Peninsula Jewish Community Center

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

June 30, 2017 with comparative totals for 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Peninsula Jewish Community Center

We have audited the accompanying financial statements of Peninsula Jewish Community Center (the “Center”) (a California non-profit public benefit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peninsula Jewish Community Center as of June 30, 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.

Report on Summarized Comparative Information

We have previously audited Peninsula Jewish Community Center’s 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

DZH Phillips LLP

San Francisco, California
December 28, 2017

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Peninsula Jewish Community Center

STATEMENT OF FINANCIAL POSITION

June 30, 2017 with comparative totals for 2016

ASSETS

	2017	2016
ASSETS		
Cash and cash equivalents	$ 1,605,315	$ 4,454,811
Membership and program receivables, net of allowance $212,000	175,658	208,153
Contributions receivable	770,470	87,615
Due from affiliates	57,564	75,353
Prepaid expenses and other assets	109,455	111,381
Investments	8,997,368	8,029,015
Cash held for long term purposes	93,626	93,575
Property and equipment - net	20,327,038	19,104,237
Total assets	$ 32,136,494	$ 32,164,140

LIABILITIES AND NET ASSETS

	2017	2016
LIABILITIES		
Accounts payable and other accrued liabilities	$ 427,834	$ 605,885
Accrued payroll, taxes, and benefits	720,047	667,712
Deferred revenue	1,598,017	1,615,852
Capital lease obligation	5,076,796	6,010,084
Note payable - pension termination	2,009,345	2,115,113
Total liabilities	9,832,039	11,014,646
COMMITMENTS	-	-
NET ASSETS		
Unrestricted		
Undesignated	10,583,035	9,346,462
Board designated reserves	2,063,884	3,195,424
	12,646,919	12,541,886
Temporarily restricted	3,597,736	2,576,004
Permanently restricted	6,059,800	6,031,604
Total net assets	22,304,455	21,149,494
Total liabilities and net assets	$ 32,136,494	$ 32,164,140

The accompanying notes are an integral part of this statement.

Peninsula Jewish Community Center

STATEMENT OF ACTIVITIES

Year ended June 30, 2017 with comparative totals for 2016

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, gains and other support					
Public support					
Jewish Community Federation	$ -	$ 92,751	$ -	$ 92,751	$ 185,501
Contributions and gifts	643,977	1,244,315	28,196	1,916,488	718,399
Revenues					
Programs	7,985,475	-	-	7,985,475	7,447,292
Membership	7,777,943	-	-	7,777,943	7,832,133
Fundraising events - net of expenses of $20,559	3,147	-	-	3,147	46,277
Rental income	122,812	-	-	122,812	194,001
Interest & dividends	-	317,087	-	317,087	224,717
Net realized/unrealized (loss) gain on investments	-	612,702	-	612,702	(25,476)
Other	106,918	-	-	106,918	71,791
Net assets released from restrictions	1,245,123	(1,245,123)	-	-	-
Total revenues, gains and other support	17,885,395	1,021,732	28,196	18,935,323	16,694,635
Expenses					
Program services	17,483,461	-	-	17,483,461	16,182,491
Supporting services					
General and administrative	489,869	-	-	489,869	563,836
Fundraising	332,628	-	-	332,628	304,927
Total expenses	18,305,958	-	-	18,305,958	17,051,254
Change in net assets from operations	(420,563)	1,021,732	28,196	629,365	(356,619)
In-kind contribution of fixed assets - affiliate	525,596	-	-	525,596	154,148
Pension termination costs	-	-	-	-	(2,158,115)
Total other (gain) loss	525,596	-	-	525,596	(2,003,967)
CHANGE IN NET ASSETS	105,033	1,021,732	28,196	1,154,961	(2,360,586)
Net assets - beginning of the year	12,541,886	2,576,004	6,031,604	21,149,494	23,510,080
Net assets - end of year	$ 12,646,919	$ 3,597,736	$ 6,059,800	$ 22,304,455	$ 21,149,494

The accompanying notes are an integral part of this statement.

Peninsula Jewish Community Center

STATEMENT OF CASH FLOWS

Year ended June 30, 2017 with comparative totals for 2016

	2017	2016
Cash flows provided by (used in) operating activities:		
Change in net assets	$ 1,154,961	$ (2,360,586)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,426,533	1,323,632
Net realized and unrealized (gain) loss on investments	(612,702)	25,476
Interest and dividends reinvested	(317,087)	(224,550)
Loss on sale of property and equipment	20,387	6,314
Permanently restricted endowment contributions	(28,196)	(11,570)
Contributed property and equipment	(525,596)	(154,148)
Changes in operating assets and liabilities		
Membership and program receivables - net	32,495	68,277
Contributions receivable - net	(682,855)	82,727
Due from affiliates	17,789	(1,149)
Prepaid expenses and other assets	1,926	138,291
Accounts payable and accrued expenses	(178,051)	(149,049)
Accrued payroll, taxes and benefits	52,335	57,712
Pension termination liability	-	(212,500)
Due to affiliates	-	(213,560)
Deferred revenue	(17,835)	63,390
Net cash provided by (used in) operating activities	344,104	(1,561,293)
Cash flows (used in) provided by investing activities:		
Purchase of investments	(38,564)	-
Proceeds from sale or maturity of investments	-	218,572
Purchases of property and equipment	(2,163,125)	(537,852)
Proceeds from sale of property and equipment	19,000	-
Change in cash held for long-term purposes	(51)	(166)
Net cash used in investing activities	(2,182,740)	(319,446)
Cash flows (used in) provided by financing activities:		
Principal payments on capital lease obligations	(933,288)	(907,177)
Proceeds received from note payable - pension termination	-	2,158,115
Principal payments on note payable - pension termination	(105,768)	(43,002)
Permanently restricted endowment contributions	28,196	11,570
Net cash (used in) provided by financing activities	(1,010,860)	1,219,506
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,849,496)	(661,233)
Cash and cash equivalents - beginning of year	4,454,811	5,116,044
Cash and cash equivalents - end of year	$ 1,605,315	$ 4,454,811
Supplemental information:		
Cash paid for interest	$ 246,946	$ 231,889

The accompanying notes are an integral part of this statement.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Peninsula Jewish Community Center (the "Center") is a California nonprofit public benefit corporation established in 1948 to provide for the social, cultural, recreational and pre-school educational needs of the Peninsula Jewish community. As it reinforces Jewish cultural and ethical values, the Center enriches the lives of individuals, families, the Jewish community and society as a whole. Programs are designed for all ages from infants to senior adults, within the North Peninsula's diverse community. A vital part of its mission is helping Jewish people find comfortable points of entry into Jewish life, to strengthen their Jewish identity, and to enable them to become more informed and involved in their community. While the Center emphasizes Jewish values which are universal, the Center does not restrict membership or program participation. In addition, the Center operates a full-service health and fitness department. The Board of Directors serves as an oversight and policy making body for the Center.

A summary of significant accounting policies follows:

<u>Basis of accounting</u>

The financial statements have been prepared on the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

<u>Description of net assets</u>

The Center reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets

The portion of nets assets that is neither temporarily restricted nor permanently restricted by donor restriction. The Board of Directors has designated a portion of unrestricted net assets as a reserve.

Temporarily restricted net assets

The portion of net assets for which use by the Center is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Center.

Permanently restricted net assets

The portion of net assets for which use by the Center is limited by donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Center.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of net assets (continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from temporarily restricted net assets and recognized as unrestricted net assets.

Tax exempt status

The Center is exempt from paying federal and state income taxes under Internal Revenue Code Section 501(c)(3) and by the California Revenue and Taxation Code under Section 23701d. Accordingly, no provision has been made for such taxes in the accompanying financial statements.

Each year, management considers whether any material tax position the Center has taken is more likely than not to be sustained upon examination by the applicable tax authority. Management believes that any positions the Center has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

Cash and cash equivalents

For purposes of the statement of cash flows, the Center considers all unrestricted, highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash held for long-term purposes

Cash held for long-term purposes represents funds that are held in money market accounts for the Center's endowment funds.

Membership and program receivables

The Center uses the allowance method to account for uncollectible receivables. The allowance for doubtful accounts reflects management's best estimate of the amounts that will not be collected based on historical experience and an evaluation of the outstanding receivables at the end of the year. At June 30, 2017, the allowance for doubtful accounts was $212,000.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments in marketable securities are reported at fair value. The fair values are based on quoted market prices for those or similar investments.

Investments received by donation are recorded at fair value at the date of donation. Net realized and unrealized gains or losses are classified as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by the donor.

Risks and uncertainties

The Center has investments in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Center's account balances and the amounts reported in the statement of financial position.

Property and equipment

The Center capitalizes all property and equipment with a cost or fair value in excess of $2,500 and an estimated useful life in excess of one year. Property and equipment are carried at cost or, if donated, at the estimated fair value on the date of the gift. Minor repairs and maintenance are expensed as incurred. Major repairs and maintenance that extend the useful life of the respective asset are capitalized. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the Center, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets. The Center will record impairment losses when determined. Depreciation is calculated using the straight-line method over estimated useful lives of 5 to 40 years.

Leasehold improvements are amortized over the lesser of the useful life of the asset or the remaining lease term.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Software development costs

The Center accounts for costs incurred for software developed or obtained for internal use in accordance with FASB ASC Topic 350-40 Internal Use Software, including capitalizing costs incurred during the application development stage with amortization on a straight-line basis beginning when the computer software is ready for its intended use. The software in progress is anticipated to begin amortization during fiscal 2018.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. At June 30, 2017, all contributions receivable are expected to be collected within the next year; therefore, there is no allowance for doubtful contributions receivable.

Contributed goods and services

Contributed materials and equipment are reflected as contributions in the accompanying statements at their estimated fair values at date of receipt. Contributed services are reflected in the financial statements at the fair value of the services received. Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are not provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. No such contributed services were received during the year ended June 30, 2017.

Many individuals volunteer their time and perform a variety of tasks that assist the Center. The Center received in excess of 5,000 volunteer hours for the year ended June 30, 2017. Such services are not recognized in the statement of activities as they do not meet the criteria for recognition as outlined above.

The Center received contributed property and equipment in the form of leasehold improvements from an affiliate as part of its long-term capital lease. These contributions amounted to $525,596 for the year ended June 30, 2017.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue

Revenue for membership and program services are recognized when the related services are provided. Payments collected in advance for membership and program services are reflected as deferred revenue in the statement of financial position.

Fair value measurements

The Center considers the use of market-based information over entity specific information in valuing its marketable investments, using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability at the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1* inputs to the valuation methodology - quoted prices (unadjusted) for identical assets or liabilities in active markets.

- *Level 2* inputs to the valuation methodology - quoted prices for similar assets or 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 investment.

- *Level 3* inputs to the valuation methodology - unobservable and significant to the fair value measurement.

An asset or liability's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Advertising costs

The Center expenses advertising costs as they are incurred. For the year ended June 30, 2017, advertising costs totaled $114,472.

Functional expenses allocation

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Uses of estimates include, but are not limited to, collectability and discounting of receivables, fair value of investments, and depreciation. Accordingly, actual results could differ from those estimates.

Comparative financial information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent events

Management has evaluated subsequent events through the date the financial statements are available to be issued, December 28, 2017, refer to Note P.

NOTE B - CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset class. As of June 30, 2017, contributions receivable are expected to be realized in the following periods:

Amounts due in less than one year	$ 505,470
Amounts due in two to five years	265,000
	$ 770,470

NOTE C - INVESTMENTS

The PJCC invests its funds in indexed mutual funds managed by independent fund managers. At June 30, 2017, investments consisted of the following:

Market index fund	$ 3,276,230
High income index fund	1,812,859
Corporate bonds fund	999,776
Foreign securities	949,683
Ginnie Mae funds	869,217
Emerging market bond index fund	460,858
Auction securities	350,000
Money market fund	278,745
	$ 8,997,368

NOTE D - FAIR VALUE DISCLOSURES

The following are the major categories of assets measured at fair value on a recurring basis during the year ended June 30, 2017, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
Market index fund	$ 3,276,230	$ 3,276,230	$ -	$ -
High income index fund	1,812,859	1,812,859	-	-
Corporate bonds fund	999,776	999,776	-	-
Foreign securities	949,683	949,683	-	-
Ginnie Mae funds	869,217	869,217	-	-
Emerging market bond index fund	460,858	460,858	-	-
Auction securities	350,000	-	-	350,000
Money market fund	278,745	278,745	-	-
	$ 8,997,368	$ 8,647,368	$ -	$ 350,000

NOTE D - FAIR VALUE DISCLOSURES (continued)

For the year ended June 30, 2017, the table below sets forth a summary of changes in the fair value of the Center's level 3 assets:

	Auction Rate Securities
Balance - June 30, 2016	$ 350,000
Unrealized gains (losses)	-
Balance - June 30, 2017	$ 350,000

NOTE E - PROPERTY AND EQUIPMENT - NET

For the year ended June 30, 2017, property and equipment consisted of the following:

Owned	
Furniture and equipment	$ 2,061,805
Leasehold improvements	2,227,860
	4,289,665
Under capital lease	
Buildings and improvements	33,294,150
Software development costs	641,762
	38,225,577
Less: accumulated depreciation and amortization	
Owned	(2,267,429)
Under capital lease	(15,631,110)
	(17,898,539)
	$ 20,327,038

For the year ended June 30, 2017, depreciation and amortization expense amounted to $1,426,533.

NOTE F - CAPITAL LEASE OBLIGATION

In 2004, the Center entered into a 53-year lease with North Peninsula Jewish Campus (NPJC), an affiliate, for its facilities in Foster City, California. Under the terms of the lease, all expenses incurred by NPJC, including salaries, rent, insurance, common services, fundraising, and costs associated with the operations and financing of the NPJC are passed on to the Center based on its allocable portion under the lease.

The Center has accounted for its share of the building and improvements financing component of the lease as a capital lease. Future minimum capital lease payments were calculated based on an expected future interest rate of 2.75%.

Future minimum lease payments due and the present value of net minimum lease payments under the facilities capital lease are estimated as follows at June 30, 2017:

Year ending June 30,	
2018	$ 1,089,053
2019	1,089,053
2020	1,089,053
2021	1,089,053
2022	1,089,055
Total minimum lease payments	5,445,267
Less: amount representing interest	(368,471)
	$ 5,076,796

For the year ended June 30, 2017, interest expense on the capital lease amounted to $155,765.

NOTE G - NOTE INDENTURE GUARANTEE

In June 2014, the Center, along with two affiliated organizations, the Ronald C. Wornick Jewish Day School (RCWJDS) and NPJC, collectively applied for an eight year, $10 million bank note to refinance debt associated with the acquisition, construction and equipment of the Center and School facilities located in Foster City. In the event of default by NPJC, certain of the Center’s assets could be immediately held by the bank until either the default is cured or the underlying assets are sold. The buildings and associated note payable are owned by the NPJC.

NOTE G - NOTE INDENTURE GUARANTEE (continued)

Accounting standards related to guarantees may require an entity to record a liability for the fair-market value of its guarantee. The Center does not meet the requirements necessary to record a liability for this guarantee as it is with an affiliate. However, it has recorded a liability for its obligations under the long-term facilities lease with the NPJC (refer to Note F).

NOTE H – DEFINED CONTRIBUTION PLAN

Defined contribution plan

On January 1, 2008, the Center established its own defined contribution pension plan. The Plan provides retirement benefits to substantially all employees and establishes a matching contribution equal to 50% of the employee's deferral up to 4% of compensation. Employer matching contributions vest proportionally over 5 years. Matching and profit sharing benefits paid during the year ended June 30, 2017, amounted to $328,987.

NOTE I - NOTE PAYABLE - PENSION TERMINATION

On December 18, 2015, the Center entered into a $2,158,115 note payable agreement with the Jewish Community Federation of San Francisco, the Peninsula, Marin and Sonoma Counties. The note payable was obtained in connection with the termination of the Retirement Plan of the Jewish Community Federation of San Francisco, the Peninsula, Marin and Sonoma Counties and Affiliated Agencies. The note bears interest at a rate of 4.35% per annum. Monthly principal and interest payments of $16,412 are due beginning January 31, 2016 through January 31, 2031. The balance outstanding at June 30, 2017 amounted to $2,009,345.

NOTE I - NOTE PAYABLE - PENSION TERMINATION (continued)

The future maturities of the note payable are as follows:

Year ending June 30,	
2018	$ 110,528
2019	115,503
2020	120,491
2021	126,124
2022	131,800
Thereafter	1,404,899
	$ 2,009,345

Interest expense incurred on the note amounted to $91,181 for the year ended June 30, 2017.

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017, and related releases for the year then ended consist of the following:

	Balance at June 30, 2017	Releases during the year then ended
Programs	$ 937,193	$ 850,123
Accumulated endowment earnings	2,645,217	395,000
Other	15,326	-
	$ 3,597,736	$ 1,245,123

NOTE K - PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2017, permanently restricted net assets consisted of the following:

Judy Edelson Endowment	$ 4,023,514
Eva Lokey Endowment	1,928,500
Peninsula Jewish Community Center Endowment	62,786
Sylvia Merkadeau Endowment	20,000
Daniel Cook Endowment	25,000
	$ 6,059,800

NOTE L - ENDOWMENTS

The Center's endowments consist of funds established for a variety of purposes. Its endowments are comprised exclusively of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, if any, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of the law

The Center's Board of Directors has interpreted California's enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as allowing the Center to appropriate for expenditure or accumulate as much of an endowment fund as the Center determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. As a result of this interpretation, the Center has not changed the way permanently restricted net assets are classified. 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 in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

NOTE L - ENDOWMENTS (continued)

Return objectives and risk parameters

The Center 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 maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds, if any. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Center expects its endowment funds, over time, to provide an average rate of return of approximately five percent annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to the spending policy

The Center has a policy of allowing appropriations for distribution of up to five percent of its endowment fund balance, or at an alternative level based on any donor directives, as of June 30 before the fiscal year that the funds will be allocated, provided that the endowment fund's balances meet the requirements of the Center's policy.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. There were no such deficiencies for the year ended June 30, 2017.

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 2,645,217	$ 6,059,800	$ 8,705,017

NOTE L - ENDOWMENTS (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment of net assets - beginning of year	$ 2,110,428	$ 6,031,604	$ 8,142,032
Investment return			
Investment income	317,087	-	317,087
Net realized and unrealized gains	612,702	-	612,702
Total investment return	929,789	-	929,789
Contributions	-	28,196	28,196
Appropriation of endowment assets for expenditure	(395,000)	-	(395,000)
Endowment net assets - end of year	$ 2,645,217	$ 6,059,800	$ 8,705,017

NOTE M - CONCENTRATIONS

Financial instruments that potentially subject the Center to concentrations of credit risk consist primarily of cash and equivalents, contributions receivable and investments. Risks associated with cash and cash equivalents, are mitigated by banking with credit worthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently $250,000 per depositor). PJCC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. Investments, including temporary holdings of cash equivalents, are maintained at major brokerages and are closely monitored by management. Management believes the investments are of a quality grade that minimizes their risk.

Approximately 83% of outstanding contributions receivable at June 30, 2017, was due from two donors.

NOTE M - CONCENTRATIONS (continued)

Approximately 22% of the Center's program service expenses for the year ended June 30, 2017 were incurred with a vendor that managed the Center's health and fitness department. Payments to this vendor consisted of the following for the year ended June 30, 2017:

Reimbursements for payroll	$	3,506,058
Reimbursements for supplies and equipment		27,577
Other expenses		31,171
Management fee		249,996
Total paid to management company	$	3,814,802

NOTE N - RELATED PARTY TRANSACTIONS

The Center's long-term facilities lease with NPJC requires the Center to pay a pre-determined proportionate percentage of the common charges of the campus facilities. For the year ended June 30, 2017, these common charges totaled $1,192,251.

The Center received in-kind contributions of equipment from NPJC in the amount of $525,596.

The Center received $55,684 in contributions and/or fundraising event support from members of the Board of Directors for the year ended June 30, 2017.

The Center pays approximately $23,470 per month in land rental payments to NPJC. Rent payments amounted to $281,644 for the year ended June 30, 2017.

The Center pays rental payments related to the use of the facilities under the capital lease liability. For the year ended June 30, 2017 rental expense on the facilities amounted to $494,407.

NOTE O - COLLECTIVE BARGAINING AGREEMENT

Approximately 16% of the Center's employees are members of the Service Employees' International Union, Local 521. The Center's contract with the union expires April 30, 2019.

NOTE P - SUBSEQUENT EVENTS

Effective July 2017, the NPJC Board set new, fixed annual rental payments in relation to debt service payments associated with the Foster City note and the First Republic Bank note. For the Foster City note, PJCC would pay $256,367, and for the First Republic Note, PJCC would pay $1,233,462. These payments are planned to be ongoing until the debt is paid in full.