rate swaps	1,538,178	(1,804,783)	1,100,798	834,193
Change in value of interest rate swaps	(214,284)	-	-	(214,284)
Total change in net assets	1,323,894	(1,804,783)	1,100,798	619,909
Net assets at beginning of year	78,855,005	24,009,114	13,383,034	116,247,153
Net assets at end of year	\$ 80,178,899	\$ 22,204,331	\$ 14,483,832	\$ 116,867,062

See accompanying notes to consolidated financial statements.

# Milwaukee Jewish Federation, Inc.

## Consolidated Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016 Restated
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 15,897,445	\$ 619,909
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions designated for permanent endowment	(1,127,129)	(1,100,798)
Bad debt expense	49,349	59,158
Depreciation and amortization	2,365,035	2,523,693
Net realized and unrealized (gains) losses on investments	(11,219,495)	2,707,059
Impairment loss on donated real estate held for sale	-	136,900
Net realized gains on sales of donated works of art held for sale	(2,537)	-
Amortization of debt issuance costs	33,321	35,252
Change in value of interest rate swaps	(2,267,912)	214,284
Change in value of trusts and gift annuities	(657,468)	(23,601)
Deferred tax provision	16,000	39,000
Changes in operating assets and liabilities:		
Pledges receivable	(509,096)	145,558
Accounts and notes receivable	(4,180,154)	152,948
Prepaid expenses	5,614	136,755
Accounts payable and accrued expenses	229,090	(138,521)
Community allocations payable	185,435	(1)
Passport to Israel	(20,933)	(30,447)
Post-retirement benefit liability	(2,400)	-
Agency endowment funds	2,211,189	(1,485,889)
Assets held on behalf of cemetery	150,722	(45,761)
<b>Net cash provided by operating activities</b>	<b>1,156,076</b>	<b>3,945,498</b>
Cash flows from investing activities:		
Purchases of property and equipment	(117,575)	(431,498)
Purchase of investments	(115,669,097)	(97,946,934)
Proceeds from sales of investments	116,139,019	89,851,755
Proceeds from sales of property held for sale	-	4,320
Proceeds from sales of donated works of art held for sale	8,217	-
Decrease in partnership interests	13,628	206,572
Increase in cash surrender value of life insurance	(45,707)	(45,611)
Decrease (increase) in reserve and replacement funds for HUD properties	12,563	(117,212)
<b>Net cash provided by (used in) investing activities</b>	<b>341,048</b>	<b>(8,478,608)</b>



**Milwaukee Jewish Federation, Inc.**  
**Consolidated Statements of Cash Flows (Continued)**

Years Ended June 30, 2017 and 2016

	<b>2017</b>	<b>2016 Restated</b>
Increase (decrease) in cash and cash equivalents (Continued):		
Cash flows from financing activities:		
Contributions designated for permanent endowment	\$ 1,127,129	\$ 1,100,798
Payments to trust beneficiaries	(425,442)	(471,841)
Repayment on long-term debt	(125,548)	(122,697)
Principal payments under capital lease obligation	(3,772)	-
Net cash provided by financing activities	572,367	506,260
Net increase (decrease) in cash and cash equivalents	2,069,491	(4,026,850)
Cash and cash equivalents at beginning of year	9,811,575	13,838,425
Cash and cash equivalents at end of year	\$ 11,881,066	\$ 9,811,575
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 2,309,615	\$ 2,215,994
<b>Noncash investing and financing activities:</b>		
Capital expenditures from replacement reserve funds	\$ 3,013	\$ -
Property additions included in accounts payable	\$ 10,003	\$ -
Property acquired through capital lease obligation	\$ 19,801	\$ -

See accompanying notes to consolidated financial statements.

# Milwaukee Jewish Federation, Inc.

## Consolidated Statements of Functional Expenses

Year Ended June 30, 2017

	Administration Planning	Fundraising	Local Allocations Grants, Programs, and Awards	Israel, Overseas, and National Charities Allocations and Grants	Total
Allocations	\$ -	\$ -	\$ 2,621,109	\$ 1,332,006	\$ 3,953,115
Grants	-	-	6,166,946	2,225,282	8,392,228
Interest and related fees	-	-	2,364,067	-	2,364,067
Miscellaneous	12,320	16,326	544,059	-	572,705
Professional services	12,654	366,272	608,331	-	987,257
Buildings/Cemetery operations	-	-	2,323,595	-	2,323,595
Newspaper	-	-	46,373	-	46,373
Salaries and benefits	1,005,828	1,269,954	1,335,371	-	3,611,153
Marketing and communications	1,471	21,909	64,630	-	88,010
Office operations	31,191	117,746	192,386	-	341,323
Occupancy and insurance	53,644	69,501	951,198	-	1,074,343
Information systems administration	25,701	18,206	19,324	-	63,231
Professional development	6,773	16,524	23,576	-	46,873
Programs and events	6,325	53,933	97,589	-	157,847
Scholarships and awards	-	-	574,375	-	574,375
Depreciation and amortization	-	-	2,365,035	-	2,365,035
<b>Total expenses</b>	<b>\$ 1,155,907</b>	<b>\$ 1,950,371</b>	<b>\$ 20,297,964</b>	<b>\$ 3,557,288</b>	<b>\$ 26,961,530</b>

**Milwaukee Jewish Federation, Inc.**  
**Consolidated Statements of Functional Expenses (Continued)**

Year Ended June 30, 2016

	Administration Planning	Fundraising	Local Allocations Grants, Programs, and Awards	Israel, Overseas, and National Charities Allocations and Grants	Total
Allocations	\$ -	\$ -	\$ 2,457,683	\$ 1,244,997	\$ 3,702,680
Grants	-	-	6,734,202	3,056,606	9,790,808
Interest and related fees	-	-	2,284,880	-	2,284,880
Miscellaneous	6,302	37,373	494,904	-	538,579
Professional services	26,148	447,065	462,432	-	935,645
Buildings/Cemetery operations	-	-	2,347,666	-	2,347,666
Newspaper	-	-	59,624	-	59,624
Salaries and benefits	1,114,288	1,226,483	1,192,073	-	3,532,844
Marketing and communications	2,316	14,449	67,507	-	84,272
Office operations	36,849	102,090	175,669	-	314,608
Occupancy and insurance	53,797	94,740	778,850	-	927,387
Information systems administration	7,265	10,986	22,671	-	40,922
Professional development	6,228	85,536	102,125	-	193,889
Programs and events	5,155	62,841	128,408	-	196,404
Scholarships and awards	-	-	551,969	-	551,969
Depreciation and amortization	-	-	2,523,693	-	2,523,693
<b>Total expenses</b>	<b>\$ 1,258,348</b>	<b>\$ 2,081,563</b>	<b>\$ 20,384,356</b>	<b>\$ 4,301,603</b>	<b>\$ 28,025,870</b>

See accompanying notes to consolidated financial statements.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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### Note 1: Summary of Significant Accounting Policies

#### Nature of Activities

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

#### Consolidated Financial Statements

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

#### Basis of Presentation

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

#### Classification of Net Assets

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

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

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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

#### **Use of Estimates**

The preparation of the accompanying consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

#### **Cash and Cash Equivalents**

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

#### **Investments and Investment Income**

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

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

#### **Pledges Receivable**

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

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

Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on pledges is computed using a 2% rate for the years ended June 30, 2017 and 2016. The amortization of the discount is recognized as contribution income over the duration of the pledge.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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

#### **Accounts and Notes Receivable and Credit Policy**

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

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

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

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

#### **Property and Equipment**

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

#### **Donated Works of Art Held for Sale**

The Federation receives gifts of artwork which do not meet the criteria to be defined as a collection as the artwork is not held for public exhibition, education, or research. The gifts of artwork are recorded at fair value on the date the gifts are received. The fair value of the artwork is typically based on appraisals. The artwork is generally marketed for sale immediately. The donated artwork held for sale is not depreciated; instead it is reviewed periodically for impairment, with the carrying value of the artwork adjusted for any impairment losses. No impairment losses were recognized in 2017 and 2016.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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

#### **Donated Real Estate Held for Sale**

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

Management determined that certain real estate properties held for sale were impaired and recorded a loss on impairment of \$136,900 during the year ended June 30, 2016. Management determined that no impairment loss was required to be recorded for the year ended June 30, 2017. Property assessments were utilized in determining fair value of the real estate.

#### **Reserve and Replacement Funds for HUD Properties**

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

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

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

#### **Community Allocations Payable**

Community allocations payable represent grants and allotments that are generally approved by the Board of Directors in June and paid the following fiscal year. Total cash paid for community allocations during the years ended June 30, 2017 and 2016 was \$3,767,680 and \$3,702,681, respectively.

#### **Liability For Trusts and Gift Annuities**

Liability for trusts and gift annuities represents an obligation for the actuarial present value of future beneficiaries' payments under charitable trusts and gift annuities irrevocably naming the Federation or local Jewish agencies as final recipient of trust assets. In addition, this liability includes the assets of revocable charitable trusts and a liability for the actuarial present value of trust assets reverting to a beneficiary under a charitable lead trust. The present value of the estimated future liabilities was calculated using rates between 5.25% and 8.00% and applicable mortality tables. Assets held in trusts and gift annuities totaled \$6,770,827 and \$7,599,024 at June 30, 2017 and 2016, respectively, and are included in investments in the accompanying consolidated statements of financial position.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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

#### **Passport to Israel**

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

#### **Interest Rate Swaps**

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

The interest rate swaps are reported at fair value in the accompanying consolidated statements of financial position.

#### **Agency Endowment Funds**

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

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

#### **Assets Held on Behalf of Cemetery**

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



# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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

#### **Post-Retirement Benefit Liability**

The post-retirement benefit liability consists of deferred compensation for three retired employees.

#### **Campaign Payments From Fund Transfers**

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

#### **Donor-Restricted Gifts**

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

#### **Tax Status**

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

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

The Federation recognizes the benefits of a tax position only after determining whether it is more likely than not that the taxing authority would sustain the tax position upon examination of the technical merits of the tax position assuming the taxing authority has full knowledge of all information. The Federation recorded no assets or liabilities related to uncertain tax positions.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. A three-tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

#### Subsequent Events

Subsequent events have been evaluated through October 23, 2017, which is the date the consolidated financial statements were available to be issued. For a specific subsequent event, see Note 16.

#### New Accounting Pronouncement

Accounting Standards Update (ASU) 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, amends FASB ASC 835-30 to require that debt issuance costs related to a recognized debt liability be presented in the consolidated statements of financial position as a direct deduction from the carrying amount of the debt (liability), consistent with debt discounts, and the amortization of debt issuance costs be reported as interest expense. The Federation adopted this guidance as of and for the year ended June 30, 2017, as required.

In accordance with the transition guidance in ASU 2015-03, the effects of this change have been applied retrospectively to the amounts previously reported in 2016. The following consolidated financial statement line items as of and for the year ended June 30, 2016, were affected by the adoption of this guidance:

<i>As of and for the Year Ended June 30, 2016</i>	<b>As Originally Reported</b>	<b>As Restated</b>	<b>Effect of Change</b>
Consolidated statements of financial position:			
Other assets	\$ 3,588,347	\$ 2,921,556	\$ (666,791)
Long-term debt, less current maturities - Net	\$ 59,813,152	\$ 59,146,361	\$ (666,791)
Consolidated statements of functional expenses			
Depreciation and amortization	\$ 2,558,945	\$ 2,523,693	\$ (35,252)
Interest and related fees	\$ 2,249,628	\$ 2,284,880	\$ 35,252

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 2: Cash and Cash Equivalents

Cash and cash equivalents consist of the following

<i>As of June 30,</i>	<b>2017</b>	<b>2016</b>
Checking accounts and petty cash	\$ 5,565,230	\$ 4,736,774
Cash held by bond trustee	89,760	64,614
Cash held by investment managers	6,226,076	5,010,187
<b>Total cash and cash equivalents</b>	<b>\$ 11,881,066</b>	<b>\$ 9,811,575</b>

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

### Note 3: Pledges Receivable

Pledges receivable consist of the following:

<i>As of June 30, 2017</i>	<b>Gross Pledges Receivable</b>	<b>Collection Reserves</b>	<b>Unamortized Discount</b>	<b>Net Pledges Receivable</b>
Annual campaigns	\$ 4,025,324	\$ (749,024)	\$ (7,260)	\$ 3,269,040
Community capital campaign	20,333	(20,333)	-	-
Other campaigns	21,860	(21,860)	-	-
<b>Totals</b>	<b>\$ 4,067,517</b>	<b>\$ (791,217)</b>	<b>\$ (7,260)</b>	<b>\$ 3,269,040</b>

<i>As of June 30, 2016</i>	<b>Gross Pledges Receivable</b>	<b>Collection Reserves</b>	<b>Unamortized Discount</b>	<b>Net Pledges Receivable</b>
Annual campaigns	\$ 3,534,345	\$ (812,270)	\$ (3,784)	\$ 2,718,291
Community capital campaign	27,584	(22,584)	-	5,000
Other campaigns	79,055	-	(882)	78,173
<b>Totals</b>	<b>\$ 3,640,984</b>	<b>\$ (834,854)</b>	<b>\$ (4,666)</b>	<b>\$ 2,801,464</b>

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 3: Pledges Receivable (Continued)

Pledges receivable are expected to be collected as follows:

<i>As of June 30,</i>	<b>2017</b>	<b>2016</b>
Less than one year	\$ 3,709,181	\$ 3,402,984
One to five years	358,336	238,000
<hr/>		
Gross pledges receivable	4,067,517	3,640,984
Less:		
Unamortized discount	(7,260)	(4,666)
Collection reserves	(791,217)	(834,854)
<hr/>		
Pledges receivable - Net	3,269,040	2,801,464
Less: Current portion	(2,917,964)	(2,568,131)
<hr/>		
Pledges receivable - Net, less current portion	\$ 351,076	\$ 233,333

### Note 4: Accounts and Notes Receivable

Accounts receivable and notes receivable include the following:

<i>As of June 30,</i>	<b>2017</b>	<b>2016</b>
Receivable from charitable trust	\$ 312,422	\$ 437,261
Loans to Jewish Community Center	3,000,000	3,000,000
WJGBP insurance receivable	9,938	10,599
Bequests receivable	4,714,024	434,863
Note receivable	94,237	92,796
Student loans receivable	-	472
Chronicle advertising sales receivable	15,201	25,948
Rent receivable	31,168	32,682
Other receivables	189,368	157,759
<hr/>		
Gross accounts and notes receivable	8,366,358	4,192,380
Less: Allowance for doubtful accounts	(62,850)	(61,197)
<hr/>		
Total accounts and notes receivable - Net	8,303,508	4,131,183
Less: Current portion	(4,745,579)	(576,757)
<hr/>		
Accounts and notes receivable - Net, less current portion	\$ 3,557,929	\$ 3,554,426

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 4: Accounts and Notes Receivable (Continued)

The Federation loaned \$2,400,000 in June 2005 and \$600,000 in October 2007 to the JCC to finance certain capital improvements. The loan agreements bear interest on the unpaid principal at the same rates per annum paid by the Federation on their tax-exempt bonds (1.66% at June 30, 2017, see Note 9). The loan agreements mature September 1, 2035 and are subject to mandatory prepayment of principal immediately upon payment of principal by the Federation on their tax-exempt bonds. The JCC is required to maintain funds held in the Federation's investments, at an assessed level deemed appropriate by the Federation, in order for the JCC to adequately discharge their loans when due. The balance in the JCC's capital reserve account at June 30, 2017 and 2016 totaled \$1,770,061 and \$1,622,644, respectively.

### Note 5: Investments

Investments include the following:

<i>As of June 30,</i>	<b>2017</b>	<b>2016</b>
State of Israel bonds	\$ 1,573,000	\$ 1,768,500
Corporate, U.S. government, and municipal bonds	8,250,018	9,869,827
Common and preferred stock	8,582,214	9,412,133
Mutual funds	89,718,806	80,124,129
Alternative investments	57,371,140	53,571,016
<b>Total investments</b>	<b>\$ 165,495,178</b>	<b>\$ 154,745,605</b>

Investment income (loss) was as follows:

<i>Years Ended June 30,</i>	<b>2017</b>	<b>2016</b>
Interest income	\$ 1,624,424	\$ 1,513,952
Dividend income	1,525,607	1,679,808
Unrealized gains (losses)	8,798,956	(2,549,022)
Realized gains (losses)	2,420,539	(158,037)
<b>Total investment income</b>	<b>\$ 14,369,526</b>	<b>\$ 486,701</b>

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

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 6: Property and Equipment

Property and equipment consisted of the following:

<i>As of June 30,</i>	<b>2017</b>	<b>2016</b>
Land	\$ 3,300,576	\$ 3,300,576
Buildings	58,564,136	58,527,389
Equipment	7,606,588	7,492,942
Total property and equipment	69,471,300	69,320,907
Accumulated depreciation	(33,371,591)	(31,006,555)
Property and equipment - Net	\$ 36,099,709	\$ 38,314,352

### Note 7: Other Assets

Other assets consisted of the following:

<i>As of June 30,</i>	<b>2017</b>	<b>2016 Restated</b>
Partnership interests	\$ 176,635	\$ 190,263
Cash surrender value of life insurance policies	1,726,998	1,681,291
Reserve and replacement funds	1,034,426	1,050,002
Total other assets	\$ 2,938,059	\$ 2,921,556

### Note 8: Capital Lease

During 2017, the Federation entered into a lease agreement for office equipment. The lease is classified as a capital lease. The lease requires monthly payments of \$544 and terminates in September 2021. Assets held under the capital lease obligation are included in property and equipment in the consolidated statements of financial position as follows:

<i>As of June 30, 2017</i>	
Office equipment	\$ 19,801
Less: Accumulated amortization	(3,772)
Assets held under capital lease obligation, net of accumulated amortization	\$ 16,029

Lease amortization is included in depreciation and amortization expense in the accompanying consolidated statements of functional expenses.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 8: Capital Lease (Continued)

Future minimum payments, by year and in the aggregate, under the capital lease consisted of the following:

<i>Years Ending June 30,</i>			
2018	\$	6,406	
2019		6,406	
2020		6,406	
2021		6,406	
2022		1,601	
Total minimum lease payments		27,225	
Less - Amount representing interest		(11,196)	
Present value of future minimum lease payments		16,029	
Less - Current portion		(3,772)	
Capital lease obligation, net of current portion		\$ 12,257	

### Note 9: Long-Term Debt

#### Demand Revenue Bonds

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

At June 30, 2017 and 2016, \$89,760 and \$64,614, respectively, of cash was held by the bond trustee for payment of interest on the tax-exempt bonds (see Note 2).

Wells Fargo is the Trustee and U.S. Bank is the Initial Holder of the Series O-1 Bonds. The bonds are unsecured. Terms of the bond agreement require the Federation to meet semi-annual liquidity covenants measured as of June 30 and December 31. As of June 30, 2017, management believes the Federation was in compliance with all established covenants.

#### Revenue Bond and HUD-Insured Debt Issuance Costs

Revenue bond and HUD-insured debt issuance costs are being amortized over the related debt term using the straight-line method, which approximates the interest method.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 9: Long-Term Debt (Continued)

Long-term debt consisted of the following:

<i>As of June 30,</i>	<b>2017</b>	<b>2016</b>
Series O-1 Bonds, \$48,715,000 of principal maturing in September 2035 and \$5,625,000 of principal maturing in November 2037; interest rate of 1.66% at June 30, 2017	\$ 54,340,000	\$ 54,340,000
HUD-insured 2.50% Mortgage Note, with monthly principal and interest payments of \$20,992 through February 2048; secured by rental property and assignment of rents.	5,391,485	5,507,033
Term loan, monthly principal payments of \$833 plus interest at 3.30% with a final payment of all outstanding principal and interest due June 1, 2019.	81,667	91,667
Total long-term debt	59,813,152	59,938,700
Less:		
Unamortized debt issuance costs	(633,470)	(666,791)
Current maturities	(128,470)	(125,548)
Long-term portion	\$ 59,051,212	\$ 59,146,361

Interest expense for the years ended June 30, 2017 and 2016 was \$2,299,177 and \$2,219,744, respectively.

### Required Payments of Principal

Scheduled principal payments on long-term debt at June 30, 2017, including current maturities, are summarized as follows:

<i>Years Ending June 30,</i>	<b>Demand Revenue Bonds</b>	<b>Mortgage Note</b>	<b>Term Loan</b>	<b>Total</b>
2018	\$ -	\$ 118,470	\$ 10,000	\$ 128,470
2019	-	121,466	71,667	193,133
2020	-	124,537	-	124,537
2021	-	127,687	-	127,687
2022	-	130,916	-	130,916
Thereafter	54,340,000	4,768,409	-	59,108,409
Totals	\$ 54,340,000	\$ 5,391,485	\$ 81,667	\$ 59,813,152



# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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### Note 10: Interest Rate Swaps

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

The first interest rate swap expires October 1, 2018, and hedges a notional amount of \$54,340,000 at June 30, 2017. Under this agreement the Federation pays U.S. Bank a fixed rate of 3.065% and receives 70% of the London Interbank Offering Rate (LIBOR).

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

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

Payments between the Federation and U.S. Bank are made monthly to correspond with the interest payments due on the tax-exempt variable rate demand revenue bonds. The interest rate swaps require the Federation to be in compliance with the Credit Support Document. Management believes the Federation was in compliance with the Credit Support Document at June 30, 2017.

The following represents the fair value of the interest rate swaps:

	<b>As of June 30, (Asset) Liability</b>	
	<b>2017</b>	<b>2016</b>
First interest rate swap	\$ 1,404,018	\$ 3,220,026
Second interest rate swap	664,470	1,341,846
Third interest rate swap	151,615	(73,857)
Totals	\$ 2,220,103	\$ 4,488,015

### Note 11: Concentrations

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

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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### Note 12: Capital Advances

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

### Note 13: Unrestricted Net Assets

Unrestricted net assets which have been designated for various purposes consisted of the following:

<i>As of June 30,</i>	<b>2017</b>	<b>2016</b>
Unrestricted reserves	\$ 4,260,669	\$ 2,620,803
Donor-designated funds	40,995,317	33,409,341
Net investment in property and equipment	9,000,213	8,088,796
Donor-advised funds	36,815,439	36,059,959
<b>Total unrestricted net assets</b>	<b>\$ 91,071,638</b>	<b>\$ 80,178,899</b>

- Unrestricted reserves consist of lifetime gifts, bequests, and the investment return on all funds within this category. Distributions are made at the discretion of the Federation.
- Donor-designated funds consist of individual contributions received by the Federation in the form of lifetime gifts, bequests, or transfers from existing funds and trusts. Distributions are made based on the wishes expressed by the donors. The Federation has final authority and discretion over the funds.
- Net investments in property and equipment consist of all property and equipment net of depreciation and liabilities.
- Donor-advised funds are established by donors during their lifetimes and are similar to private foundations. Donors contribute cash, or appreciated securities and real property which are usually liquidated soon after being gifted. The proceeds are invested and controlled by the Federation, but the donors retain the privilege of making recommendations for charitable distributions.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 14: Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following:

<i>As of June 30,</i>	<b>2017</b>	<b>2016</b>
Residual value of trusts and gift annuities	\$ 3,114,991	\$ 2,996,915
Scholarships, grants, and awards	2,762,664	1,832,456
Purpose-restricted	6,097,738	5,447,828
Restricted for agencies	10,563,726	9,339,956
PACE/LOJE	3,436,443	2,353,843
Time restricted	106,346	233,333
<b>Total temporarily restricted net assets</b>	<b>\$ 26,081,908</b>	<b>\$ 22,204,331</b>

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

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 14: Temporarily Restricted Net Assets (Continued)

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by the donor as follows:

<i>Years Ended June 30,</i>	<b>2017</b>	<b>2016</b>
Residual value of trusts and gift annuities	\$ 58,872	\$ 722,050
Scholarships, grants, and awards	582,066	700,066
Purpose-restricted	103,243	57,269
Restricted for agencies	683,054	585,040
PACE/LOJE	14,953	133,630
Expiration of time restrictions	233,333	43,494
<b>Net assets released from restrictions</b>	<b>\$ 1,675,521</b>	<b>\$ 2,241,549</b>

### Note 15: Endowments

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

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

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

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

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 15: Endowments (Continued)

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

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

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

#### Endowment Net Assets

Changes in endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowments at July 1, 2015	\$ (14,007)	\$ 411,728	\$ 13,383,034	\$ 13,780,755
Contributions	-	-	1,100,798	1,100,798
Investment income (loss)	(273)	35,558	-	35,285
Administrative fees	(45,685)	(156,051)	-	(201,736)
Appropriation for expenditure	(58,518)	(243,280)	-	(301,798)
Endowments at June 30, 2016	(118,483)	47,955	14,483,832	14,413,304
Contributions	-	-	1,127,129	1,127,129
Investment income	368,464	1,395,976	-	1,764,440
Administrative fees	(33,680)	(182,708)	-	(216,388)
Appropriation for expenditure	(167,529)	(161,514)	-	(329,043)
Endowments at June 30, 2017	\$ 48,772	\$ 1,099,709	\$ 15,610,961	\$ 16,759,442

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 15: Endowments (Continued)

Endowment net assets consisted of the following:

<i>As of June 30:</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment funds - 2017	\$ 48,772	\$ 1,099,709	\$ 15,610,961	\$ 16,759,442
Donor designated endowment funds - 2016	\$ (118,483)	\$ 47,955	\$ 14,483,832	\$ 14,413,304

### Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the historical dollar value of the fund. In accordance with GAAP, deficiencies of \$118,483 are reported in unrestricted net assets as of June 30, 2016. These deficiencies resulted from unfavorable market fluctuations and appropriations for programs deemed prudent by the Board of Directors. No deficiencies were reported in 2017.

### Note 16: Contingencies

The Federation owns an interest in a partnership whose sole asset is land. Management is aware that the land may be contaminated with hazardous materials that could require remediation. The Federation has recognized a liability related to environmental remediation costs associated with the property in the amount of \$150,000. Management believes that any potential additional liability related to the environmental remediation would be immaterial to the consolidated financial statements.

The Federation agreed to guarantee \$11,060,000 of tax-exempt variable rate demand revenue bonds issued by Madison Hillel through the Colorado Educational and Cultural Facilities Authority as part of the National Jewish Federation Bond Program. The Federation also guaranteed interest due on these bonds. Madison Hillel is a constituent agency of the Federation. Constituent agencies must meet the standards and qualifications contained in the Federation's Principles of Affiliation, including holding a 501(c)(3) determination letter from the Internal Revenue Service and providing program services to the Jewish community in the Milwaukee area. Capital campaign funds from Madison Hillel of \$7,640,261 are held at the Federation, and the Federation may use these investments, if needed, to pay any amounts obligated under the guarantee.

In August 2017, Madison Hillel refinanced its tax-exempt variable rate demand revenue bonds. Under the terms of the refinancing, the Federation has agreed to guarantee the bonds for a total of \$11,215,000.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 17: Fair Value Measurements

Information regarding assets and liabilities measured at fair value is as follows:

<i>As of June 30, 2017</i>	Total Assets at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
State of Israel bonds	\$ 1,573,000	\$ -	\$ 1,573,000	\$ -
Corporate bonds	4,644,227	-	4,644,227	-
U.S. government and municipal bonds	3,605,791	-	3,605,791	-
Common stock:				
Domestic equities	7,954,918	7,954,918	-	-
Foreign equities	595,588	595,588	-	-
Preferred stock	31,708	31,708	-	-
Equity mutual funds:				
Domestic equities	33,342,474	33,342,474	-	-
Foreign equities	31,187,854	31,187,854	-	-
Fixed income mutual funds	25,188,478	25,188,478	-	-
Alternative investments:				
Whole life insurance policies	512,820	-	512,820	-
Private equity funds	318,268	-	-	318,268
Other structured products	8,875,240	-	-	8,875,240
Alternative investments measured using NAV practical expedient*:				
Hedge funds	119,264			
Other alternative investments	35,259,384			
Other structured products	12,286,164			
<b>Total investments</b>	<b>165,495,178</b>	<b>98,301,020</b>	<b>10,335,838</b>	<b>9,193,508</b>
Cash equivalents	6,226,076	-	6,226,076	-
Pledges receivable	3,269,040	-	3,269,040	-
<b>Total assets at fair value</b>	<b>\$ 174,990,294</b>	<b>\$ 98,301,020</b>	<b>\$ 19,830,954</b>	<b>\$ 9,193,508</b>

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 17: Fair Value Measurements (Continued)

<i>As of June 30, 2016</i>	Total Assets at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
State of Israel bonds	\$ 1,768,500	\$ -	\$ 1,768,500	\$ -
Corporate bonds	4,749,326	-	4,749,326	-
U.S. government and municipal bonds	5,120,501	-	5,120,501	-
Common stock:				
Domestic equities	8,287,162	8,287,162	-	-
Foreign equities	1,088,142	1,088,142	-	-
Preferred stock	36,829	36,829	-	-
Equity mutual funds:				
Domestic equities	31,463,461	31,463,461	-	-
Foreign equities	24,659,164	24,659,164	-	-
Fixed income mutual funds	24,001,504	24,001,504	-	-
Alternative investments:				
Whole life insurance policies	494,620	-	494,620	-
Private equity funds	481,490	-	-	481,490
Other structured products	8,942,699	-	-	8,942,699
Alternative investments measured using NAV practical expedient*:				
Hedge funds	176,904			
Other alternative investments	37,283,888			
Other structured products	6,191,415			
<b>Total investments</b>	<b>154,745,605</b>	<b>89,536,262</b>	<b>11,638,327</b>	<b>9,424,189</b>
Cash equivalents	5,010,187	-	5,010,187	-
Pledges receivable	2,801,464	-	2,801,464	-
<b>Total assets at fair value</b>	<b>\$ 162,557,256</b>	<b>\$ 89,536,262</b>	<b>\$ 19,449,978</b>	<b>\$ 9,424,189</b>

\*In accordance with FASB ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.



# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 17: Fair Value Measurements (Continued)

Information regarding liabilities measured at fair value is as follows:

	Total Liabilities at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>As of June 30, 2017</i>				
Liability for trusts and gift annuities	\$ 3,655,835	\$ -	\$ 3,655,835	\$ -
Interest rate swaps	2,220,103	-	2,220,103	-
Post-retirement benefit liability	31,000	-	-	31,000
<b>Total liabilities at fair value</b>	<b>\$ 5,906,938</b>	<b>\$ -</b>	<b>\$ 5,875,938</b>	<b>\$ 31,000</b>

	Total Liabilities at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>As of June 30, 2016</i>				
Liability for trusts and gift annuities	\$ 4,738,745	\$ -	\$ 4,738,745	\$ -
Interest rate swaps	4,488,015	-	4,488,015	-
Post-retirement benefit liability	33,400	-	-	33,400
<b>Total liabilities at fair value</b>	<b>\$ 9,260,160</b>	<b>\$ -</b>	<b>\$ 9,226,760</b>	<b>\$ 33,400</b>

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

- Cash equivalents, consisting mainly of money market funds, are valued using \$1 as the net asset value (NAV).
- State of Israel bonds are valued at cost, which approximates fair value.
- Corporate, U.S. government, and municipal bonds are valued using quotes from pricing vendors based on recent trading activity and other observable market data.
- Common and preferred stock is valued based on quoted market prices.
- Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Federation are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Federation are deemed to be actively traded.
- Whole life insurance policies are valued at cash surrender value as reported by the issuer.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 17: Fair Value Measurements (Continued)

- Alternative investments are valued based on estimates and valuations provided by investment managers which use pricing models and other unobservable inputs to value the investments.
- Pledges receivable are valued at the present value of estimated future cash flows.
- Future payments on trusts and gift annuities are valued at the present value of estimated future cash flows based on life expectancies, quoted market prices, and discount rates.
- The interest rate swaps are valued using discounted cash flows based on yield curves and other factors.
- The post-retirement benefit liability is recorded at the present value of the Federation's obligation to pay retired employees deferred plan benefits.

The Federation also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These include assets measured at the lower of carrying value or market, less costs to sell, and had a fair value below carrying value at June 30, 2016:

	Total at Fair Value	Non-Recurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>As of June 30, 2016</i>				
Real estate held for sale	\$ 1,286,200	\$ -	\$ 1,286,200	\$ -

The table below sets forth a summary of changes in fair value of the Federation's Level 3 assets:

<i>Years Ended June 30,</i>	2017	2016
Alternative investments measured using Level 3 inputs at beginning of year	\$ 9,424,189	\$ 9,630,637
Income (loss)	880,256	(169,658)
Sales	(1,110,937)	(36,790)
Alternative investments measured using Level 3 inputs at end of year	\$ 9,193,508	\$ 9,424,189

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 17: Fair Value Measurements (Continued)

The following table presents additional information about the Federation's investments whose fair value is measured using the reported NAV practical expedient:

	Fair Value as of June 30,		Redemption Frequency	Redemption Notice Period	Unfunded Commitments
	2017	2016			
Hedge funds:					
Goldman Sachs Hedge Fund Partners Plus, LTD Class A Series 1 <sup>(A)</sup>	\$ 11,595	\$ 30,648	I	I	\$ -
Goldman Sachs Investment Partners <sup>(B)</sup>	\$ 107,669	\$ 146,256	I	I	\$ -
Other alternative investments and structured products:					\$ -
EnTrust Capital Diversified Fund QP LTD <sup>(C)</sup>	\$ 226,369	\$ 2,031,257	II	II	\$ -
Rock Creek Georgetown Fund LTD <sup>(D)</sup>	\$ 11,164,812	\$ 11,068,893	II	II	\$ -
Stark Investments <sup>(E)</sup>	\$ 79,265	\$ 113,512	I	I	\$ -
Greenlight Capital <sup>(F)</sup>	\$ 2,023,909	\$ 1,929,360	NAV on 6/30	45 days	\$ -
PRISA Fund <sup>(G)</sup>	\$ 13,501,171	\$ 14,257,592	Quarterly	90 days	\$ -
Clarion Lion Properties Real Estate Fund <sup>(H)</sup>	\$ 8,263,858	\$ 7,883,274	Quarterly	90 days	\$ -
Parametric Defensive Equity Fund LLC <sup>(I)</sup>	\$ 9,014,536	-	Monthly	5 days	\$ -
AQR Global Risk Premium Enhanced Liquidity Fund <sup>(J)</sup>	\$ 3,271,628	\$ 6,191,415	Weekly	5 days	\$ -

I. These funds are currently in the liquidation process. Liquidity is determined by market conditions.

II. The funds call for periodic redemptions each calendar quarter with 90 days' notice.

(A) The Goldman Sachs Hedge Fund Partners Plus, LTD Class A series 1 is currently in liquidation.

(B) Goldman Sachs Long-Short Partners is currently in liquidation.

(C) EnTrust Capital Diversified Fund QP LTD is an exempted company incorporated under the laws of the Cayman Islands. The fund invests substantially all of its net assets in an international business company incorporated under the laws of the British Virgin Islands, EnTrust Capital Diversified Fund LTD (the "Master Fund"), under a master-feeder agreement. The structure of the Master Fund allocates its assets among a diversified group of alternative investment fund managers, commonly referred to as a "fund of funds." The investment strategies may utilize a variety of financial instruments in their trading strategies and invest in U.S. and non-U.S. equities and equity-related securities, debt securities, options, futures, forwards, swap contracts, repurchase agreements, private placements, and commodities.

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

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### Note 17: Fair Value Measurements (Continued)

- (D) Rock Creek Georgetown Fund LTD is an exempted company incorporated under the laws of the Cayman Islands. The structure of the fund allocates its assets among a diversified group of alternative investment fund managers, which is commonly referred to as a “fund of funds.” The investment strategies may include, but are not limited to, pairs trading, market neutral equity, merger arbitrage, long/short equity, long concentrated, long biased, short biased, and event driven investment strategies.
- (E) The Stark Investments are currently in liquidation.
- (F) The Greenlight Capital fund seeks to maximize capital by buying securities with trading values materially lower than their intrinsic values and by selling short securities with trading values materially higher than their intrinsic values. The fund aims to achieve high absolute rates of return while minimizing the risk of capital loss. The fund invests on a concentrated, hedged basis in U.S. equities and debt securities and event-related/special situation investments. The fund also invests in non-U.S. equities on a more limited basis with the bulk of this exposure in developed Europe.
- (G) The PRISA fund is a broadly diversified equity real estate portfolio that invests primarily in existing income-producing properties with strong cash flows that are expected to increase over time and thereby provide the potential for capital appreciation. The fund makes investments in office, retail, industrial, apartment, hotel, and storage properties. The fund may also hold a modest amount of unimproved land or other property types. Investments are made through direct property ownership, or indirectly through such vehicles as joint ventures, general or limited partnerships, limited liability companies, mortgage loans and other loan types, including mezzanine debt and debt secured by an interest in the borrowing entity or interest in companies or entities that directly or indirectly hold real estate or real estate interests.
- (H) The Clarion Lion Properties Real Estate Fund is a core-style, open-end real estate fund that holds a strategically diversified portfolio of real estate assets across the four main property types in major markets located throughout the United States. The primary performance objective is to combine attractive income yield with long-term capital growth.
- (I) Parametric Defensive Equity Fund LLC ("Parametric") offers equity index options and seeks to structurally reduce equity market risk, while adding a relatively uncorrelated risk premium to enhance returns. Parametric seeks to reduce the magnitude of drawdowns and recover faster from stress events.
- (J) AQR Global Risk Premium Enhanced Liquidity Fund (“AQR”) invests in a diversified set of global risk premiums including global developed and emerging equities, U.S. small-cap and mid-cap equities, global developed and inflation-protected bonds, commodity futures, and swaps. AQR seeks to implement a broadly diversified and higher long-term risk-adjusted return from a combination of these investments.

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

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 18: Milwaukee Programs

Milwaukee programs in the accompanying consolidated statements of activities include the following:

<i>Years Ended June 30,</i>	<b>2017</b>	<b>2016</b>
Federation direct services	\$ 1,749,072	\$ 1,753,577
HUD properties	1,311,393	1,278,628
Federation properties	6,485,992	6,461,558
Jewish Community Relations Council	246,266	185,921
Jewish Community Foundation	932,640	804,164
Other	210,171	156,654
<b>Total Milwaukee programs</b>	<b>\$ 10,935,534</b>	<b>\$ 10,640,502</b>

### Note 19: Income Taxes

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

<i>Years Ended June 30,</i>	<b>2017</b>	<b>2016</b>
Current tax provision:		
Federal	\$ 87,000	\$ 49,000
State	22,000	14,000
<b>Total current tax provision</b>	<b>109,000</b>	<b>63,000</b>
Deferred tax provision:		
Federal	15,000	30,000
State	1,000	9,000
<b>Total deferred tax provision</b>	<b>16,000</b>	<b>39,000</b>
<b>Total provision for income taxes</b>	<b>\$ 125,000</b>	<b>\$ 102,000</b>

# Milwaukee Jewish Federation, Inc.

## Notes to Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

### Note 19: Income Taxes (Continued)

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

<i>As of June 30,</i>	<b>2017</b>	<b>2016</b>
Current liabilities	\$ 10,000	\$ 13,000
Long-term liabilities	91,000	72,000
Net deferred tax liability	\$ 101,000	\$ 85,000

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

### Note 20: Benefit Plan

The Federation sponsors the Milwaukee Jewish Federation, Inc. 401(k) Retirement Savings Plan covering all employees over the age of 21 with at least one year of service. Safe-harbor contributions to a trustee are made semimonthly at 3% of eligible staff's compensation. The Federation can, at its discretion, make an additional contribution of up to 4% of eligible staff compensation at calendar year-end. The Federation contributed 4% of eligible compensation for the years ended June 30, 2017 and 2016. Benefit plan expense was \$124,972 and \$111,342 for the years ended June 30, 2017 and 2016, respectively.

### Note 21: Related Parties

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