HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT ACCOUNTANT'S REVIEW REPORT

YEARS ENDED JUNE 30, 2015 AND 2014

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Hebrew Free Loan Association
San Francisco, California

We have reviewed the accompanying consolidated statements of financial position of Hebrew Free Loan Association of San Francisco and Affiliate (the Agency) as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Agency's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 11, 2015

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HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS:		
Cash and cash equivalents	$ 425,339	$ 405,112
Contributions and bequests receivable	961,292	624,670
Loans receivable, net	8,023,436	7,732,825
Loan collateral deposits	99,191	114,230
Life insurance proceeds receivable	141,481	
Cash surrender value of life insurance		90,768
Prepaid expenses	26,585	25,898
Charitable remainder trust assets	130,579	132,101
Beneficial interest in assets held by Jewish Community Federation	527,472	590,558
Investments	3,108,256	3,646,723
Property and equipment, net	88,247	18,416
TOTAL ASSETS	$ 13,531,878	$ 13,381,301
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 58,030	$ 40,683
Accrued vacation	40,850	41,348
Loan collateral deposits	121,276	128,315
Liability to beneficiaries	8,975	11,262
Accrued pension liability	265,299	262,820
Other post-retirement obligations	168,635	230,558
Total liabilities	663,065	714,986
NET ASSETS:		
Unrestricted	5,507,623	5,323,268
Temporarily restricted	396,279	375,032
Permanently restricted	6,964,911	6,968,015
Total net assets	12,868,813	12,666,315
TOTAL LIABILITIES AND NET ASSETS	$ 13,531,878	$ 13,381,301

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
UNRESTRICTED NET ASSETS:		
REVENUES:		
Contributions	$ 543,506	$ 540,498
Bequests	349,927	227,526
Special events, net of direct benefit to donors of $133,285 in 2015 and $8,430 in 2014	153,401	8,705
Investment income	19,137	414,016
Other income	70,163	108,456
Net assets released from restrictions	37,435	19,963
Interfund transfer	188,713	184,402
Total revenues	1,362,282	1,503,566
EXPENSES:		
Program services	566,966	706,778
Supporting services:		
Fundraising	442,341	373,770
General and administrative	152,154	234,707
Total supporting services	594,495	608,477
Total expenses	1,161,461	1,315,255
INCOME FROM OPERATIONS	200,821	188,311
Pension-related changes other than net periodic benefit costs	(16,466)	10,642
CHANGE IN UNRESTRICTED NET ASSETS	184,355	198,953
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	57,917	20,175
Change in value of charitable remainder trusts	765	13,112
Net assets released from restrictions	(37,435)	(19,963)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	21,247	13,324
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	136,033	327,719
Bequests	49,576	662,145
Interfund transfer	(188,713)	(184,402)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	(3,104)	805,462
CHANGE IN NET ASSETS	202,498	1,017,739
NET ASSETS, Beginning of Year	12,666,315	11,648,576
NET ASSETS, End of Year	$ 12,868,813	$ 12,666,315

See accompanying notes and independent accountant's review report.

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program Services	Fundraising	General and Administrative	Total
Salaries	$ 287,132	$ 232,311	$ 87,463	$ 606,906
Benefits and payroll taxes	119,388	98,292	5,490	223,170
Special events	605	133,544		134,149
Rent	34,804	28,431	12,956	76,191
Legal	44,300			44,300
Maintenance and repairs	19,557	17,606	4,612	41,775
Publicity and public relations	17,096	11,195	4,271	32,562
Postage	2,771	14,353	6,468	23,592
Accounting	7,278	5,318	5,304	17,900
Telephone and internet	7,359	5,741	4,470	17,570
Consultants	6,307	2,494	6,021	14,822
Insurance	3,116	3,490	3,236	9,842
Office supplies	4,257	3,024	1,336	8,617
Bank and investment fees	250	6,605	645	7,500
Depreciation	1,622	1,852	2,388	5,862
Dues and conferences	74	658	4,971	5,703
Bad debt expense	5,297			5,297
Leadership development	92	172	302	566
Other	5,661	10,540	2,221	18,422
Total functional expenses	566,966	575,626	152,154	1,294,746
Less direct expenses of special events		(133,285)		(133,285)
Total expenses reported on statement of activities	$ 566,966	$ 442,341	$ 152,154	$ 1,161,461

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Program Services	Fundraising	General and Administrative	Total
Salaries	$ 365,744	$ 172,811	$ 53,603	$ 592,158
Benefits and payroll taxes	185,287	116,806	82,449	384,542
Special events	12	8,435	127	8,574
Rent	33,250	16,058	28,722	78,030
Legal	877		2,660	3,537
Maintenance and repairs	18,847	11,768	10,833	41,448
Publicity and public relations	31,002	12,935	19,900	63,837
Postage	2,147	8,795	3,802	14,744
Accounting	8,341	3,589	5,758	17,688
Telephone and internet	4,658	3,725	4,643	13,026
Consultants	4,295	1,993	3,906	10,194
Insurance	2,667	7,655	2,733	13,055
Office supplies	4,439	3,233	2,388	10,060
Bank and investment fees	165	5,417	3,404	8,986
Depreciation	1,828	1,655	3,056	6,539
Dues and conferences			3,278	3,278
Bad debt expense	35,835			35,835
Leadership development	155	1,066	1,377	2,598
Other	7,229	6,259	2,068	15,556
Total functional expenses	706,778	382,200	234,707	1,323,685
Less direct expenses of special events		(8,430)		(8,430)
Total expenses reported on statement of activities	$ 706,778	$ 373,770	$ 234,707	$ 1,315,255

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 202,498	$ 1,017,739
Reconciliation to net cash used by operating activities:		
Principal receipts on loans receivable	3,320,656	3,031,751
Loans receivable funding	(3,616,564)	(3,857,791)
Net realized and unrealized loss (gain) on investments	144,021	(325,051)
Change in value of cash surrender value of life insurance		(8,348)
Change in value of beneficial interest in assets held by Jewish Community Federation	(17,436)	(82,318)
Change in value of charitable remainder trusts	(765)	(13,112)
Bad debt expense	5,297	35,835
Depreciation	5,862	6,539
Permanently restricted contributions and bequests	(185,609)	(989,864)
Changes in:		
Contributions and bequests receivable	(336,622)	(247,312)
Loan collateral deposits	8,000	
Life insurance proceeds receivable	(141,481)	
Cash surrender value of life insurance	90,768	
Prepaid expenses	(687)	9,298
Accounts payable	17,347	(4,920)
Accrued vacation	(498)	(12,752)
Accrued pension liability	2,479	(28,676)
Other post-retirement obligations	(61,923)	171,302
Net cash used by operating activities	(564,657)	(1,297,680)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(859,054)	(583,843)
Proceeds from sale of investments	1,253,500	898,081
Distribution from beneficial interest in assets held by Jewish Community Federation	80,522	55,852
Purchases of property and equipment	(75,693)	(1,301)
Net cash provided by investing activities	399,275	368,789
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions and bequests	185,609	989,864
NET CHANGE IN CASH AND CASH EQUIVALENTS	20,227	60,973
CASH AND CASH EQUIVALENTS, Beginning of Year	405,112	344,139
CASH AND CASH EQUIVALENTS, End of Year	$ 425,339	$ 405,112

See accompanying notes and independent accountant's review report.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of activities – Hebrew Free Loan Association of San Francisco (HFLA) is a nonprofit corporation organized to provide interest-free loans to Jewish individuals and families in Northern California for tuition and education-related costs, emergencies, personal financial challenges, first-time home purchases, debt consolidation, starting or expanding small businesses, adopting a child, and special medical needs. HFLA also makes loans to Jewish organizations and synagogues. Loans, made only to those exhibiting a need for financial assistance, are made after application and approval of board or board committees and a minimum of two officers.

Principles of consolidation – HFLA acts as trustee for the Charles Miller Charitable Trust (the Trust), a nonprofit organization established to provide interest-free loans to Jewish students. Although the Trust is a separate legal entity, it is controlled by HFLA through common board membership. The accompanying consolidated financial statements include the accounts of HFLA and the Trust (collectively, the Agency). All significant inter-entity transactions and account balances have been eliminated in the consolidation.

Basis of presentation – The consolidated financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Funding – The Agency receives the majority of its revenue through contributions and bequests from individuals, as well as grants from foundations. A significant portion of its income is also derived from the Agency's investments.

Revenue recognition – Contributions, grants, and bequests are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the consolidated statements of activities as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purposes. Permanently restricted net assets are those net assets whose use by the Agency is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by the actions of the Agency and consist of contributions to the Agency's endowment funds.

Cash and cash equivalents – For financial statement purposes, the Agency considers all investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term investing purposes.

The Agency maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Agency has not experienced any losses in such accounts. Management believes the Agency is not exposed to any significant credit risk related to cash.

Investments are stated at fair value.

Contributions and bequests receivable – Amounts receivable from donors and their estates are generally expected to be collected within one year. As management believes that all donation and bequests receivable are fully collectible, there is no allowance for uncollectible amounts. Contributions and bequests receivable include amounts that are subject to estimation by the Agency based on information provided to the Agency by the donors' representatives. A reasonable possibility exists that amounts ultimately received upon settlement of the estates may differ from the amount initially recorded. However, the amount of the difference cannot be determined.

Loans receivable – Loans receivable represent loans made in accordance with the Agency's mission. Loans are made from unrestricted Agency funds as well as permanently restricted funds donated with the stipulation that funds be used in perpetuity for lending purposes. Although the Agency has the right to call the loans at any time, they are generally repaid within two to ten years. All loans are interest free. Loans are periodically reviewed for collectibility by management, who records an allowance for uncollectible loans. This allowance is based on prior collection experience. Loans are written off as a charge to the allowance when, in the Agency's estimation, it is probable that the loan balance will not be collected.

Loan collateral deposits include collateral for loans receivable held by the Agency. Deposits are returned upon repayment of the related loan. Each deposit is held in a separate bank account maintained by the Agency. The liability for loan collateral deposits includes the loan collateral deposits and additional cash collateral that is commingled with the Agency's funds.

Charitable remainder trust assets include the estimated fair value of irrevocable charitable trusts in which the Agency is both the trustee and remainder beneficiary, as well as the estimated net present value of the Agency's remainder interest in irrevocable trusts for which the Agency is the remainder beneficiary. The fair value of the assets wherein the Agency is not the trustee is determined using investment returns consistent with the composition of the asset portfolios, life expectancies, and discount rates ranging from 6.5% to 8% at June 30, 2015 and June 30, 2014.

Liability to beneficiaries represents the present value of the liability due to the primary beneficiaries of irrevocable charitable remainder trusts for which the Agency is both trustee and remainder beneficiary. The present value of the estimated future payments is calculated using a discount rate of 2.0% and 2.2% at June 30, 2015 and 2014, respectively, and applicable mortality tables.

Property and equipment is stated at cost. The Agency capitalizes all expenditures for property and equipment in excess of $1,000. Depreciation is computed using the straight-line method over estimated useful lives of the assets, ranging from five to seven years.

Functional expenses – The Agency allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with a specific program or support service are allocated directly. Costs attributable to multiple functions are allocated according to the relative amount of staff time spent on the respective functions.

Income taxes – HFLA and the Trust are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code but are subject to income taxes from activities unrelated to their tax-exempt purposes. The Agency has implemented the amended accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Agency is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2011.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates included in these financial statements include the value of contributions and bequests receivable, allowance for uncollectible loans, fair value of charitable remainder trust assets, and the useful lives of property and equipment. Accordingly, actual results could differ from those estimates.

Subsequent events have been reviewed through November 11, 2015, the date of the independent accountant's review report. Management concluded that no material subsequent events have occurred since June 30, 2015 that require recognition or disclosure in the consolidated financial statements.

Reclassification – Certain 2014 amounts have been reclassified to conform to the 2014 financial statement presentation.

2. INVESTMENTS

Investments consist of the following:

	2015	2014
Israel bonds (with maturities of June 2015 through November 2021)	$ 151,100	$ 154,600
Mutual funds:		
Multi-sector bond	1,717,656	2,022,711
Mid-cap blend	1,239,500	1,469,412
Total	$ 3,108,256	$ 3,646,723

Investment income consists of the following:

	2015	2014
Interest and dividends	$ 163,158	$ 88,965
Net realized and unrealized gains (losses)	(144,021)	325,051
Total	$ 19,137	$ 414,016

3. LOANS RECEIVABLE

Loans receivable consist of the following types of loans:

	2015	2014
Student loans	$ 5,693,113	$ 5,073,491
Debt consolidation loans	700,745	841,209
Business loans	590,923	828,809
General loans	469,255	431,899
First-time home buyer loans	278,330	198,740
Unemployment loans	143,675	187,005
Health care loans	131,873	141,550
Emergency loans	32,155	41,881
Adoption loans	22,257	19,995
Institutional loans	21,110	27,230
Total	8,083,436	7,791,809
Less allowance for uncollectible loans	(60,000)	(58,984)
Loans receivable, net	$ 8,023,436	$ 7,732,825

Future scheduled repayments of loans receivable are as follows:

Year ending June 30:	
2016	$ 3,030,195
2017	2,306,558
2018	1,424,456
2019	675,866
2020	344,991
Thereafter	301,370
Total	$ 8,083,436

4. BENEFICIAL INTEREST IN ASSETS HELD BY JEWISH COMMUNITY FEDERATION

Certain assets have been transferred by the Agency to the Jewish Community Federation (Federation) for investment purposes, with the understanding that the income and principal pertaining to these assets would be distributed to the Agency upon their request. Although the Agency’s Board of Directors recommends distributions from the fund, the trustees of the Federation maintain variance power over these funds and have final discretion. However, because the assets are for the exclusive use of supporting the charitable or educational purposes of the Agency, the Agency includes these assets in its consolidated statements of financial position.

5. CHARITABLE REMAINDER TRUST ASSETS

Charitable remainder trust assets consist of the following:

	2015	2014
Assets held in charitable remainder trust in which the Agency is both trustee and remainder beneficiary	$ 25,893	$ 23,247
Charitable remainder interests receivable from third parties	104,686	108,854
Total	$ 130,579	$ 132,101

6. FAIR VALUE MEASUREMENTS

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 Inputs — Inputs other than quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs — Unobservable inputs for the asset or liability.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

The Agency's assets subject to recurring fair value measurements are classified as follows:

Year ending June 30, 2015:	**Level 1**	**Level 2**	**Level 3**
Investments	$ 2,957,156	$ 151,100	
Beneficial interest in assets held by Jewish Community Federation		527,472	
Charitable remainder trust assets	25,893		$ 104,686
Total	$ 2,983,049	$ 678,572	$ 104,686

Year ending June 30, 2014:	**Level 1**	**Level 2**	**Level 3**
Investments	$ 3,492,123	$ 154,600	
Beneficial interest in assets held by Jewish Community Federation		590,558	
Cash surrender value of life insurance		90,768	
Charitable remainder trust assets	23,247		$ 108,854
Total	$ 3,515,370	$ 835,926	$ 108,854

The Agency's investments in mutual funds and charitable remainder trust assets in which the Agency is both trustee and remainder beneficiary are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Agency's investments in Israel bonds are classified within Level 2 of the fair value hierarchy because they are valued using alternative pricing methods using observable information inputs, such as current interest rates.

Beneficial interest in assets held by the Jewish Community Federation are valued within Level 2 of the fair value hierarchy because it is valued based on its share of the underlying value of investments held by the Federation, which are primarily based on quoted market prices within active markets.

The cash surrender value of life insurance is valued within Level 2 of the fair value hierarchy based primarily on quoted prices for similar assets in active or inactive markets.

The Agency's charitable remainder trust assets in which the Agency has a remainder interest in irrevocable trusts are classified within Level 3 of the hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions. Changes in Level 3 inputs for the years ending June 30, 2015 and 2014 consist of unrealized increases/decreases in the value of charitable remainder trust assets.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of:

	2015	2014
Computer and software	$ 293,284	$ 217,591
Furniture and equipment	47,467	47,467
Website	9,947	9,947
Leasehold improvements	2,085	2,085
Total	352,783	277,090
Less accumulated depreciation	(264,536)	(258,674)
Property and equipment, net	$ 88,247	$ 18,416

8. NET ASSETS

The Agency's unrestricted net assets are categorized as follows:

	2015	2014
Board designated reserve	$ 3,515,634	$ 4,118,064
Undesignated	1,991,989	1,205,204
Total	$ 5,507,623	$ 5,323,268

The Agency's Board designated reserve represents the portion of the Agency's unrestricted net assets held for investment and capital accumulation. The goal is to grow this reserve and have it be a permanent source of cash flow to support the operating costs of the Agency. In years where the level of support and revenue received by the organization is insufficient to cover the operating expenditures of the organization, the Agency makes periodic distributions from its reserve sufficient to cover these costs.

Temporarily restricted net assets are restricted for the following programs:

	2015	2014
Endorsement funds (to be used to guarantee loans without co-signers)	$ 214,422	$ 214,247
Charitable remainder trusts – time restricted	121,604	120,839
Time restricted	44,757	10,000
Becker Award Fund	7,501	12,661
Young leadership program	4,077	4,077
Financial fitness	2,671	3,981
Tech support		7,980
Other	1,247	1,247
Total	$ 396,279	$ 375,032

Permanently restricted net assets consist of the following:

	2015	2014
Loan funds	$ 6,828,489	$ 6,831,302
Endowment/permanent investment	136,422	136,713
Total	$ 6,964,911	$ 6,968,015

The Agency's net assets permanently restricted for loans are used to fund its interest free loan program. The Agency's endowment net assets include permanently restricted donor endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Agency classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowments.

It is the understanding of the Board of Directors that all funds that are received from a donor with specific stipulations that they be treated as endowment funds, are to be held for investment by the Agency and the income derived from the initial donation (also referred to as corpus) be available to the Agency to pay for operating costs associated with the Agency. In some instances, the donor may specifically stipulate a further restriction as to the income derived from endowment funds. When this is the case, those donor stipulations would also be legally enforceable to the Agency and adhered to by the Board of Directors. Donor restricted endowment funds would be commingled with other Agency invested funds, unless the donor has explicitly stipulated their segregation.

Spending Policy: The Agency charges a 3% administrative fee to the permanently restricted net asset balance for all outstanding loan balances that were funded with permanently restricted contributions. These administrative fees are recorded as interfund transfers.

Investment earnings on permanently restricted endowment net assets are recorded as increases to unrestricted net assets and are used to help support the operating costs of the Agency.

Investment Policy: The Agency's investment objectives are to achieve a balanced portfolio that has a reasonable return without being subject to the full extent of market fluctuations that would occur by investing in aggressive asset classes. The Agency's policy prohibits investment in hedge funds or derivative instruments. In general, the Agency achieves its diversification through investing in mutual funds with diversified holdings. These differences (stock vs. bond; domestic vs. international) serve to diversify the portfolio.

Changes in endowment net assets are as follows:

Year ended June 30, 2015:	Permanently Restricted (Investment)	Permanently Restricted (Loans)
Endowment net assets, beginning of year	$ 136,713	$ 6,831,302
Contributions	374	185,235
Administrative fee	(665)	(188,048)
Endowment net assets, end of year	$ 136,422	$ 6,828,489

Year ended June 30, 2014:	Permanently Restricted (Investment)	Permanently Restricted (Loans)
Endowment net assets, beginning of year	$ 134,482	$ 6,028,071
Contributions	2,231	987,633
Administrative fee		(184,402)
Endowment net assets, end of year	$ 136,713	$ 6,831,302

9. EMPLOYEE RETIREMENT PLANS

Defined Benefit Plan - Frozen

The Agency is one of 14 agencies that participate in the Jewish Community Federation multiple employer defined benefit pension plan (the Plan). The Plan was frozen effective December 31, 2007, with an unfunded liability (i.e. the present value of benefit obligations exceeded the fair value of the Plan's assets). The Agency is responsible for 1.02% of this unfunded liability. This percentage share is based on the Agency’s 2007 payroll expense in relation to the total 2007 payroll expense of the 14 participating agencies. Each year, the Federation assesses each participating agency a payment amount based on Plan expenses and funding requirements under ERISA and IRS regulations.

During 2015, the Jewish Community Federation and participating agencies committed to terminate the Plan. Upon termination, each participant’s vested benefits will be disbursed by the Plan in accordance with the election chosen by the individual participant. Each of the participating agencies is responsible for their share of costs to terminate the Plan. The total cost of terminating the Plan will be determined once the Plan assets are distributed, which is expected to occur in January 2016.

Plan details are as follows:
The following table sets forth the Plan's funded status at June 30:

	2015	2014
Fair value of plan assets	$ 66,281,877	$ 68,057,871
Accumulated benefits obligation	(92,291,596)	(93,824,571)
Unfunded liability of the plan	(26,009,719)	(25,766,700)
Agency's share of unfunded liability	1.02%	1.02%
Agency's accrued pension liability	$ (265,299)	$ (262,820)

The following Plan information is based on computations by the Plan actuary for the years ending June 30:

	2015	2014
Net periodic benefit cost	$ 1,221,175	$ 2,222,322
Employer contributions	2,592,471	3,990,285
Benefits paid	(4,418,975)	(3,983,275)

The following represents the Agency's share of net periodic benefit cost and pension changes other than net periodic benefit cost for the years ended June 30:

Net periodic benefit cost:	2015	2014
Service cost	$ 7,140	$ 7,650
Interest cost	37,751	39,556
Expected return on plan assets	(51,196)	(44,886)
Amortization of net loss	17,010	18,597
Amortization of prior service cost	1,751	1,751
Net periodic benefit cost	$ 12,456	$ 22,668
Changes other than net periodic benefit cost:		
Net gain during the year	$ (35,227)	$ (9,706)
Amortization of net loss	17,010	18,597
Amortization of prior service cost	1,751	1,751
Changes other than net periodic benefit cost	$ (16,466)	$ 10,642

The following is a summary of the key assumptions used at June 30:

	2015	2014
Discount rate for benefit obligations	4.18%	4.05%
Discount rate for net periodic benefit cost	4.05%	4.49%
Expected long-term return on plan assets	7.50%	7.50%

The Agency contributed $87,084 and $30,084 to the Plan during 2015 and 2014, respectively.

The assets of the Plan are actively managed with the objective of achieving a balanced portfolio with a reasonable rate of return. To meet this objective, the Plan had a target asset allocation of 45% marketable security equity, 20% fixed income, 20% alternative investments, 10% private equity, and 5% real estate. The actual weighted-average allocations as of June 30, 2015 were 6% fixed income, 16% alternative investments, 5% private equity, 2% real estate, and 71% cash. The actual weighted-average allocations as of June 30, 2014 were 40% equity, 25% fixed income, 15% alternative investments, 6% private equity 2% real estate, and 12% cash.

The following tables set forth by level, within the fair value hierarchy, the Plan's investments at fair value:

Year ending June 30, 2015:	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 47,285,754		
Mutual funds:			
Fixed income	3,734,216		
Alternative investments – hedge funds			$ 10,622,466
Private equity			3,538,484
Real estate			964,623
Total investments at fair value	$ 51,019,970	$	$ 15,125,573

Year ending June 30, 2014:	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 8,422,907		
Mutual funds:			
Large cap	12,898,247		
Small cap	2,723,950		
International	11,305,909		
Fixed income	16,668,674		
Alternative investments – hedge funds			$ 10,390,524
Private equity			3,978,707
Real estate			1,644,227
Total investments at fair value	$ 52,019,687	$	$ 16,013,458

The Plan's mutual funds and cash and cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Plan's alternative investments, private equity, and real estate are classified within Level 3 of the fair value hierarchy because they are valued based on inputs that are primarily unobservable.

Defined Contribution Plan – Replacement

As of January 1, 2008, to replace the frozen plan, the Agency established a section 403(b) plan for employees who normally work at least 20 hours per week. The Agency contributes 4% of each participant's salary and provides matching contributions of up to 4% of each participant's salary. Total employer contributions were $45,322 and $45,138 for the years ended June 30, 2015 and 2014, respectively.

Other post-retirement obligations

The Agency has obligations under post-retirement agreements with two former Executive Directors of the Agency. The Agency has a liability of $168,635 and $230,558 as of June 30, 2015 and 2014, respectively, representing the present value of the Agency's estimated future payouts based on actuarial assumptions. The Agency made payments under these agreements totaling $50,293 and $25,458 during the years ended June 30, 2015 and 2014, respectively.

10. OPERATING LEASES

The Agency leases its office under a non-cancelable operating lease expiring in January 2017. HFLA also leases office equipment under non-cancelable operating leases expiring through February 2020. Rental expense under all operating leases was $89,355 and $85,324 for the years ending June 30, 2015 and 2014, respectively. Future minimum lease payments under these leases are as follows:

Year ending June 30:	
2016	$ 80,064
2017	42,454
2018	4,380
2019	4,380
2020	2,920
Total	$ 134,198