

**HEBREW FREE LOAN ASSOCIATION
OF SAN FRANCISCO AND AFFILIATE**

**CONSOLIDATED FINANCIAL
STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT**

**YEARS ENDED
JUNE 30, 2025 AND 2024**

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Hebrew Free Loan Association of San Francisco and Affiliate (the Agency), which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Agency as of June 30, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance

and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Gilbert CPAs

GILBERT CPAs
Sacramento, California

November 25, 2025

**HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO
AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2025 AND 2024**

	<u>2025</u>	<u>2024</u>
ASSETS:		
Cash and cash equivalents	\$ 1,264,744	\$ 2,935,707
Contributions and bequests receivable	686,436	1,633,832
Loans receivable, net of allowance for credit losses of \$75,000 in 2025 and 2024	20,451,504	22,608,640
Loan collateral deposits	90,174	127,940
Prepaid expenses	135,045	153,171
Charitable remainder trust asset		30,868
Beneficial interest in assets held by Jewish Community Federation	765,548	685,179
Investments	4,460,430	3,163,660
Operating lease, right-of-use asset	33,567	113,253
Property and equipment, net	<u>16,226</u>	<u>17,038</u>
TOTAL ASSETS	<u>\$ 27,903,674</u>	<u>\$ 31,469,288</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 193,760	\$ 54,509
Accrued vacation	137,607	121,915
Loan collateral deposits	90,174	127,940
Loans payable	3,998,122	8,415,668
Operating lease liability	37,487	125,057
Other post-retirement obligations	<u>102,523</u>	<u>95,088</u>
Total liabilities	<u>4,559,673</u>	<u>8,940,177</u>
NET ASSETS:		
Without donor restrictions	9,995,357	9,704,430
With donor restrictions	<u>13,348,644</u>	<u>12,824,681</u>
Total net assets	<u>23,344,001</u>	<u>22,529,111</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 27,903,674</u>	<u>\$ 31,469,288</u>

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

**HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO
AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2025 AND 2024**

	<u>2025</u>	<u>2024</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES:		
Contributions	\$ 2,112,697	\$ 1,631,686
Investment income	330,982	473,457
Bequests	147,459	153,891
Change in value of beneficial interest in assets held by Jewish Community Federation	80,369	75,206
Special events, net of direct benefit to donors of \$36,900 for 2025 and \$171,271 for 2024	8,092	309,374
Other income	4,600	3,600
Net assets released from restrictions	181,034	51,933
Interfund transfer	358,500	298,028
Total revenues	<u>3,223,733</u>	<u>2,997,175</u>
EXPENSES:		
Program services	1,951,287	1,745,823
Supporting services:		
Fundraising	673,464	619,426
General and administrative	308,055	294,607
Total supporting services	<u>981,519</u>	<u>914,033</u>
Total expenses	<u>2,932,806</u>	<u>2,659,856</u>
 CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	 <u>290,927</u>	 <u>337,319</u>
 NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	557,791	1,298,710
Bequests	505,705	
Change in value of charitable remainder trust		1,778
Net assets released from restrictions	(181,033)	(51,933)
Interfund transfer	(358,500)	(298,028)
 CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	 <u>523,963</u>	 <u>950,527</u>
 CHANGE IN NET ASSETS	 814,890	 1,287,846
 NET ASSETS, Beginning of Year	 <u>22,529,111</u>	 <u>21,241,265</u>
 NET ASSETS, End of Year	 <u>\$ 23,344,001</u>	 <u>\$ 22,529,111</u>

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

**HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO
AND AFFILIATE**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2025**

	Program Services	Fundraising	General and Administrative	Total
Salaries	\$ 1,204,121	\$ 408,422	\$ 161,508	\$ 1,774,051
Benefits and payroll taxes	311,158	103,417	62,734	477,309
Rent	63,771	22,278	9,283	95,332
Software and support	77,562	12,666	4,304	94,532
Grants	88,465	5,762		94,227
Maintenance and repairs	49,242	17,833	7,430	74,505
Consultants	44,548	10,908	9,605	65,061
Publicity and public relations	19,735	28,368	139	48,242
Printing	19,581	27,987	109	47,677
Accounting	2,014	921	34,526	37,461
Special events		36,900		36,900
Insurance	13,924	5,063	6,243	25,230
Bad debt expense	12,325			12,325
Postage	5,784	4,772	627	11,183
Dues and conferences	4,616	2,418	2,852	9,886
Office supplies	4,011	4,172	453	8,636
Telephone and internet	5,137	2,465	636	8,238
Depreciation	1,328	188	5,709	7,225
Other	23,965	15,824	1,897	41,686
Total functional expenses	<u>1,951,287</u>	<u>710,364</u>	<u>308,055</u>	<u>2,969,706</u>
Less direct expenses of special events		<u>(36,900)</u>		<u>(36,900)</u>
Total	<u>\$ 1,951,287</u>	<u>\$ 673,464</u>	<u>\$ 308,055</u>	<u>\$ 2,932,806</u>

**HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO
AND AFFILIATE**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2024**

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries	\$ 1,024,724	\$ 377,408	\$ 156,154	\$ 1,558,286
Benefits and payroll taxes	278,123	104,567	60,596	443,286
Rent	61,175	22,263	8,983	92,421
Software and support	67,578	8,432	1,793	77,803
Grants	38,455			38,455
Maintenance and repairs	45,680	16,611	8,676	70,967
Consultants	20,166	10,437	9,659	40,262
Publicity and public relations	19,794	25,433	190	45,417
Printing	5,338	24,275	141	29,754
Accounting	2,312	433	31,049	33,794
Special events		171,287		171,287
Insurance	10,860	3,949	6,235	21,044
Bad debt expense	147,197			147,197
Postage	3,146	3,880	460	7,486
Dues and conferences	2,383	1,091	2,361	5,835
Office supplies	2,673	722	658	4,053
Telephone and internet	7,288	3,642	868	11,798
Depreciation			5,773	5,773
Other	8,931	16,267	1,011	26,209
Total functional expenses	<u>1,745,823</u>	<u>790,697</u>	<u>294,607</u>	<u>2,831,127</u>
Less direct expenses of special events	<u> </u>	<u>(171,271)</u>	<u> </u>	<u>(171,271)</u>
Total	<u>\$ 1,745,823</u>	<u>\$ 619,426</u>	<u>\$ 294,607</u>	<u>\$ 2,659,856</u>

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

**HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO
AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2025 AND 2024**

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 814,890	\$ 1,287,846
Reconciliation to net cash provided (used) by operating activities		
Principal receipts on loans receivable	10,711,062	6,521,811
Loans receivable funding	(8,566,251)	(8,719,146)
Loans payable forgiven		(28,797)
Net realized and unrealized gain on investments	(214,378)	(349,021)
Change in value of beneficial interest in assets held by		
Jewish Community Federation	(80,369)	(75,206)
Change in value of charitable remainder trust	30,868	(1,778)
Bad debt expense	12,325	147,197
Depreciation	7,225	5,773
Donor restricted contributions and bequests		
to be held in perpetuity	(707,867)	(1,232,210)
Non-cash operating lease expense	79,686	78,494
Changes in:		
Contributions and bequests receivable	947,396	(148,082)
Prepaid expenses	18,126	23,082
Accounts payable	139,251	4,371
Accrued vacation	15,692	15,845
Operating lease liability	(87,570)	(83,797)
Other post-retirement obligations	7,435	6,044
Net cash provided (used) by operating activities	<u>3,127,521</u>	<u>(2,547,574)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,082,392)	(57,983)
Proceeds from sale of investments		1,226,200
Purchases of property and equipment	(6,413)	(7,619)
Distribution from beneficial interest in assets held by		
Jewish Community Federation		3,097
Net cash provided (used) by investing activities	<u>(1,088,805)</u>	<u>1,163,695</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans payable	50,000	3,246,755
Repayments on loans payable	(4,467,546)	(1,041,282)
Donor restricted contributions and bequests		
to be held in perpetuity	707,867	1,232,210
Net cash provided (used) by financing activities	<u>(3,709,679)</u>	<u>3,437,683</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,670,963)	2,053,804
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,935,707</u>	<u>881,903</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 1,264,744</u>	<u>\$ 2,935,707</u>

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

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025 AND 2024

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 synagogues and other Jewish organizations. Loans, made only to those exhibiting a need for financial assistance, are made after application and approval by a review committee that includes at least two board members at each session. In addition, HFLA created the Pollak Community Loan Program, which provides interest-free student loans to lower-income, mostly first-generation college students, regardless of their religious affiliation. Funded entirely through donations made exclusively for this purpose, the Pollak Program serves as an interfaith bridge to the greater San Francisco Bay Area community.

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 two classes of net assets: Net assets without donor restrictions, and net assets with donor restrictions.

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. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

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 net assets with donor restrictions. Net assets subject to donor restrictions for time or purpose 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. Net assets with perpetual donor restrictions are those whose use by the Agency are 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.

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025 AND 2024

The Agency minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Agency's deposits held with financial institutions in excess of federal depository insurance limits totaled \$720,247 and \$2,347,165 as of June 30, 2025 and 2024, respectively. 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 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 collectability by management, who records an allowance for credit losses. The allowance is based on an expected loss rate that is determined by the history of loan write-offs over the last ten years and by internal repayment risk scoring. Loans are written off as a charge to bad debt expense when, in the Agency's estimation, it is probable that the loan balance will not be collected.

Loan collateral deposits consist of collateral for loans receivable held by the Agency. Deposits are returned upon repayment of the related loan.

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.

Recoverable grants – Certain loans payable owed by the Agency are recoverable grants, which are considered conditional contributions under the accounting standards for not-for-profit organizations as the related agreements contain terms under which the Agency would not be required to repay any amount not received from its loan recipients. The recoverable grants are included with loans payable in the consolidated statements of financial position until repaid or forgiven. See Note 10 for additional information.

Leases – The Agency determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets are also adjusted for prepaid or accrued rent. The Agency uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Agency has made an accounting policy election to use the risk-free rate at the lease commencement date, in lieu of its incremental borrowing rate to discount future lease payments. Operating lease

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025 AND 2024

expense is recognized on a straight-line basis over the lease term. Lease terms may include options to renew, extend or terminate to the extent they are reasonably certain to be exercised. The Agency does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Functional expenses – The costs of program and supporting service activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefitted. Special event expenses, bad debt and other expenses that can be identified with a specific program or supporting service are allocated directly. Salaries, benefits and payroll taxes are allocated based on the relative amount of staff time spent on the respective functions. Other operating expenses are allocated based on salaries.

The annual funds disbursed in making interest-free loans to borrowers are not included in the Agency's expenses because they remain the assets of the Agency. For the purpose of evaluating the percentage of outgoing funds utilized in program activities for a given year, the Agency adds the loans made during that year to program expenses. For the year ended June 30, 2025, interest free loans made to borrowers totaled \$8,566,251. Using this methodology, the Agency utilized approximately 91% of its outgoing funds for program activities during the year ended June 30, 2025 and approximately 9% for supporting activities.

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 2021.

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, and the allowance for credit losses. Accordingly, actual results could differ from those estimates.

Subsequent events have been reviewed through November 25, 2025, the date the consolidated financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2025 that require recognition or disclosure in the consolidated financial statements.

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025 AND 2024

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Agency's financial assets available for general expenditure within one year of the June 30 statement of financial position are as follows:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 1,264,744	\$ 2,935,707
Contributions and bequests receivable	686,436	1,633,832
Loans receivable, net	20,451,504	22,608,640
Loan collateral deposits	90,174	127,940
Charitable remainder trust asset		30,868
Beneficial interest in assets held by Jewish Community Federation	765,548	685,179
Investments	<u>4,460,430</u>	<u>3,163,660</u>
Total financial assets	27,718,836	31,185,826
Less amounts unavailable for general expenditures within one year:		
Liability for loan collateral deposits	(90,174)	(127,940)
Loans payable	(3,998,122)	(8,415,668)
Loans receivable funded by net assets without donor restrictions	(4,736,633)	(5,599,166)
Net assets restricted by donors (see Note 9)	<u>(13,348,644)</u>	<u>(12,824,681)</u>
Total financial assets available for general expenditure within one year	<u>\$ 5,545,263</u>	<u>\$ 4,218,371</u>

For the purpose of determining financial assets available for general expenditure within one year, the Agency has excluded the portion of its loans funded by net assets without donor restrictions. Although a portion of these receivables are expected to be repaid in the following fiscal year and could be used to fund general operations, the Agency intends to continue providing new loans with these funds as they are repaid by borrowers.

The Agency structures its financial assets to ensure sufficient liquid assets are available as its general expenditures, liabilities, and other obligations come due.

3. INVESTMENTS

Investments consist of the following:

	<u>2025</u>	<u>2024</u>
Israel bonds (Maturing April 2027 through June 2028)	\$ 151,500	\$ 151,500
High yield mutual funds	1,585,072	1,187,055
Large blend mutual funds	2,673,858	1,775,105
Private stock	<u>50,000</u>	<u>50,000</u>
Total	<u>\$ 4,460,430</u>	<u>\$ 3,163,660</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024**

4. LOANS RECEIVABLE

Loans receivable consist of the following types of loans:

	<u>2025</u>	<u>2024</u>
Adoption	\$ 9,830	\$ 9,980
Business	1,961,820	1,385,086
Debt consolidation	3,666,273	3,641,071
Disaster relief	161,550	230,840
Emergency	17,668	20,708
Environmental	136,110	37,695
Fertility	568,599	511,359
First-time home buyer	935,034	962,019
General needs	3,131,388	2,909,768
Health care	343,987	264,670
Jewish organization	1,232,000	5,113,200
Pollak Community – Student loans	1,194,739	997,449
Special needs	82,000	127,525
Student	6,889,901	6,359,455
Unemployment	195,605	112,815
Total	<u>20,526,504</u>	<u>22,683,640</u>
Less allowance for credit losses	<u>(75,000)</u>	<u>(75,000)</u>
Loans receivable, net	<u>\$ 20,451,504</u>	<u>\$ 22,608,640</u>

The Agency uses indicators to assess the credit quality of loans receivable. The credit quality indicators are based on an internal scoring model that analyzes the borrower’s payment history to predict the likelihood of the borrower becoming delinquent. The scoring model assesses borrower account history, payment patterns, and the extent of collection efforts. Based on the score derived from this model, borrower accounts are further grouped by risk category. The Agency considers a loan to be overdue if a payment is not received within 30 days after the due date. An account is considered “high risk” if unpaid for 6 months or more. The risk class determines the collections effort including initiatives taken to facilitate customer payment.

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025 AND 2024

The following table presents loans receivable, as of June 30, 2025, by loan type and credit quality indicator:

<u>Loan Type</u>	<u>Low Risk</u>	<u>Medium Risk</u>	<u>High Risk</u>	<u>Total</u>	<u>Percent</u>
Adoption		\$ 9,830		\$ 9,830	0.0%
Business	\$ 1,905,550	40,725	\$ 15,545	1,961,820	9.6%
Debt consolidation	3,436,757	181,986	47,530	3,666,273	17.9%
Disaster relief	123,455	28,400	9,695	161,550	0.8%
Emergency	13,530	4,138		17,668	0.1%
Environmental	136,110			136,110	0.7%
Fertility	540,654	27,945		568,599	2.8%
First-time home buyer	921,314	13,720		935,034	4.6%
General needs	2,872,235	218,783	40,370	3,038,813	15.3%
Health care	343,987			343,987	1.7%
Jewish organization	1,232,000			1,232,000	6.0%
Special needs	67,450	14,550		82,000	0.4%
Student	7,915,885	160,515	8,240	8,084,640	39.4%
Unemployment	180,330	15,275		195,605	1.0%
Total \$	\$ 19,689,257	\$ 715,867	\$ 121,380	\$ 20,526,504	
Total %	95.9%	3.5%	0.6%	100.0%	100.0%

The Agency considered information available through September 10, 2025 in categorizing the credit quality of the borrowers presented in the above table.

The following table presents loans receivable, as of June 30, 2024, by loan type and credit quality indicator:

<u>Loan Type</u>	<u>Low Risk</u>	<u>Medium Risk</u>	<u>High Risk</u>	<u>Total</u>	<u>Percent</u>
Adoption		\$ 9,980		\$ 9,980	0.0%
Business	\$ 1,345,331	11,850	\$ 27,905	1,385,086	6.1%
Debt consolidation	3,322,308	273,158	45,605	3,641,071	16.1%
Disaster relief	221,145		9,695	230,840	1.0%
Emergency	13,440	7,268		20,708	0.1%
Environmental	37,695			37,695	0.2%
Fertility	501,799	9,560		511,359	2.3%
First-time home buyer	930,149	17,650	14,220	962,019	4.2%
General needs	2,525,355	344,093	40,320	2,909,768	12.8%
Health care	264,670			264,670	1.2%
Jewish organization	5,113,200			5,113,200	22.5%
Special needs	109,925	17,600		127,525	0.6%
Student	7,144,319	142,640	69,945	7,356,904	32.4%
Unemployment	88,130	17,185	7,500	112,815	0.5%
Total \$	\$ 21,617,466	\$ 850,984	\$ 215,190	\$ 22,683,640	
Total %	95.3%	3.8%	0.9%	100.0%	100.0%

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The Agency considered information available through October 10, 2024 in categorizing the credit quality of the borrowers presented in the above table.

Credit quality indicators are used in determining the estimated amount and the timing of expected credit losses for loans receivable. The Agency records an allowance to reduce loans receivable to the amount that is expected to be collectible. The allowance is based on an expected loss rate that is determined by the history of loan write-offs over the last ten years and by internal repayment risk scoring. The allowance for credit losses was \$75,000 at June 30, 2025 and 2024. Uncollectible loans totaling \$12,325 and \$147,197 were written off in the years ended June 30, 2025 and 2024, respectively.

Since general economic conditions may impact borrower behaviors, the Agency analyzed whether changes in macroeconomic conditions impact its credit loss experience. The Agency's higher credit losses in 2023-2024 compared to prior years were mainly due to the COVID-19 pandemic's effect on the borrowers who received loans in 2020 and 2021. Although the Agency's borrowers continued to experience the impact of the COVID-19 pandemic in more recent years, it was not as dramatic as in the early years of the pandemic, so we do not expect that factor to affect their ability to pay off the loans received in 2022-2023 in the same way. As a result, in 2024-2025, the Agency's credit losses were significantly lower than in the previous year.

The aging analysis of loans receivable was as follows as of June 30, 2025:

<u>Loan Type</u>	<u>Total</u>		<u>31-60</u>	<u>61-90</u>	<u>Over 90</u>	<u>Total</u>	<u>Percent</u>
	<u>Receivable</u>	<u>Current</u>	<u>Days</u>	<u>Days</u>	<u>Days Past</u>		
			<u>Past Due</u>	<u>Past Due</u>	<u>Due</u>	<u>Past Due</u>	<u>Past Due</u>
Adoption	\$ 9,830	\$ 2,850	\$ 300	\$ 6,680		\$ 6,980	1.8%
Business	1,961,820	1,926,770	3,470	1,485	\$ 30,095	35,050	9.1%
Debt consolidation	3,666,273	3,570,483	4,695	3,665	87,430	95,790	24.9%
Disaster relief	161,550	150,055	545	305	10,645	11,495	3.0%
Emergency	17,668	14,080			3,588	3,588	0.9%
Environmental	136,110	136,110					0.0%
Fertility	568,599	567,529	435	635		1,070	0.3%
First-time home buyer	935,034	934,054			980	980	0.3%
General needs	3,131,388	2,980,595	7,390	2,285	141,118	150,793	39.2%
Health care	343,987	339,822	1,400	335	2,430	4,165	1.1%
Jewish organization	1,232,000	1,232,000					0.0%
Special needs	82,000	79,860	210	1,090	840	2,140	0.6%
Student	8,084,640	8,014,890	4,505	2,405	62,840	69,750	18.1%
Unemployment	195,605	193,105			2,500	2,500	0.7%
Total \$	\$ 20,526,504	\$ 20,142,203	\$ 22,950	\$ 18,885	\$ 342,466	\$ 384,301	
Total %	100.0%	98.1%	0.1%	0.1%	1.7%	1.9%	100.0%

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The aging analysis of loans receivable was as follows as of June 30, 2024:

<u>Loan Type</u>	<u>Total Receivable</u>	<u>Current</u>	<u>31-60 Days Past Due</u>	<u>61-90 Days Past Due</u>	<u>Over 90 Days Past Due</u>	<u>Total Past Due</u>	<u>Percent of Total Past Due</u>
Adoption	\$ 9,980	\$ 5,300	\$ 250	\$ 250	\$ 4,180	\$ 4,680	1.3%
Business	1,385,086	1,344,756	3,150	2,800	34,380	40,330	10.9%
Debt consolidation	3,641,071	3,558,814	7,698	5,200	69,359	82,257	22.3%
Disaster relief	230,840	225,045	305	305	5,185	5,795	1.6%
Emergency	20,708	16,210	390	180	3,928	4,498	1.2%
Environmental	37,695	37,695					0.0%
Fertility	511,359	510,489	870			870	0.2%
First-time home buyer	962,019	961,039			980	980	0.3%
General needs	2,909,768	2,765,925	8,625	7,675	127,543	143,843	39.0%
Health care	264,670	263,690	660	160	160	980	0.3%
Jewish organization	5,113,200	5,113,200					0.0%
Special needs	127,525	126,670	855			855	0.2%
Student	7,356,904	7,287,759	5,200	3,850	60,095	69,145	18.7%
Unemployment	112,815	98,135	35		14,645	14,680	4.0%
Total \$	<u>\$ 22,683,640</u>	<u>\$ 22,314,727</u>	<u>\$ 28,038</u>	<u>\$ 20,420</u>	<u>\$ 320,455</u>	<u>\$ 368,913</u>	
Total %	<u>100.0%</u>	<u>98.4%</u>	<u>0.1%</u>	<u>0.1%</u>	<u>1.4%</u>	<u>1.6%</u>	<u>100.0%</u>

5. BENEFICIAL INTEREST IN ASSETS HELD BY JEWISH COMMUNITY FEDERATION

Certain assets of the Agency are held by the Jewish Community Federation (Federation) for investment purposes, with the understanding that the income and principal pertaining to these assets will be distributed to the Agency upon its 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 purposes of the Agency, the Agency includes these assets in its consolidated statements of financial position.

6. CHARITABLE REMAINDER TRUST ASSET

The charitable remainder trust asset at June 30, 2024 reflects the estimated fair value of an irrevocable charitable trust, held by a third-party trustee, for which the Agency was named as a remainder beneficiary. The fair value of the charitable remainder trust asset was measured on a recurring basis and was determined using an investment return consistent with the composition of the asset portfolio, life expectancy of the lead beneficiary, and a discount rate of 8% at June 30, 2024. The Agency received its share of the remainder trust assets in August 2024. There were no charitable remainder trust assets as of June 30, 2025.

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7. 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 ended June 30, 2025:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 4,258,930	\$ 151,500	\$ 50,000
Beneficial interest in assets held by Jewish Community Federation			765,548
Total	<u>\$ 4,258,930</u>	<u>\$ 151,500</u>	<u>\$ 815,548</u>
Year ended June 30, 2024:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ 2,962,160	\$ 151,500	\$ 50,000
Beneficial interest in assets held by Jewish Community Federation			685,179
Charitable remainder trust asset			30,868
Total	<u>\$ 2,962,160</u>	<u>\$ 151,500</u>	<u>\$ 766,047</u>

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The Agency's investments in mutual funds 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.

The Agency's investment in private stock is based on the value as reported by the issuing company and is considered a Level 3 measurement.

Beneficial interest in assets held by the Jewish Community Federation are valued within Level 3 of the fair value hierarchy because it is valued based on the fair value of the fund investments as reported by the Jewish Community Federation.

The Agency's charitable remainder trust asset is 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.

8. PROPERTY AND EQUIPMENT

Property and equipment consist of:

	<u>2025</u>	<u>2024</u>
Computer and software	\$ 144,356	\$ 139,333
Furniture and equipment	38,885	38,885
Website	9,947	9,947
Leasehold improvements	5,385	5,385
Total	<u>198,573</u>	<u>193,550</u>
Less accumulated depreciation	<u>(182,347)</u>	<u>(176,512)</u>
Property and equipment, net	<u>\$ 16,226</u>	<u>\$ 17,038</u>

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9. NET ASSETS

Net assets with donor restrictions represent unexpended funds restricted by donors as follows:

	<u>2025</u>	<u>2024</u>
Purpose and time restrictions:		
Endorsement funds (to be used to guarantee loans with fewer than required guarantors)	\$ 209,647	\$ 214,597
Small business support activities	181,808	
Private stock – time restricted	50,000	50,000
Credit counseling, certification, and reporting	36,229	38,221
Archive project	12,352	12,352
Becker award fund	6,961	6,961
Young leadership program	4,077	4,077
Data project/population study	3,831	3,831
Financial fitness	2,058	2,058
Staff and Board retreat	1,447	1,447
Charitable remainder trusts – time restricted		30,868
Pollak evaluation consultant		25,000
Other	63,939	8,341
	<u>572,349</u>	<u>397,753</u>
Endowments restricted into perpetuity:		
Loan funds	12,637,787	12,289,373
Investments	138,508	137,555
	<u>12,776,295</u>	<u>12,426,928</u>
Total	<u>\$ 13,348,644</u>	<u>\$ 12,824,681</u>

Net assets with donor restrictions to be held in perpetuity consist of the donor-restricted funds received for the Agency’s interest-free loan program and those received for its endowment. 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 donor-restricted net assets as the original value of all gifts donated 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 are to 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.

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Spending Policy: The Agency charges a 3% annual program management fee to the net asset balance for all outstanding loan balances that were funded with donor-restricted contributions to be held in perpetuity. These management fees are recorded as interfund transfers.

Investment earnings on net assets with perpetual donor restrictions are recorded as increases to net assets without donor restrictions 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:

	Restricted into Perpetuity (Investment)	Restricted into Perpetuity (Loans)
Year ended June 30, 2025:		
Endowment net assets, beginning of year	\$ 137,555	\$ 12,289,373
Contributions	953	706,914
Management fee	<u> </u>	<u>(358,500)</u>
Endowment net assets, end of year	<u>\$ 138,508</u>	<u>\$ 12,637,787</u>
	Restricted into Perpetuity (Investment)	Restricted into Perpetuity (Loans)
Year ended June 30, 2024:		
Endowment net assets, beginning of year	\$ 136,710	\$ 11,356,036
Contributions	845	1,231,365
Management fee	<u> </u>	<u>(298,028)</u>
Endowment net assets, end of year	<u>\$ 137,555</u>	<u>\$ 12,289,373</u>

10. LOANS PAYABLE

Effective November 18, 2019, the Agency entered into a recoverable grant agreement with the Federation. Under the terms of this agreement, the Agency received a \$4,000,000 grant to be utilized in its Jewish organization loan fund. The grant proceeds were provided through a donor advised fund held by the Federation. The grant did not bear interest. Although the grant was expected to be repaid, the Agency was not required to repay: 1) any portion of the grant that the Agency was unable to collect from the borrowers of these funds as of the maturity date; or 2) any portion of the grant for which the Donor of the donor advised fund instructed the Federation that it wished to be forgiven. Effective November 20, 2019, the Agency utilized this grant to make a Jewish organization loan to one borrower for \$4,000,000. The loan did not bear interest and was due in full on December 31,

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2025. The loan agreement provided the option to extend the maturity date if agreed to by both the Agency and the borrower. This loan was fully paid off as of June 30, 2025 and the recoverable grant funds were returned to the Federation.

The Agency had additional recoverable grants with the Federation with outstanding balances totaling \$3,415,668 at June 30, 2024. The grants were received for the purpose of making additional loans under the Agency's interest-free loan program. The grants did not bear interest and had maturities from May 1, 2025 through December 8, 2028. Any portion of the grants that the Agency was unable to collect from the borrowers of these funds was not required to be repaid to the Federation. The grant agreements each had varying repayment terms.

During the year ended June 30, 2025, the Agency entered into loan agreements with the Federation to convert these recoverable grant balances to loans. The balance of these loan agreements totaled \$2,948,122 at June 30, 2025. The loans have maturities ranging from February 17, 2026 through December 8, 2028 and do not bear interest. As of June 30, 2025, \$237,167, \$464,200, and \$2,246,775 are due in the fiscal years ending June 30, 2026, 2027, and 2029, respectively. The loans due in the years ending June 30, 2027 and 2029 allow for forgiveness of up to 5% of the loan balance to the extent the Agency is unable to collect from the borrowers of these funds.

The Agency also has recoverable grant agreements with the Federation and an anonymous donor received for the purpose of making loans to Ogen Free Loan Fund. The outstanding balances totaled \$1,050,000 and \$1,000,000 at June 30, 2025 and 2024, respectively. The grants do not bear interest and the final payments are due June 24, 2029 and June 30, 3030. Although the grants are expected to be repaid, the Agency is not required to repay any portion of the grants that the Agency is unable to collect from the borrowers of these funds as of the maturity date.

The recoverable grants and loans are included as loans payable in the consolidated statements of financial position totaling \$3,998,122 and \$8,415,668 at June 30, 2025 and 2024, respectively.

11. EMPLOYEE RETIREMENT PLANS

Defined Contribution Plan

The Agency sponsors a section 403(b) plan for employees who normally work at least 20 hours per week. After one year of employment, the Agency contributes 4% of each participant's salary and provides matching contributions of up to 4% of each participant's salary. Employer contributions vest according to a set schedule with 0% vested under 2 years of service and 100% vested after 6 years of service. Total employer contributions were \$123,226 and \$113,538 for the years ended June 30, 2025 and 2024, respectively.

Other post-retirement obligations

The Agency has obligations under a post-retirement agreement with a former Executive Director of the Agency. The obligations remain through the life of the beneficiaries named in the related agreement. The Agency has a liability of \$102,523 and \$95,088 as of June 30, 2025 and 2024, respectively, representing the present value of the Agency's estimated future payouts. The Agency made payments under this agreement totaling \$10,183 and \$8,442 during the years ended June 30, 2025 and 2024, respectively.

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12. LEASES

The Agency leases its office under a non-cancelable operating lease expiring in November 2025, which is included on the statement of financial position as of June 30, 2025 as a ROU asset and operating lease liability of \$33,567 and \$37,487, respectively. The lease was included as an ROU asset and operating lease liability of \$113,253 and \$125,057, respectively as of June 30, 2024. The ROU asset and operating lease liability were calculated using a risk-free discount rate of 1.39%. The Agency also leases office equipment under non-cancelable operating leases expiring through January 2026. Lease expense under all operating leases was \$95,172 and \$91,716 for 2025 and 2024, respectively. Maturities of the lease liability for the office lease are as follows:

Year ending June 30,	
2026	\$ 37,574
Less: interest	<u>(87)</u>
Present value of operating lease liability	<u>\$ 37,487</u>

Required supplemental cash flow information for the years ended June 30 consists of the following:

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 88,653	\$ 86,072