HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT ACCOUNTANT'S REVIEW REPORT

YEARS ENDED JUNE 30, 2017 (REVIEWED) AND 2016 (AUDITED)

Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying financial statements of Hebrew Free Loan Association of San Francisco and Affiliate (the Agency), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Consolidated Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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

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Report on 2016 Financial Statements

The 2016 consolidated financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated February 9, 2017. We have not performed any auditing procedures since that date.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 15, 2017

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 (REVIEWED) AND 2016 (AUDITED)

	2017	2016
ASSETS:		
Cash and cash equivalents	$ 588,206	$ 553,460
Contributions and bequests receivable	1,490,494	1,018,270
Loans receivable, net	9,611,667	9,096,093
Loan collateral deposits	50,408	92,131
Prepaid expenses	39,053	42,507
Charitable remainder trust assets	48,744	126,161
Beneficial interest in assets held by Jewish Community Federation	584,854	521,640
Investments	2,976,051	2,124,906
Property and equipment, net	55,124	71,789
TOTAL ASSETS	$ 15,444,601	$ 13,646,957
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 41,874	$ 33,636
Accrued vacation	45,189	40,469
Loan collateral deposits	97,748	108,667
Liability to beneficiaries		9,541
Other post-retirement obligations	179,300	206,018
Total liabilities	364,111	398,331
NET ASSETS:		
Unrestricted	6,272,135	5,581,946
Temporarily restricted	298,258	376,284
Permanently restricted	8,510,097	7,290,396
Total net assets	15,080,490	13,248,626
TOTAL LIABILITIES AND NET ASSETS	$ 15,444,601	$ 13,646,957

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 (REVIEWED) AND 2016 (AUDITED)

	2017	2016
UNRESTRICTED NET ASSETS:		
REVENUES:		
Bequests	$ 864,024	$ 634,034
Contributions	425,151	560,154
Special events, net of direct benefit to donors of $152,060 in 2017 and $11,012 in 2016	234,047	(1,818)
Investment income (loss)	221,098	(87,135)
Other income	64,847	2,505
Net assets released from restrictions	30,150	22,806
Interfund transfer	208,713	182,947
Total revenues	2,048,030	1,313,493
EXPENSES:		
Program services	650,220	514,640
Supporting services:		
Fundraising	505,500	410,812
General and administrative	202,121	249,447
Total supporting services	707,621	660,259
Total expenses	1,357,841	1,174,899
INCOME FROM OPERATIONS	690,189	138,594
Pension-related changes other than net periodic benefit costs		(64,271)
CHANGE IN UNRESTRICTED NET ASSETS	690,189	74,323
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	20,000	7,795
Change in value of charitable remainder trusts	(67,876)	(4,984)
Net assets released from restrictions	(30,150)	(22,806)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(78,026)	(19,995)
PERMANENTLY RESTRICTED NET ASSETS:		
Bequests	1,350,000	222,051
Contributions	78,414	286,381
Interfund transfer	(208,713)	(182,947)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	1,219,701	325,485
CHANGE IN NET ASSETS	1,831,864	379,813
NET ASSETS, Beginning of Year	13,248,626	12,868,813
NET ASSETS, End of Year	$ 15,080,490	$ 13,248,626

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, 2017 (REVIEWED)

	Program Services	Fundraising	General and Administrative	Total
Salaries	$ 364,119	$ 270,280	$ 106,012	$ 740,411
Benefits and payroll taxes	99,561	69,660	48,289	217,510
Special events		120,744		120,744
Rent	38,297	37,191	13,298	88,786
Telephone and internet	17,619	15,874	5,651	39,144
Publicity and public relations	11,722	21,834	3,576	37,132
Software and support	23,645	9,564	360	33,569
Maintenance and repairs	17,081	11,722	4,689	33,492
Consultants	4,800	23,988	1,371	30,159
Bad debt expense	24,608			24,608
Printing	2,643	18,261	34	20,938
Postage	2,283	18,123	369	20,775
Depreciation	16,461	1,737	1,568	19,766
Accounting	7,159	4,913	5,550	17,622
Office supplies	6,336	6,357	1,868	14,561
Bank and investment fees	22	11,272	3,222	14,516
Insurance	4,684	3,213	4,275	12,172
Grants	7,000			7,000
Other	2,180	12,827	1,989	16,996
Total functional expenses	650,220	657,560	202,121	1,509,901
Less direct expenses of special events		(152,060)		(152,060)
Total expenses reported on statement of activities	$ 650,220	$ 505,500	$ 202,121	$ 1,357,841

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016 (AUDITED)

	Program Services	Fundraising	General and Administrative	Total
Salaries	$ 295,668	$ 224,150	$ 94,313	$ 614,131
Benefits and payroll taxes	82,089	62,320	106,422	250,831
Special events		11,012		11,012
Rent	34,159	28,431	13,560	76,150
Telephone and internet	5,297	4,877	3,853	14,027
Publicity and public relations	15,276	17,197	5,748	38,221
Software and support	13,988	1,572	122	15,682
Maintenance and repairs	12,492	14,602	4,073	31,167
Consultants	15,817	6,702	1,069	23,588
Bad debt expense (gain)	(280)			(280)
Printing	3,142	10,279	148	13,569
Postage	740	13,084	168	13,992
Depreciation	16,338	1,889	1,592	19,819
Accounting	9,489	8,045	6,998	24,532
Office supplies	3,654	3,514	1,058	8,226
Bank and investment fees	228	5,899	2,511	8,638
Insurance	3,723	3,156	3,319	10,198
Other	2,820	5,095	4,493	12,408
Total functional expenses	514,640	421,824	249,447	1,185,911
Less direct expenses of special events		(11,012)		(11,012)
Total expenses reported on statement of activities	$ 514,640	$ 410,812	$ 249,447	$ 1,174,899

HEBREW FREE LOAN ASSOCIATION OF SAN FRANCISCO AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 (REVIEWED) AND 2016 (AUDITED)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,831,864	$ 379,813
Reconciliation to net cash used by operating activities:		
Principal receipts on loans receivable	3,516,274	3,311,931
Loans receivable funding	(4,056,456)	(4,384,308)
Net realized and unrealized loss (gain) on investments	(87,254)	166,729
Change in value of beneficial interest in assets held by Jewish Community Federation	(63,851)	5,181
Change in value of charitable remainder trusts	67,876	4,984
Bad debt expense	24,608	(280)
Depreciation	19,766	19,819
Loss (gain) on disposal of property and equipment	(200)	469
Permanently restricted contributions and bequests	(1,428,414)	(508,432)
Changes in:		
Contributions and bequests receivable	(472,224)	(56,978)
Loan collateral deposits	30,804	(5,549)
Life insurance proceeds receivable		141,481
Prepaid expenses	3,454	(15,922)
Accounts payable	8,238	(24,394)
Accrued vacation	4,720	(381)
Accrued pension liability		(265,299)
Other post-retirement obligations	(26,718)	37,383
Net cash used by operating activities	(627,513)	(1,194,222)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,618,891)	(776,379)
Proceeds from sale of investments	855,000	1,593,000
Proceeds from sale of equipment	200	
Distribution from beneficial interest in assets held by Jewish Community Federation	637	651
Purchases of property and equipment	(3,101)	(3,361)
Net cash provided (used) by investing activities	(766,155)	813,911
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions and bequests	1,428,414	508,432
NET CHANGE IN CASH AND CASH EQUIVALENTS	34,746	128,121
CASH AND CASH EQUIVALENTS, Beginning of Year	553,460	425,339
CASH AND CASH EQUIVALENTS, End of Year	$ 588,206	$ 553,460

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 bad debt expense 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 maintained 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, 2017 and June 30, 2016.

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 1.7% at June 30, 2016, and applicable mortality tables. There were no liabilities to beneficiaries at June 30, 2017.

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 2013.

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 15, 2017, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since June 30, 2017 that require recognition or disclosure in the consolidated financial statements.

Reclassification – Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation.

2. INVESTMENTS

Investments consist of the following:

	2017	2016
Israel bonds (with maturities of October 2016 through November 2021)	$ 153,000	$ 150,600
Mutual funds:		
Multi-sector bond	1,675,355	1,176,208
Mid-cap blend	1,147,696	798,098
Total	$ 2,976,051	$ 2,124,906

Investment income (loss) consists of the following:

	2017	2016
Interest and dividends	$ 133,844	$ 79,594
Net realized and unrealized gains (losses)	87,254	(166,729)
Total	$ 221,098	$ (87,135)

3. LOANS RECEIVABLE

Loans receivable consist of the following types of loans:

	2017	2016
Student loans	$ 6,567,457	$ 6,377,408
Business loans	1,291,308	981,462
Debt consolidation loans	658,908	620,882
Personal loans	484,289	525,340
First-time home buyer loans	296,395	339,560
Health care loans	163,833	124,193
Jewish organization loans	90,115	51,990
Unemployment loans	76,578	104,768
Emergency loans	29,331	22,452
Adoption loans	14,657	10,317
Total	9,672,871	9,158,372
Less allowance for uncollectible loans	(61,204)	(62,279)
Loans receivable, net	$ 9,611,667	$ 9,096,093

4. 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 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 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:

	2017	2016
Assets held in charitable remainder trust in which the Agency is both trustee and remainder beneficiary		$ 28,157
Charitable remainder interests receivable from third parties	$ 48,744	98,004
Total	$ 48,744	$ 126,161

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, 2017:	**Level 1**	**Level 2**	**Level 3**
Investments	$ 2,823,051	$ 153,000	
Beneficial interest in assets held by Jewish Community Federation		584,854	
Charitable remainder trust assets			$ 48,744
Total	$ 2,823,051	$ 737,854	$ 48,744

Year ending June 30, 2016:	**Level 1**	**Level 2**	**Level 3**
Investments	$ 1,974,306	$ 150,600	
Beneficial interest in assets held by Jewish Community Federation		521,640	
Charitable remainder trust assets	28,157		$ 98,004
Total	$ 2,002,463	$ 672,240	$ 98,004

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 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, 2017 and 2016 consist of unrealized increases/decreases in the value of charitable remainder trust assets.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of:

	2017	2016
Computer and software	$ 289,758	$ 295,455
Furniture and equipment	47,467	47,467
Website	9,947	9,947
Leasehold improvements	2,085	2,085
Total	349,257	354,954
Less accumulated depreciation	(294,133)	(283,165)
Property and equipment, net	$ 55,124	$ 71,789

8. NET ASSETS

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

	2017	2016
Board designated reserve	$ 3,635,793	$ 3,635,926
Undesignated	2,636,342	1,946,020
Total	$ 6,272,135	$ 5,581,946

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 and provide funds for loans. 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. The Agency also relies on this reserve to make loans to members of the community, supplementing its pool of donated funds restricted for loans.

Temporarily restricted net assets are restricted for the following programs:

	2017	2016
Endorsement funds (to be used to guarantee loans without co-signers)	$ 214,597	$ 214,597
Charitable remainder trusts – time restricted	48,744	116,620
Time restricted	19,200	22,200
Becker award fund	7,222	7,372
Young leadership program	4,077	4,077
Financial fitness	2,671	2,671
Givot book scholarship fund	500	7,500
Other	1,247	1,247
Total	$ 298,258	$ 376,284

Permanently restricted net assets consist of the following:

	2017	2016
Loan funds	$ 8,373,647	$ 7,154,754
Endowment/permanent investment	136,450	135,642
Total	$ 8,510,097	$ 7,290,396

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% annual program 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, 2017:	**Permanently Restricted (Investment)**	**Permanently Restricted (Loans)**
Endowment net assets, beginning of year	$ 135,642	$ 7,154,754
Contributions	1,445	1,426,969
Distributions	(637)	
Administrative fee		(208,076)
Endowment net assets, end of year	$ 136,450	$ 8,373,647

Year ended June 30, 2016:	**Permanently Restricted (Investment)**	**Permanently Restricted (Loans)**
Endowment net assets, beginning of year	$ 136,422	$ 6,828,489
Contributions		509,213
Distributions	(780)	
Administrative fee		(182,948)
Endowment net assets, end of year	$ 135,642	$ 7,154,754

9. EMPLOYEE RETIREMENT PLANS

Defined Benefit Plan - Frozen

The Agency is one of 14 agencies that participated 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 was 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 assessed 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. Termination was complete in December 2015, at which time each participant's vested benefits were disbursed by the Plan in accordance with the election chosen by the individual participants. Each of the participating agencies was responsible for their share of costs to terminate the Plan. The Agency's required payment to settle its share of the plan obligations, exceeded its previously recorded liability resulting in additional expense of $64,271 for the year ended June 30, 2016.

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 $40,718 and $41,813 for the years ended June 30, 2017 and 2016, 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 $179,300 and $206,018 as of June 30, 2017 and 2016, respectively, representing the present value of the Agency's estimated future payouts based on actuarial assumptions. The Agency made payments under these agreements totaling $38,093 and $40,412 during the years ended June 30, 2017 and 2016, respectively.

10. OPERATING LEASES

The Agency leases its office under a non-cancelable operating lease expiring in January 2022. HFLA also leases office equipment under non-cancelable operating leases expiring through January 2022. Rental expense under all operating leases was $95,895 and $83,400 for the years ending June 30, 2017 and 2016, respectively. Future minimum lease payments under these leases are as follows:

Year ending June 30:	
2018	$ 80,790
2019	83,047
2020	83,910
2021	83,384
2022	48,867
Total	$ 379,998