



Certified Public Accountants
and Financial Advisors

Peninsula Jewish Community Center
Financial Statements
June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Peninsula Jewish Community Center
Foster City, California

Report on the Financial Statements

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, 2018, 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.

Auditor's 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 auditor's 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, 2018, 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

As discussed in Note 12 of the financial statements, the financial statements of the Center as of and for the year ended June 30, 2017 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

The financial statements of Peninsula Jewish Community Center as of and for the year ended June 30, 2017, before they were restated for the matter discussed in Note 12 to the financial statements, were audited by DZH Philips LLP, who merged with Squar Milner LLP as of January 1, 2018, and whose report dated December 28, 2017, expressed an unmodified opinion on those financial statements.

As part of our audit of the financial statements as of and for the year ended June 30, 2018, we also audited the adjustments described in Note 12 that were applied to restate the financial statements as of and for the year ended June 30, 2017. In our opinion such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the financial statements as of and for the year ended June 30, 2017 of the Center other than with respect to the adjustments and accordingly, we do not express an opinion or any other form of assurance on the financial statements as of and for the year ended June 30, 2017, as a whole.

SQUAR MILNER LLP

San Francisco, California
March 7, 2019

PENINSULA JEWISH COMMUNITY CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2018
(with summarized comparative totals at June 30, 2017)

	ASSETS	
	2018	2017 (as restated)
Assets		
Cash and cash equivalents	\$ 1,273,344	\$ 1,605,315
Membership and program receivables, net of allowance \$212,000	160,298	175,658
Contributions receivable	358,333	770,470
Due from affiliates	175,941	57,564
Prepaid expenses and other assets	122,169	109,455
Investments	9,242,878	8,997,368
Cash held for long term purposes	25,644	93,626
Property and equipment - net	19,338,367	20,327,038
Total assets	\$ 30,696,974	\$ 32,136,494
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 484,194	\$ 427,834
Accrued payroll, taxes, and benefits	683,436	720,047
Deferred revenue	1,705,452	1,598,017
Capital lease obligation	4,117,150	5,076,796
Note payable - pension termination	1,899,091	2,009,345
Total liabilities	8,889,323	9,832,039
Net Assets		
Unrestricted		
Undesignated	10,112,321	10,645,821
Board designated reserves	2,271,854	2,063,884
	12,384,175	12,709,705
Temporarily restricted	3,426,462	3,597,736
Permanently restricted (as restated)	5,997,014	5,997,014
Total net assets	21,807,651	22,304,455
Total liabilities and net assets	\$ 30,696,974	\$ 32,136,494

PENINSULA JEWISH COMMUNITY CENTER
STATEMENT OF ACTIVITIES
For the year ended June 30, 2018
(with summarized comparative totals for the year ended June 30, 2017)

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES, GAINS AND OTHER SUPPORT					
Public support					
Jewish Community Federation	\$ -	\$ -	\$ -	\$ -	\$ 92,751
Contributions and gifts	445,014	300,456	-	745,470	1,916,488
Revenues					
Programs	8,131,543	-	-	8,131,543	7,985,475
Membership	8,159,272	-	-	8,159,272	7,777,943
Fundraising events - net of expenses of \$27,568	(2,162)	-	-	(2,162)	3,147
Rental income	108,996	-	-	108,996	122,812
Interest & dividends	330	174,885	-	175,215	317,087
Net realized/unrealized (loss) gain on investments	15	453,809	-	453,824	612,702
Other	71,781	-	-	71,781	106,918
Net assets released from restrictions	1,100,424	(1,100,424)	-	-	-
Total revenues, gains and other support	<u>18,015,213</u>	<u>(171,274)</u>	<u>-</u>	<u>17,843,939</u>	<u>18,935,323</u>
EXPENSES					
Program services	17,926,347	-	-	17,926,347	17,483,461
Supporting services					
General and administrative	484,620	-	-	484,620	489,869
Fundraising	377,531	-	-	377,531	332,628
Total expenses	<u>18,788,498</u>	<u>-</u>	<u>-</u>	<u>18,788,498</u>	<u>18,305,958</u>
Change in net assets from operations	(773,285)	(171,274)	-	(944,559)	629,365
IN-KIND CONTRIBUTION OF FIXED ASSETS - AFFILIATE	<u>447,755</u>	<u>-</u>	<u>-</u>	<u>447,755</u>	<u>525,596</u>
CHANGE IN NET ASSETS	<u>(325,530)</u>	<u>(171,274)</u>	<u>-</u>	<u>(496,804)</u>	<u>1,154,961</u>
NET ASSETS - beginning of year, as originally reported	12,646,919	3,597,736	6,059,800	22,304,455	21,149,494
Reclassification of donations	62,786	-	(62,786)	-	-
NET ASSETS - beginning of year, as restated	<u>12,709,705</u>	<u>3,597,736</u>	<u>5,997,014</u>	<u>22,304,455</u>	<u>21,149,494</u>
NET ASSETS - end of year	<u>\$ 12,384,175</u>	<u>\$ 3,426,462</u>	<u>\$ 5,997,014</u>	<u>\$ 21,807,651</u>	<u>\$ 22,304,455</u>

PENINSULA JEWISH COMMUNITY CENTER
STATEMENT OF CASH FLOWS
For the year ended June 30, 2018
(with summarized comparative totals for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (496,804)	\$ 1,154,961
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,587,946	1,426,533
Net realized and unrealized gain on investments	(453,824)	(612,702)
Interest and dividends reinvested	(175,215)	(317,087)
Loss on sale of property and equipment	865	20,387
Permanently restricted endowment contributions	-	(28,196)
Contributed property and equipment	(447,755)	(525,596)
Changes in operating assets and liabilities:		
Membership and program receivables - net	15,360	32,495
Contributions receivable - net	412,137	(682,855)
Due from affiliates	(118,377)	17,789
Prepaid expenses and other assets	(12,714)	1,926
Accounts payable and accrued expenses	56,360	(178,051)
Accrued payroll, taxes and benefits	(36,611)	52,335
Deferred revenue	107,435	(17,835)
Net cash provided by operating activities	438,803	344,104
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(11,471)	(38,564)
Proceeds from sale or maturity of investments	395,000	-
Purchases of property and equipment	(152,385)	(2,163,125)
Proceeds from sale of property and equipment	-	19,000
Change in cash held for long-term purposes	67,982	(51)
Net cash used in investing activities	299,126	(2,182,740)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(959,646)	(933,288)
Principal payments on note payable - pension termination	(110,254)	(105,768)
Permanently restricted endowment contributions	-	28,196
Net cash used in financing activities	(1,069,900)	(1,010,860)
Net decrease in cash and cash equivalents	(331,971)	(2,849,496)
CASH AND CASH EQUIVALENTS - beginning of year	1,605,315	4,454,811
CASH AND CASH EQUIVALENTS - end of year	\$ 1,273,344	\$ 1,605,315
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 216,103	\$ 246,946

PENINSULA JEWISH COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. 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:

Basis of Accounting

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.

Description of Net Assets

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 net 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.

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.

PENINSULA JEWISH COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, the allowance for doubtful accounts was \$212,000.

Investments

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

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.

PENINSULA JEWISH COMMUNITY CENTER

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 year 2019.

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, 2018, 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, 2018.

PENINSULA JEWISH COMMUNITY CENTER

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Goods and Services (continued)

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, 2018. 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 \$447,755 for the year ended June 30, 2018 (refer to Note 14).

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, 2018, advertising costs totaled \$190,655.

PENINSULA JEWISH COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, depreciation, and the functional allocation of expenses. 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, 2017, 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, March 7, 2019.

Recently Issued Accounting Standards

In August 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities (ASU 2016-14). ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. ASU 2016-14 requires amended presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Center is currently assessing the potential impact of this guidance on its financial statements.

PENINSULA JEWISH COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

2. 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, 2018, contributions receivable amount to \$358,333 and are due in less than one year.

3. INVESTMENTS

The PJCC invests its funds in indexed mutual funds managed by independent fund managers. At June 30, 2018, investments consisted of the following:

Market index fund	\$ 3,191,654
High income index fund	1,879,440
Foreign securities	1,195,401
Corporate bonds fund	1,003,775
Ginnie Mae funds	864,564
Emerging market bond index fund	466,638
Auction securities	350,000
Money market fund	267,525
Mutual funds	<u>23,881</u>
	<u>\$ 9,242,878</u>

4. 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, 2018, 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	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Market index fund	\$ 3,191,654	\$ 3,191,654	\$ -	\$ -
High income index fund	1,879,440	1,879,440	-	-
Foreign securities	1,195,401	1,195,401	-	-
Corporate bonds fund	1,003,775	1,003,775	-	-
Ginnie Mae funds	864,564	864,564	-	-
Emerging market bond index fund	466,638	466,638	-	-
Auction securities	350,000	-	-	350,000
Money market fund	267,525	267,525	-	-
Mutual funds	<u>23,881</u>	<u>23,881</u>	-	-
	<u>\$ 9,242,878</u>	<u>\$ 8,892,878</u>	<u>\$ -</u>	<u>\$ 350,000</u>

PENINSULA JEWISH COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

4. FAIR VALUE DISCLOSURES (continued)

For the year ended June 30, 2018, 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, 2017	\$ 350,000
Unrealized gains (losses)	-
Balance - June 30, 2018	\$ 350,000

5. PROPERTY AND EQUIPMENT - NET

At June 30, 2018, property and equipment consisted of the following:

Owned	
Furniture and equipment	\$ 2,111,252
Leasehold improvements	2,279,041
	4,390,293
Under capital lease	
Buildings and improvements	33,332,396
Software development costs	684,208
	38,406,897
Less: accumulated depreciation and amortization	
Owned	(2,572,288)
Under capital lease	(16,496,242)
	(19,068,530)
	\$ 19,338,367

For the year ended June 30, 2018, depreciation and amortization expense amounted to \$1,587,946.

6. 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.

PENINSULA JEWISH COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. CAPITAL LEASE OBLIGATION (continued)

The Center has accounted for its share of the building and improvements financing component of the lease as a capital lease. The term of this portion of the lease is through June 2022, concurrent with the due date of the guaranteed loan (refer to Note 7). 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, 2018:

<u>Year ending June 30,</u>	
2019	\$ 1,089,053
2020	1,089,053
2021	1,089,053
2022	<u>1,089,055</u>
Total minimum lease payments	4,356,214
Less: amount representing interest	<u>(239,064)</u>
	<u><u>\$ 4,117,150</u></u>

Payments due on the lease after June 30, 2022 have not been determined.

For the year ended June 30, 2018, interest expense on the capital lease amounted to \$129,408.

7. 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.

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 6).

PENINSULA JEWISH COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. 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 contributions paid during the year ended June 30, 2018, amounted to \$95,366.

9. 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, 2018 amounted to \$1,899,091.

The future maturities of the note payable are as follows:

<u>Year ending June 30,</u>	
2019	\$ 115,503
2020	120,491
2021	126,124
2022	131,800
2023	137,732
Thereafter	<u>1,267,441</u>
	<u>\$ 1,899,091</u>

Interest expense incurred on the note amounted to \$86,695 for the year ended June 30, 2018.

PENINSULA JEWISH COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018, and related releases for the year then ended consist of the following:

	<u>Balance at June 30, 2018</u>	<u>Releases during the year then ended</u>
Programs	\$ 464,920	\$ 726,955
Accumulated endowment earnings	2,900,442	373,469
Time restricted	61,100	-
	<u>\$ 3,426,462</u>	<u>\$ 1,100,424</u>

11. PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2018, permanently restricted net assets consisted of the following:

Permanent

Judy Edelson Endowment	\$ 4,023,514
Eva Lokey Endowment	1,928,500
Sylvia Merkadeau Endowment	20,000
Daniel Cook Endowment	25,000
	<u>\$ 5,997,014</u>

12. RESTATEMENT

During the year ended June 30, 2018, management determined that donations totaling \$62,786, previously thought to be for an endowment fund, were actually board designated funds set aside over a period of time for a board designated endowment. Accordingly, these funds have been reclassified from permanently restricted to unrestricted, retroactive to July 1, 2017. The restatement had no effect on the change in net assets for the year ended June 30, 2018.

13. 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.

PENINSULA JEWISH COMMUNITY CENTER
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13. ENDOWMENTS (continued)

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:

Interpretation of the Law (continued)

- (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

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.

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13. ENDOWMENTS (continued)

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, 2018.

Endowment net asset composition by type of fund as of June 30, 2018, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 2,900,442	\$ 5,997,014	\$ 8,897,456

Changes in endowment net assets for the fiscal year ended June 30, 2018:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year, as originally reported	\$ 2,645,217	\$ 6,059,800	\$ 8,705,017
Restatement (Note 12)	-	(62,786)	(62,786)
Endowment net assets - beginning of year, as restated	\$ 2,645,217	\$ 5,997,014	\$ 8,642,231
Investment return			
Investment income	174,885	-	174,885
Net realized and unrealized gains	453,809	-	453,809
Total investment return	628,694	-	628,694
Appropriation of endowment assets for expenditure	(373,469)	-	(373,469)
Endowment net assets - end of year	\$ 2,900,442	\$ 5,997,014	\$ 8,897,456

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14. 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 74% of outstanding contributions receivable at June 30, 2018, was due from one donor.

Approximately 22% of the Center's program service expenses for the year ended June 30, 2018 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, 2018:

Reimbursements for payroll	\$ 3,594,255
Reimbursements for supplies and equipment	23,232
Management fee	249,996
Other expenses	<u>34,952</u>
Total paid to management company	<u>\$ 3,902,435</u>

In December 2018, the Center terminated their contract with Active Wellness, refer to Note 17.

15. 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, 2018, these common charges totaled \$1,187,888.

The Center received in-kind contributions of equipment from NPJC in the amount of \$447,755.

The Center received \$49,447 in contributions and/or fundraising event support from members of the Board of Directors for the year ended June 30, 2018.

The Center pays approximately \$21,364 per month in land rental payments to NPJC. Rent payments amounted to \$256,368 for the year ended June 30, 2018.

The Center pays rental payments related to the use of the facilities under the capital lease liability. For the year ended June 30, 2018, rental expense on the facilities amounted to \$144,403.

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16. COLLECTIVE BARGAINING AGREEMENT

Approximately 39% 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.

17. SUBSEQUENT EVENT

In December 2018, the Center terminated their contract with Active Wellness and are now operating the Center's health and fitness department in-house.