JEWISH FAMILY AND CHILDREN'S SERVICE OF MINNEAPOLIS

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For The Year Ended
December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Jewish Family and Children's Service of Minneapolis
Minnetonka, Minnesota

We have audited the accompanying consolidated financial statements of Jewish Family and Children's Service of Minneapolis (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jewish Family and Children's Service of Minneapolis as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Changes in Accounting Principle

As discussed in Note 15 to the financial statements, Jewish Family and Children's Service of Minneapolis elected to early implement the provisions of Accounting Standards Update (ASU) 2016-14 Not-For-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

July 19, 2018

FINANCIAL STATEMENTS

JEWISH FAMILY AND CHILDREN'S SERVICE OF MINNEAPOLIS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION **Statement 1**
December 31, 2017

Current assets:	
Cash and cash equivalents	$1,678,432
Accounts receivable, net	197,453
Grants receivable	476,945
Program loans receivable, net	45,499
Contributions receivable, net	11,408,370
Other receivables	15,527
Donated space receivable	57,389
Inventory	48,172
Prepaid expenses and other assets	672,751
Total current assets	14,600,538
Long-term assets:	
Investments	360,353
Beneficial interest in the net assets of the Minneapolis Jewish Federation	11,575,800
Contributions receivable, net of current portion	1,101,923
Beneficial interest in charitable remainder trust	118,192
Total long-term assets	13,156,268
Total assets	$27,756,806
Current liabilities:	
Accounts payable	$211,439
Accrued liabilities	242,659
Total current liabilities	454,098
Long-term liabilities:	
Notes payable	500,000
Deferred compensation	160,353
Funds held for others	150,000
Total long-term liabilities	810,353
Total liabilities	1,264,451
Net assets:	
Without donor restrictions:	
Undesignated	988,740
Designated by Board for endowment	2,395,671
With donor restrictions:	
Perpetual in nature	4,692,257
Purpose restrictions	1,535,330
Time-restricted for future periods	16,880,357
Total net assets	26,492,355
Total liabilities and net assets	$27,756,806

The accompanying notes are an integral part of these consolidated financial statements.

JEWISH FAMILY AND CHILDREN'S SERVICE OF MINNEAPOLIS
CONSOLIDATED STATEMENT OF ACTIVITIES **Statement 2**
For The Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support:			
Direct contributions	$512,754	$1,104,392	$1,617,146
Indirect contributions	63,565	138,151	201,716
Donated goods and services	-	2,638	2,638
Nongovernment grants	545,821	12,749,045	13,294,866
Special events, net	248,054	130,476	378,530
Total support	1,370,194	14,124,702	15,494,896
Revenue:			
Government grants	1,897,386	74,000	1,971,386
Government agencies	826,211	-	826,211
Program related sales and fees	982,984	-	982,984
Change in value of beneficial interest in the net assets of the Minneapolis Jewish Federation	296,320	1,181,074	1,477,394
Investment income	6,325	35	6,360
Other	68,117	-	68,117
Total revenue	4,077,343	1,255,109	5,332,452
Net assets released from restriction	4,135,328	(4,135,328)	0
Net support and revenue	9,582,865	11,244,483	20,827,348
Expenses and losses:			
Program services:			
Counseling and mental health	1,211,839	-	1,211,839
Aging services	1,254,270	-	1,254,270
Community engagement	646,614	-	646,614
Children and family services	1,178,402	-	1,178,402
Career services	1,870,825	-	1,870,825
Total program services	6,161,950	0	6,161,950
Supporting services:			
Management and general	1,201,317	-	1,201,317
Development and fundraising	625,147	-	625,147
Total supporting services	1,826,464	0	1,826,464
Total expenses	7,988,414	0	7,988,414
Changes in net assets before losses	1,594,451	11,244,483	12,838,934
Loss on disposal of property and equipment	(72,061)	-	(72,061)
Loss on write off of donated space receivable	(516,502)	-	(516,502)
Changes in net assets	1,005,888	11,244,483	12,250,371
Net assets, beginning of year	2,378,523	11,863,461	14,241,984
Net assets, end of year	$3,384,411	$23,107,944	$26,492,355

The accompanying notes are an integral part of these consolidated financial statements.

JEWISH FAMILY AND CHILDREN'S SERVICE OF MINNEAPOLIS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2017

	Program Services		
	Counseling & Mental Health	Aging Services	Community Engagement
Expenses:			
Grants, contracts, and direct assistance	$95,934	$258,916	$156,281
Salary and wages	771,355	644,253	308,425
Employee benefits	82,897	71,554	33,403
Payroll taxes and unemployment	62,496	56,587	25,369
Professional fees	5,044	27,220	16,680
Supplies	5,379	10,887	9,063
Telephone and telecommunications	9,795	10,799	4,484
Postage and shipping	931	2,044	5,037
Printing and copying	7,864	9,212	9,244
Rent, parking, and other occupancy	31,901	34,526	12,794
Donated facilities	51,515	53,305	27,479
Equipment/software licensing and support	6,810	7,172	3,723
Travel/mileage	13,888	31,964	2,222
Conferences, conventions, and meetings	597	836	24,547
Membership dues	4,587	5,483	1,646
Staff development	2,360	3,309	711
Advertising	3	4,614	498
Other expense	51,463	13,408	1,920
Total expenses before depreciation and amortization	1,204,819	1,246,089	643,526
Depreciation and amortization	7,020	8,181	3,088
Total expenses by function	1,211,839	1,254,270	646,614
Less expenses included with revenues on the statement of activities:			
Cost of direct benefit to donors	-	-	-
Total expenses included in the expense section on the statement of activities	$1,211,839	$1,254,270	$646,614

Program Services			Supporting Services		
Children and Family Services	Career Services	Total	Management and General	Development and Fundraising	Total Expenses
$93,287	$302,979	$907,397	$3,180	$ -	$910,577
721,650	1,053,579	3,499,262	795,154	388,012	4,682,428
75,788	113,133	376,775	96,449	42,009	515,233
66,940	108,108	319,500	65,238	31,614	416,352
8,570	30,503	88,017	86,593	112,350	286,960
50,287	16,254	91,870	8,857	11,018	111,745
14,130	16,275	55,483	8,888	4,785	69,156
612	1,718	10,342	3,406	8,832	22,580
4,997	16,973	48,290	23,133	13,997	85,420
29,117	75,224	183,562	10,133	16,197	209,892
50,078	79,411	261,788	51,051	31,496	344,335
6,620	16,006	40,331	23,409	33,285	97,025
30,437	9,937	88,448	352	1,627	90,427
6,557	1,222	33,759	7,289	35,527	76,575
2,826	5,068	19,610	4,033	1,687	25,330
1,249	6,555	14,184	2,261	2,958	19,403
20	2,131	7,266	3,078	569	10,913
4,144	6,563	77,498	1,624	1,649	80,771
1,167,309	1,861,639	6,123,382	1,194,128	737,612	8,055,122
11,093	9,186	38,568	7,189	3,535	49,292
1,178,402	1,870,825	6,161,950	1,201,317	741,147	8,104,414
-	-	-	-	(116,000)	(116,000)
$1,178,402	$1,870,825	$6,161,950	$1,201,317	$625,147	$7,988,414

The accompanying notes are an integral part of these consolidated financial statements.

JEWISH FAMILY AND CHILDREN'S SERVICE OF MINNEAPOLIS
CONSOLIDATED STATEMENT OF CASH FLOWS **Statement 4**
For The Year Ended December 31, 2017

Cash flows from operating activities:	
Change in net assets	$12,250,371
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	49,292
Amortization of donated space	344,335
Change in value of beneficial interest in the net assets of the Minneapolis Jewish Federation	(1,477,394)
Loss on write off of donated space receivable	516,502
Loss on disposal of property and equipment	72,061
Contributions restricted to endowment, net of releases	(66,535)
Decrease (increase) in operating assets:	
Accounts receivable	(9,781)
Grants receivable	(65,929)
Program loans receivable	30,011
Contributions receivable	(10,697,744)
Other receivables	(1,884)
Inventory	(16,084)
Prepaid expenses and other assets	(588,909)
Increase (decrease) in operating liabilities:	
Accounts payable	68,923
Accrued liabilities	(42,627)
Deferred compensation	29,277
Net cash provided by operating activities	393,885
Cash flows from investing activities:	
Purchase of property and equipment	(10,531)
Purchase of investments	(29,277)
Cash transferred to Minneapolis Jewish Federation	(421,146)
Distributions from Minneapolis Jewish Federation	530,107
Net cash provided by investing activities	69,153
Cash flows from financing activities:	
Proceeds from notes payable	500,000
Payments on lease commitments due to the Jewish Community Building Corporation	(35,764)
Return of lease deposit	275,000
Collection of contributions restricted to endowment, net of releases	66,535
Net cash provided by financing activities	805,771
Net increase in cash and cash equivalents	1,268,809
Cash and cash equivalents - beginning of year	409,623
Cash and cash equivalents - end of year	$1,678,432

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF OPERATIONS

Jewish Family and Children's Service of Minneapolis is guided by its mission to provide essential services to people of all ages and backgrounds to sustain healthy relationships, ease suffering and offer support in times of need. Jewish Family and Children's Service of Minneapolis is proud to say it has been "family" to tens of thousands of people in the Jewish and general communities for more than a century. Jewish Family and Children's Service of Minneapolis provides a full spectrum of programs and services for adults, children, families, the frail elderly, refugees and immigrants, and people who struggle with poverty, emotional problems, and mental and physical disabilities.

B. BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts and activities of Jewish Family and Children's Service of Minneapolis and a supporting foundation that was incorporated in November 2012 (collectively, the Organization). All significant intercompany balances and transactions have been eliminated.

C. BASIS OF PRESENTATION

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

D. CASH AND CASH EQUIVALENTS

The Organization considers all highly liquid debt instruments purchased and maturing in three months or less to be cash equivalents.

Cash on deposit in excess of FDIC and similar insurance coverages are subject to the usual banking risks of funds in excess of those limits. At times, amounts on deposit may exceed FDIC insured limits. To date, the Organization has not experienced losses in any of these accounts.

E. PROGRAM SERVICE REVENUE AND ACCOUNTS RECEIVABLE

Program service revenue is recorded in the period the services are delivered. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management records an allowance for doubtful accounts under the reserve method based on its assessment of the current status of individual accounts and historical average percentage of write-offs by category of receivables. Accounts receivable for counseling services are also reduced for anticipated contract adjustments. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. An allowance of $6,962 was recorded at December 31, 2017.

F. GRANT REVENUE AND RECEIVABLE

Cost reimbursement grants and government grants are recorded in the accounting period in which the related expenditures are incurred. Grants receivable are stated at net realizable value. Balances are individually analyzed for collectability. Management records an allowance for doubtful accounts under the reserve method. Write-off of receivables against the related allowance occurs when all collection efforts have been exhausted or certain conditions have been reached. At December 31, 2017, no allowance for uncollectible accounts has been considered necessary.

G. PROGRAM LOANS RECEIVABLE

Program loans receivable relate to various loan programs which are used to serve individuals needing emergency assistance, refugees in need of help, and individuals seeking vocational training. Outstanding loan balances are reviewed individually for timing of payments received as well as future collectability. As needed, alternative payment plans are arranged. Management records an allowance for doubtful accounts under the reserve method. Write-off of loans receivable against the related allowance occurs when all collection efforts have been exhausted. An allowance of $2,772 was recorded at December 31, 2017.

H. CONTRIBUTION REVENUE AND RECEIVABLE

Contributions and foundation grants (nongovernment grants) are recorded as revenues in the period promised, unless the grant is a cost reimbursement grant (see above). Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions receivable are stated at the amount management expects to collect from outstanding balances. Management records an allowance for doubtful accounts under the allowance method based on historical average percentage write-offs and its assessment of the current status of individual account balances. If management’s collection attempts are unsuccessful, contributions receivable balances are written off through a charge to the allowance for doubtful accounts. An allowance of $5,964 was recorded at December 31, 2017.

I. DONATED SPACE RECEIVABLE

The Organization signed a 10-year lease with the Jewish Community Building Corporation starting September 1, 2009. Under the lease, the Organization is required to pay only common area maintenance costs. The difference in the fair value of the leased space and the common area costs is considered a contribution. The fair value of the contribution was recognized as a temporarily restricted contribution at September 1, 2009 and the related net asset is scheduled to be released as rent expense over the life of the agreement on a straight-line basis. Donated space receivable at December 31, 2017 was $57,389.

J. INVESTMENTS

Investments consist primarily of mutual funds, exchange traded funds and Israel Bonds. Exchange traded funds and mutual funds are recorded at fair value. Israel Bonds are recorded at deposit value, which approximates fair value.

K. BENEFICIAL INTEREST IN THE NET ASSETS OF THE MINNEAPOLIS JEWISH FEDERATION

The Minneapolis Jewish Federation (the Federation) receives contributions and invests these funds for particular purposes on the Organization's behalf. The contributions are put into funds based on the donor's stipulations. The Federation does not have variance power on these funds, therefore requiring the activity to be recorded by the Organization. The balances are at fair value.

Due to the unitized structure of the investments at the Federation, the Organization is allocated an equitable portion of sales and purchases of investments executed at the Federation. The details of the sales and purchases of investments are maintained by the Federation. For financial statement purposes, the Organization has elected to disclose only the net change in the value of its interest in the net assets of the Federation in the consolidated financial statements.

Additional funds are held by the Federation in donor advised funds from which the Organization may receive additional contributions, however, variance powers to redirect these funds are present and the funds do not meet the reporting requirements under current guidance.

L. BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUST

The beneficial interest in charitable remainder trust is carried at the present value of expected proceeds from a trust. The lead beneficiaries of the trust are entitled to distributions from the trust over their lifetime with the Organization receiving the balance of the trust assets after their deaths. The present value was calculated using a 5% discount rate over the life expectancy of the lead beneficiaries.

M. PROPERTY AND EQUIPMENT

Property and equipment that has a useful life greater than one year and a cost greater than $1,000 is stated at cost and depreciated using a straight-line method. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets, which range from 2 to 10 years. Leasehold improvements are depreciated over the estimated useful life of the improvement or the length of the lease, whichever is shorter. All property and equipment was fully depreciated as of December 31, 2017.

N. DONATED SERVICES AND IN-KIND CONTRIBUTIONS

Donated services are recognized to the extent that they create or enhance nonfinancial assets or require specialized skills. Donated goods and services required by grant awards are recorded in the consolidated statement of activities at fair value at the date of the donation and recognized as revenue and expense in the period they are received.

A number of volunteers have made contributions of their time to develop and enhance the Organization's programs. The value of this contributed volunteer time does not meet the recognition requirements for contributed services and, as such, is not reflected in these statements.

O. FUNCTIONAL EXPENSES

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

Expense allocation methods are as follows:

- When employee time can be directly identified with a project or activity, salaries and wages are charged to that project or activity (direct charges). In the case of support employees whose work is not identifiable to a specific project, salaries and wages are allocated pro rata based on the direct time charged to these projects. Taxes and benefits costs are allocated pro rata based on salaries and wages.
- Occupancy expenses are allocated based on usage by program. The total occupancy cost of each facility is allocated pro rata by the number of offices or cubicles used by each program.
- Costs for equipment, such as printing and mailing equipment, are allocated pro rata based on usage of the equipment by program.
- Expenses other than those listed above, which are not directly identifiable by program or supporting services, are allocated based on the percentage of direct salaries.

P. USE OF 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Q. INCOME TAXES

Jewish Family and Children's Service of Minneapolis qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and the comparable section of the Minnesota Income Tax Statutes. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and contributions by donors are tax deductible. The supporting foundation is a supporting organization under 509(a)(3) of the Internal Revenue Code.

A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes the Organization has no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

NOTE 2 LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets available to meet cash needs for general expenditures within one year of December 31, 2017. Due to the nature of the restrictions from contributions received from donors, the Organization has omitted only the restricted contributions that were not deemed "general" in nature.

Cash and cash equivalents	$935,746
Accounts receivable	167,453
Grants receivable	476,945
Contributions receivable	742,686
Other receivables	5,527
Beneficial interest in the net assets of the Minneapolis Jewish Federation	479,000
	$2,807,357

The Organization's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Organization's board-designated endowment of $2,395,671 is subject to an annual spending rate as described in Note 10A. Although there is no intent to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of its liquidity management plan, the Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization could also draw up to $650,000 on its line of credit as disclosed in Note 12C.

NOTE 3 GRANTS RECEIVABLE

Grants receivable consist of the following at December 31, 2017:

Government	$406,273
Other	70,672
Total grants receivable	$476,945

NOTE 4 JEWISH FAMILY LOAN PROGRAM

The Organization issues uncollateralized loans to members of the Jewish community based on financial need under their Jewish Family Loan Program (JFLP). The loans are issued from a minimum of $1,000 to a maximum of $7,500 and bear no interest, and are typically repayable from 24 to 36 months. One or two co-signers are currently required who are subject to a credit check and must meet minimum credit score credit criteria. Loans are funded from restricted contributions made by numerous donors.

Because of the strict criteria with regard to co-signers, write-offs are rare for this program. Allowances for doubtful accounts are determined based on an evaluation of the current status of any past due accounts and the average write-offs by category for prior years.

JFLP loans receivable consisted of the following as of December 31, 2017:

Jewish free loans	$45,221
Less: allowance for doubtful accounts:	(1,450)
Jewish free loans, net	$43,771

Receivables recorded for the JFLP were included in the Program loans receivable balance on the consolidated statement of financial position at December 31, 2017.

NOTE 5 CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2017 are expected to be collected as follows:

Due within one year	$11,408,370
Due in one to five years	1,177,625
Total contributions receivable	12,585,995
Less: present value discount (5.0%)	(69,738)
Less: allowance for uncollectible contributions	(5,964)
Less: current portion	(11,408,370)
Noncurrent contributions receivable, net	$1,101,923

NOTE 6 INVESTMENTS

As of December 31, the Organization held the following investments:

Deposit accounts with broker	$3,695
Mutual funds:	
Bond / fixed income	26,524
Equity	18,622
Balanced	33,458
Exchange traded funds (ETFs):	
Bond / fixed income	44,266
Equity	33,788
Israel bonds	200,000
Total	$360,353

NOTE 7 FAIR VALUE MEASUREMENTS

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statements of activities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access. This includes stocks, mutual funds and exchange traded funds.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include interests in the net assets of the Federation and assets held in a trust where the Organization is not the trustee).

Financial assets that are carried at estimated fair value are categorized based on the inputs to the valuation technique are as follows as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	$78,604	$ -	$ -	$78,604
Exchange traded funds	78,054	-	-	78,054
Beneficial interest in charitable remainder trust	-	-	118,192	118,192
Beneficial interest in the net assets of the Minneapolis Jewish Federation	-	-	11,575,800	11,575,800
Total	$156,658	$0	$11,693,992	$11,850,650

The basis for determining Level 3 assets is as follows:

- Beneficial Interest in Charitable Remainder Trust is based on the fair value of expected future income streams of the underlying Trust assets reported by the trustee using an estimated discount rate of 5%.
- Beneficial Interest in the Net Assets of the Minneapolis Jewish Federation is based on the unadjusted fair value of the underlying assets reported by the Minneapolis Jewish Federation.

The following is a reconciliation of the changes in Level 3 assets for the year ended December 31, 2017:

	Beneficial Interest in Charitable Remainder Trust	Beneficial Interest in the Net Assets of the Minneapolis Jewish Federation
Balance at December 31, 2016	$118,192	$10,207,367
Net change in value of trust and interest in net assets of the Minneapolis Jewish Federation	-	1,477,394
Contributions	-	421,146
Distributions	-	(530,107)
Balance at December 31, 2017	$118,192	$11,575,800

NOTE 8 LONG-TERM DEBT

The Organization has a $500,000 long-term note payable at December 31, 2017. Interest accrues at a rate of 2.5% and annual interest payments of $12,500 are due on December 1 of each year. Total outstanding principal and unpaid interest is due at maturity on December 1, 2022.

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2017:

Subject to expenditures for a specified purpose:	
Clinical and case management services	$328,281
Aging and disability services	367,161
Community services	84,080
Children's services	454,991
Career services	125,637
Other restrictions	175,180
	1,535,330
Subject to the passage of time:	
Beneficial interest in charitable remainder trust	118,192
Donated space	57,389
New building	11,396,824
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	800,139
	12,372,544
Endowments:	
Subject to appropriation and expenditure when a specified event occurs	4,507,813
Subject to JFCS endowment spending policy and appropriation	4,692,257
	9,200,070
Total	$23,107,944

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by the donors as follows for the year ended December 31, 2017:

Program restrictions accomplished	$2,572,979
Time restrictions expired	1,057,242
Release of appropriated endowment returns	505,107
Total	$4,135,328

NOTE 10 ENDOWMENTS

The Organization maintained 285 endowment funds in the Jewish Family and Children's Service (JFCS) endowment fund as of December 31, 2017. In addition, the supporting foundation separately maintains one endowment fund. In the consolidated financial statements, the JFCS endowment fund and the portion of the supporting organization endowment fund which benefits the Organization are collectively referred to as the Endowments.

A. JFCS ENDOWMENT FUND

The funds that comprise the JFCS endowment fund were established for a variety of purposes. The Organization established a fund at the Federation to manage these funds.

The endowment includes donor-restricted and board designated funds. As required, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gifts donated to the Endowment, and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with the UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gifts, due to unfavorable market fluctuations. There were no deficiencies of this nature as of December 31, 2017.

Return Objectives and Risk Parameters – The Organization views itself as a moderate risk taker and has adopted policies with the primary investment objective of preservation of capital, on an inflation-adjusted basis, and secondarily, to achieve long-term capital appreciation.

Strategies Employed for Achieving Objectives – The Organization has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board of directors, the endowment assets are transferred to Federation, who in turn invests in a manner intended to exceed appropriate benchmarks over a full market cycle.

Spending Policy – The Organization appropriates 4% of the average balance of the endowment's fair market value as of December 31 of each of the three years prior to the start of the fiscal year. In establishing these policies, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, 4% was determined to be the maximum sustainable spending rate that would allow the endowment to grow in excess of the rate of inflation. The Organization's board can authorize up to a 5% spending rate if conditions warrant this change.

Investment fees paid to the Federation were $109,822 for the year ended December 31, 2017.

B. SUPPORTING FOUNDATION ENDOWMENT FUND

The supporting foundation endowment fund was established to benefit the operations of JFCS and, in the future, other organizations as well. Per donor stipulations, contributions to the fund are permanently restricted, and contributions are to be invested in Israel Bonds. The portions of cash contributions and pledges that will benefit the Organization are recorded as contributions in the consolidated financial statements at the present value of the future benefit.

C. ENDOWMENT FUND SUMMARY

Endowment net assets for the JFCS and supporting foundation endowment funds as of December 31, 2017 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated:			
Endowment funds	$2,395,671	$ -	$2,395,671
Donor restricted:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	4,692,257	4,692,257
Accumulated investment gains	-	4,507,813	4,507,813
Total endowment funds	$2,395,671	$9,200,070	$11,595,741

Change in endowment net assets for the year ended December 31, 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2016	$2,050,675	$8,384,951	$10,435,626
Change in value of beneficial interest in the net assets of the Minneapolis Jewish Federation	296,320	1,181,074	1,477,394
Contributions received	48,676	139,152	187,828
Appropriation of endowment assets for expenditure	-	(505,107)	(505,107)
Endowment net assets, December 31, 2017	$2,395,671	$9,200,070	$11,595,741

NOTE 11 REVENUE CONCENTRATIONS

The Organization receives significant contributions from the Minneapolis Jewish Federation and the Twin Cities Greater United Way annually. Total contributions from these sources were approximately 6% of total revenues for the year ended December 31, 2017. Revenue from government grants and contracts was approximately 13% of total revenues for the year ended December 31, 2017.

NOTE 12 COMMITMENTS

A. LEASE COMMITMENTS

The Organization leases its main office space from the Jewish Community Building Corporation (JCBC), a subsidiary of the Minneapolis Jewish Federation through August 2019, pursuant to a lease that requires the Organization to pay only for common area maintenance costs. The difference in the common area costs and the fair value of the leased space is considered a contribution to the Organization. The fair value of the contribution for the 10-year lease was $3,443,344 at the inception of the lease, and is considered a donor-restricted promise to give to the Organization. As described in Note 14, the donated space receivable was determined to be impaired and was adjusted as of December 31, 2017.

The Organization also rents space in other locations through October 2017 and rents office equipment under various leases expiring through April 2021.

In addition, the Organization is responsible for real estate taxes and certain maintenance costs in excess of the base amounts included in the terms of the lease. Rent expense for the above leases was $209,892 in 2017.

Future minimum lease commitments for operating leases are as follows:

2018	$46,769
2019	19,393
2020	19,690
2021	6,563
Total	$92,415

B. DEFERRED COMPENSATION

The Organization has a deferred compensation plan for certain key individuals. The plan requires the Organization to accrue a percentage of the individuals' compensation to be paid after retirement. Expenses under the plan were $9,660 for the year ended December 31, 2017. In addition, certain individuals may elect to defer a portion of their salaries, subject to IRS limits, to the deferred compensation plan. Accrued amounts of $160,353 are included in long-term liabilities as of December 31, 2017.

C. LINE OF CREDIT

The Organization has a line of credit agreement with a bank through January 31, 2019 enabling it to borrow up to $650,000. Interest is payable monthly, at a variable rate of 1.0% above prime with an effective rate of 5% at December 31, 2017. The line of credit is secured by certain unrestricted endowment funds and is subject to financial and nonfinancial covenants.

At December 31, 2017, $0 was outstanding on the line of credit.

NOTE 13 RETIREMENT PLAN

The Organization sponsors a 401(k) retirement plan. Under this plan, employees age 18 years or older can contribute up to statutory limits. All employees who work a minimum of 975 hours per year and have worked for the Organization for one year are eligible to receive matching contributions from the Organization. The Organization makes a contribution equal to 100% of the employee's salary reduction up to 2% and 50% of the employee's salary reduction up to 6%. Retirement expenses under this retirement plan were $108,772 the year ended December 31, 2017.

NOTE 14 BUILDING CONTRIBUTION RECEIVABLE AND RELOCATION LOSS

During 2017, the Organization received an unconditional promise to give for a building located in Golden Valley, Minnesota. Management has estimated the fair market value of the building to be $10,000,000. The Organization moved into the new building in February 2018.

As described in Note 1I, the Organization had previously recorded an asset for donated space receivable under a lease agreement with the Jewish Community Building Corporation. The Organization wrote off the previously recorded donated space receivable as of December 31, 2017 due to the planned move. The Organization recognized a $516,502 loss during 2017 related to this write off.

NOTE 15 CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2017 the Organization elected to early implement the provisions of Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities.* This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The presentation in these consolidated financial statements has been adjusted accordingly. Net assets as of January 1, 2017 were reclassified by category with no impact on total net assets.

	January 1, 2017 previously reported	ASU 2016-14 reclassification	January 1, 2017 as reclassified
Net assets:			
Unrestricted	$2,378,523	($2,378,523)	$ -
Temporarily restricted	7,237,739	(7,237,739)	-
Permanently restricted	4,625,722	(4,625,722)	-
Without donor restrictions	-	2,378,523	2,378,523
With donor restrictions	-	11,863,461	11,863,461
Total net assets	$14,241,984	$0	$14,241,984

NOTE 16 SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organization has evaluated subsequent events through July 19, 2018, the date the consolidated financial statements were available to be issued, and concluded that there are no subsequent events that require disclosure.