

Jewish United Fund of Metropolitan Chicago

Financial Report
December 31, 2018

Contents

Independent auditor's report	1-2
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Financial statements	
Statement of financial position	3-4
Statement of activities	5-6
Statement of functional expenses	7
Statement of cash flows	8
Notes to financial statements	9-28

Independent Auditor's Report

To the Board of Directors
Jewish United Fund of Metropolitan Chicago

Report on the Financial Statements

We have audited the accompanying financial statements of Jewish United Fund of Metropolitan Chicago (Jewish United Fund), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

The guidance on reporting of related entities by not-for-profit organizations requires not-for-profit organizations with a controlling financial interest in another not-for-profit organization to consolidate that other organization. Jewish United Fund meets the definition of having a "controlling financial interest" in the Jewish Federation of Metropolitan Chicago (Jewish Federation) by having a common board of directors and officers and through its financial support of the Jewish Federation. Accordingly, accounting principles generally accepted in the United States of America require that Jewish United Fund consolidate the Jewish Federation. As of June 30, 2018, the Jewish Federation had total assets (in thousands) of \$2,047,764, net assets (in thousands) of \$1,608,787 and for the year ended June 30, 2018, an increase in net assets of \$200,578 (in thousands). Summarized financial information of the Jewish Federation as of and for the year ended June 30, 2018, is presented in Note 1 to the financial statements.

Management of the organizations believes that it is not practicable to consolidate the Jewish Federation because the Jewish Federation is required by certain funding sources to maintain a June 30 fiscal year-end and Jewish United Fund has elected to retain its December 31 year-end to coincide with its personal contributors' tax year-ends. Accordingly, compliance with the guidance on reporting of related entities by not-for-profit organizations would require the Jewish Federation to undergo two separate audits each year, which would cause a financial and administrative burden on the organizations, thereby negatively impacting their ability to fulfill their charitable mission.

Qualified Opinion

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Jewish United Fund of Metropolitan Chicago as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Jewish United Fund adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during 2018. The adoption of the standard resulted in additional footnote disclosures and significant changes to classification of net assets and the disclosures related to net assets. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Jewish United Fund of Metropolitan Chicago's 2017 financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated June 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Chicago, Illinois
June 26, 2019

Jewish United Fund of Metropolitan Chicago

Statement of Financial Position

December 31, 2018 (With Comparative Totals for 2017)

	Without Donor Restrictions		With Donor Restrictions	Total	
	Undesignated	Board Designated		2018	2017
Assets					
Cash	\$ 5,766,031	\$ 173,251	\$ 2,674,811	\$ 8,614,093	\$ 7,518,927
Investment in JFMC Pooled Endowment Portfolio, LLC	-	115,689,165	13,883,536	129,572,701	126,775,406
Pledges receivable (net of allowance for uncollectible pledges)	13,820,329	-	37,608,991	51,429,320	50,569,535
Interfund accounts	22,436,855	(21,836,855)	(600,000)	-	-
Due from JFMC Facilities Corporation	149,989	-	-	149,989	318,470
Amount due from participating employers for pension benefits	28,806,373	-	-	28,806,373	30,150,132
Other investments	4,089,982	-	37,500	4,127,482	3,962,227
Prepaid expenses, deposits and other receivables	3,207,844	-	-	3,207,844	3,374,058
Property and equipment (at cost, net of accumulated depreciation and amortization)	1,112,002	2,205,093	-	3,317,095	6,085,300
	<u>\$ 79,389,405</u>	<u>\$ 96,230,654</u>	<u>\$ 53,604,838</u>	<u>\$ 229,224,897</u>	<u>\$ 228,754,055</u>

(Continued)

Jewish United Fund of Metropolitan Chicago

**Statement of Financial Position (Continued)
December 31, 2018 (With Comparative Totals for 2017)**

	Without Donor Restrictions		With Donor Restrictions	Total	
	Undesignated	Board Designated		2018	2017
Liabilities and Net Assets (Deficit)					
Liabilities:					
Allocations payable to beneficiaries	\$ 47,593,625	\$ -	\$ -	\$ 47,593,625	\$ 40,349,388
Accounts payable and accrued expenses	2,553,911	-	-	2,553,911	2,649,625
Deferred income	959,162	-	-	959,162	1,374,662
Liability for pension benefits	51,043,080	-	-	51,043,080	52,426,824
Due to Jewish Federation of Metropolitan Chicago	12,522	-	-	12,522	151,540
	<u>102,162,300</u>	<u>-</u>	<u>-</u>	<u>102,162,300</u>	<u>96,952,039</u>
Net assets (deficit):					
Without donor restrictions:					
Undesignated	(22,772,895)	-	-	(22,772,895)	(21,769,131)
Board designated		96,230,654		96,230,654	93,626,670
With donor restrictions:					
Future years' campaigns	-	-	40,286,815	40,286,815	44,290,617
Learning centers in Israel	-	-	2,686,043	2,686,043	3,574,317
Campaign endowment			10,631,980	10,631,980	12,079,543
	<u>(22,772,895)</u>	<u>96,230,654</u>	<u>53,604,838</u>	<u>127,062,597</u>	<u>131,802,016</u>
	<u>\$ 79,389,405</u>	<u>\$ 96,230,654</u>	<u>\$ 53,604,838</u>	<u>\$ 229,224,897</u>	<u>\$ 228,754,055</u>

See notes to financial statements.

Jewish United Fund of Metropolitan Chicago

Statement of Activities

December 31, 2018 (With Comparative Totals for 2017)

	Without Donor Restrictions		With Donor Restrictions	Total	
	Undesignated	Board- Designated		2018	2017
Revenue:					
Contributions:					
Current-year campaign:					
Pledges received in current year	\$ 44,978,621	\$ -	\$ -	\$ 44,978,621	\$ 52,008,075
Transfer of current-year campaign pledges received and recorded in prior year (below)	43,906,617	-	-	43,906,617	34,960,160
Total current-year campaign pledges received	88,885,238	-	-	88,885,238	86,968,235
Less allowance for uncollectible pledges	(3,066,540)	-	-	(3,066,540)	(3,304,793)
	85,818,698	-	-	85,818,698	83,663,442
Adjustments to current year campaign:					
Adjustments on closing of prior years' campaigns	2,164,995	-	-	2,164,995	1,945,323
Total current year campaign	87,983,693	-	-	87,983,693	85,608,765
Pledges received in current year for future years' campaigns	-	-	40,286,815	40,286,815	43,906,617
Transfer of current-year campaign pledges received and recorded in prior year (above)	-	-	(43,906,617)	(43,906,617)	(34,960,160)
	-	-	(3,619,802)	(3,619,802)	8,946,457
	87,983,693	-	(3,619,802)	84,363,891	94,555,222
Legacies and bequests	-	10,756,557	-	10,756,557	32,601,129
Total support	87,983,693	10,756,557	(3,619,802)	95,120,448	127,156,351
Other revenue:					
Interest and dividends	11,572	359,224	11,002	381,798	25,892
Gain (loss) on investment activity (net)	29,967	(2,236,992)	(963,115)	(3,170,140)	11,695,998
Income from trusts and foundations	9,466,872	74,415	-	9,541,287	8,296,570
Fees from campaign and administrative programs	4,581,739	-	-	4,581,739	3,940,790
Fees from departmental services	2,385,224	-	-	2,385,224	1,708,023
JUF News revenue	722,111	-	-	722,111	754,327
Unexpended prior-year allocations	-	-	-	-	414,852
Total other revenue	17,197,485	(1,803,353)	(952,113)	14,442,019	26,836,452
Total revenue	105,181,178	8,953,204	(4,571,915)	109,562,467	153,992,803

(Continued)

Jewish United Fund of Metropolitan Chicago

Statement of Activities (Continued)

December 31, 2018 (With Comparative Totals for 2017)

	Without Donor Restrictions		With Donor Restrictions	Total	
	Undesignated	Board- Designated		2018	2017
Expenses:					
Program services	\$ 88,400,725	\$ 118,354	\$ -	\$ 88,519,079	\$ 84,385,070
Management and administration	9,882,428	-	-	9,882,428	9,416,122
Fundraising	9,877,071	-	-	9,877,071	9,718,289
Total expenses	108,160,224	118,354	-	108,278,578	103,519,481
Increase (decrease) in net assets before other items	(2,979,046)	8,834,850	(4,571,915)	1,283,889	50,473,322
Other items:					
Distribution of Campaign Endowment income to current year's campaign	-	(7,238,577)	-	(7,238,577)	(6,916,834)
Pension-related changes other than pension expense	1,215,269	-	-	1,215,269	45,317
Transfers of net assets:					
Release of donor restricted net assets	800,000	15,360	(815,360)	-	-
Transfers between funds	(39,987)	992,351	(952,364)	-	-
	1,975,282	(6,230,866)	(1,767,724)	(6,023,308)	(6,871,517)
Increase (decrease) in net assets	(1,003,764)	2,603,984	(6,339,639)	(4,739,419)	43,601,805
Net assets (deficit):					
Beginning of year	(21,769,131)	93,626,670	59,944,477	131,802,016	88,200,211
End of year	\$ (22,772,895)	\$ 96,230,654	\$ 53,604,838	\$ 127,062,597	\$ 131,802,016

See notes to financial statements.

Jewish United Fund of Metropolitan Chicago

Statement of Functional Expenses December 31, 2018 (With Comparative Totals for 2017)

	Undesignated				Designated		Total	
	Program Services	Management and Administration	Fundraising	Total	Program Services	2018	2017	
Allocations to beneficiary organizations:								
National and local - paid through								
Jewish Federation of Metropolitan Chicago	\$ 40,015,871	\$ -	\$ -	\$ 40,015,871	\$ 9,760	\$ 40,025,631	\$ 38,472,993	
Overseas - paid through								
Jewish Federations of North America	37,170,408	-	-	37,170,408	-	37,170,408	34,736,629	
Other organizations	1,750,215	-	-	1,750,215	-	1,750,215	2,484,767	
Total allocations	78,936,494	-	-	78,936,494	9,760	78,946,254	75,694,389	
Operating expenses:								
Salaries	3,024,556	4,344,933	3,246,524	10,616,013	-	10,616,013	10,031,911	
Fringe benefits	866,345	1,443,254	800,577	3,110,176	-	3,110,176	3,155,170	
	3,890,901	5,788,187	4,047,101	13,726,189	-	13,726,189	13,187,081	
Professional fee and service payments	734,072	315,534	120,587	1,170,193	4,831	1,175,024	955,772	
Postage and shipping	141,691	114,734	85,111	341,536	-	341,536	382,373	
Outside printing	315,837	2,725	148,318	466,880	-	466,880	450,102	
Office supplies and other related expenses	58,684	13,934	60,707	133,325	330	133,655	128,994	
Information technology	156,847	826,634	151,533	1,135,014	-	1,135,014	996,127	
Occupancy	313,937	961,057	413,215	1,688,209	65,371	1,753,580	1,693,010	
Transportation and travel	97,608	37,787	57,991	193,386	2,059	195,445	176,238	
Conferences, conventions and meetings	102,445	165,994	42,702	311,141	-	311,141	312,926	
Insurance	-	135,614	-	135,614	5,323	140,937	140,548	
Advertising	47,805	-	93,109	140,914	-	140,914	119,979	
Missions	2,183,673	-	-	2,183,673	-	2,183,673	1,364,572	
Events	85,785	18,479	3,546,648	3,650,912	-	3,650,912	3,800,784	
Interest expense	176,519	144,756	-	321,275	-	321,275	361,553	
Credit card fees	555,192	-	-	555,192	-	555,192	587,521	
Miscellaneous	90,100	68,644	63,223	221,967	7,033	229,000	237,217	
Total operating expenses	8,951,096	8,594,079	8,830,245	26,375,420	84,947	26,460,367	24,894,797	
Depreciation and amortization	513,135	1,288,349	1,046,826	2,848,310	23,647	2,871,957	2,930,295	
	\$ 88,400,725	\$ 9,882,428	\$ 9,877,071	\$ 108,160,224	\$ 118,354	\$ 108,278,578	\$ 103,519,481	

See notes to financial statements.

Jewish United Fund of Metropolitan Chicago

Statement of Cash Flows

December 31, 2018 (With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (4,739,419)	\$ 43,601,805
Depreciation and amortization	2,871,957	2,930,295
Loss (gain) on investment transactions	3,200,107	(11,657,813)
Decrease in amount due from participating employers for pension benefits due to actuarial gains/losses and change in assumptions	2,503,512	1,183,093
Decrease in pension liability due to actuarial gains/losses and change in assumptions	(3,718,781)	(1,228,410)
Changes in:		
Pledges receivable	(859,785)	(6,375,736)
Due to/from JFMC Facilities Corporation	168,481	(212,811)
Prepaid expenses, deposits and other receivables	166,214	374,693
Amount due from participating employers for pension benefits	(1,159,753)	(1,752,875)
Allocations payable to beneficiaries	7,244,237	(5,035,546)
Accounts payable and accrued expenses	(95,714)	31,702
Deferred income	(415,500)	240,511
Liability for pension benefits	2,335,037	3,213,371
Net cash provided by operating activities	7,500,593	25,312,279
Cash flows from investing activities:		
Proceeds from sale of securities	8,875,693	6,865,627
Purchases of securities	(14,873,095)	(50,502,424)
Capital expenditures	(103,752)	(232,306)
Increase in other investments	(165,255)	(192,980)
Net cash used in investing activities	(6,266,409)	(44,062,083)
Cash flows from financing activities:		
Decrease in due to/from Jewish Federation of Metropolitan Chicago	(139,018)	(3,720,670)
Net cash used in financing activities	(139,018)	(3,720,670)
Increase (decrease) in cash and cash equivalents	1,095,166	(22,470,474)
Cash:		
Beginning of year	7,518,927	29,989,401
End of year	\$ 8,614,093	\$ 7,518,927
Supplemental disclosure of cash flow information:		
Interest paid	\$ 331,088	\$ 361,260

See notes to financial statements.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Jewish United Fund of Metropolitan Chicago (Jewish United Fund) is a nonprofit social service organization that conducts fundraising activities by means of annual calendar year campaigns, and makes domestic and overseas allocations to beneficiary organizations, primarily the Jewish Federation of Metropolitan Chicago (Jewish Federation) and the Jewish Federations of North America (JFNA). Overseas allocations are paid through JFNA, which is a U.S. nonprofit organization. Jewish United Fund provides critical resources that bring food, refuge, healthcare, education and emergency assistance to 500,000 Chicagoans of all faiths and to millions of Jews in Israel and around the world.

Significant accounting policies followed by Jewish United Fund are as follows:

General: The financial statements have been prepared in conformity with accounting principles applicable to nonprofit organizations except for the effects of not consolidating the financial statements of the Jewish Federation.

The guidance on reporting of related entities by not-for-profit organizations requires not-for-profit organizations with a controlling financial interest in another not-for-profit organization to consolidate that other organization. Jewish United Fund meets the definition of having a "controlling financial interest" in the Jewish Federation by having a common board of directors and officers and through its financial support of the Jewish Federation (see Note 3). Accordingly, generally accepted accounting principles (GAAP) require that Jewish United Fund consolidate the Jewish Federation. Management of the organizations believes that it is not practicable to consolidate the Jewish Federation because the Jewish Federation is required by certain funding sources to maintain a June 30 fiscal year-end and Jewish United Fund has elected to retain its December 31 year-end to coincide with its personal contributors' tax year-ends. Accordingly, compliance with the guidance on reporting of related entities by not-for-profit organizations would require the Jewish Federation to undergo two separate audits each year, which would cause a financial and administrative burden on the organizations, thereby negatively impacting their ability to fulfill their charitable mission. Based on the foregoing, management has determined that the cost of consolidating the Jewish Federation outweighs the benefits obtained therefrom and, accordingly, has not consolidated the Jewish Federation in the accompanying financial statements.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Summarized audited financial information of the Jewish Federation as of and for the year ended June 30, 2018, consists of:

	In Thousands
Assets	
Cash and cash equivalents	\$ 207,971
Investments	1,707,494
Pledges and other receivables	34,437
Beneficial interest in charitable trusts	39,788
Other assets	58,074
	<u>\$ 2,047,764</u>
Liabilities	
Tax-exempt debt	\$ 6,665
Loans payable	22,730
Funds held for others	24,882
Funds invested on behalf of unitholders	305,417
Other liabilities	79,283
	<u>438,977</u>
Net assets	
Without donor restrictions:	
Noncontrolling interest in investments	76,190
Designated by the governing board for the following:	
Long-term investments	1,172,138
Donor-advised funds	167,772
With donor restrictions	192,687
	<u>1,608,787</u>
	<u>\$ 2,047,764</u>
Revenue	
Allocation from Jewish United Fund	\$ 37,908
Contributions and other public support	260,970
Investment earnings and unrealized gains	136,367
Other revenue	5,207
	<u>440,452</u>
Expenses	
Appropriations and distributions and grants	179,577
Other expenses	17,827
	<u>197,404</u>
Increase in net assets before noncontrolling interest in investments	243,048
Noncontrolling interest in investments	(42,470)
Increase in net assets	<u>\$ 200,578</u>

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

If the financial statements of the organizations were to be consolidated, the major items that would be eliminated on consolidation would be the annual allocation from Jewish United Fund to the Jewish Federation and the interagency loan, together with interest thereon (see Notes 3 and 7).

As described in Note 5, Jewish United Fund charges the Jewish Federation directly for its share of common expenses. Such expenses and subsequent recovery of expenses are not reflected separately on the statement of activities.

Basis of presentation: The financial statements are presented in accordance with the guidance on financial statements of not-for-profit organizations, which establishes standards for general-purpose external financial statements issued by nonprofit organizations. It requires that net assets and related revenue, expenses, gains and losses be classified into two classes of net assets – net assets without donor restrictions and net assets with donor restrictions – based upon the existence or absence of donor-imposed restrictions. A definition and description of each net asset class follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions, including the carrying value of all physical properties (land, buildings and equipment). Items that affect (i.e., increase or decrease) this net asset category include pledges received, program service fees and all expenses associated with the core activities of the organization. In addition to these activities, changes in this category of net assets include certain types of board designated funds, investment income and restricted contributions whose donor-imposed restrictions were met during the fiscal period.

Net assets with donor restrictions: Net assets subject to restrictions imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the organization or the passage of time. Such items include pledges restricted by donors for future years' campaigns, which are reflected as contributions with donor restrictions on the statement of activities. In the subsequent year when the time restriction is fulfilled, a transfer is recorded to net assets without donor restrictions and included as revenue of the current year's campaign. Net assets with donor restrictions also include legacies and bequests received for use in future years or for specific projects that have not yet been completed. Some donor restrictions are perpetual in nature, in which the donor has stipulated that the funds be invested in perpetuity.

Revenue recognition: Contributions without donor restrictions are recorded when received and consist of campaign pledges received for the current year, transfers of current-year campaign pledges received and recorded as restricted in prior years, and the final adjustments on prior years' campaigns. In addition, legacies and bequests are recorded when the amount is known and uncontested. Collections received on "closed" campaigns are included with contribution income in the year received.

Contributions with donor restrictions consist of pledges received in the current year for future years' campaigns.

Service fees collected for programs, events and missions supporting future years' campaigns are deferred until the applicable campaign year. Other program service fee revenue is recognized when the program takes place.

Unexpended prior-year allocations represent allocations approved by the Board in prior fiscal years that were not paid. Jewish United Fund has recognized the recovery of a portion of these funds by reducing allocations payable and recognizing other income.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Pledges receivable and allowance for uncollectible pledges: Pledges receivable are recorded for donors' unconditional promises to give to Jewish United Fund. Provision is made for estimated losses on collection of unpaid pledges at the end of each campaign year and, in subsequent years, charges are made to the "Allowance for Uncollectible Pledges" for uncollectible pledge adjustments. Any adjustment in the allowance account in a year succeeding a campaign year is charged or credited to contribution income of the adjustment year. The allowance account for a regular campaign year is closed at the end of the second year following its conclusion.

Cash concentrations: Jewish United Fund maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Jewish United Fund has not experienced any losses in such accounts. Management believes that Jewish United Fund is not exposed to any significant credit risk on its cash and cash equivalents.

Investment in PEP: Jewish United Fund has invested its assets in the JFMC Pooled Endowment Portfolio, LLC (PEP). The Jewish Federation is the manager and administrator of the PEP and is also the majority owner of the PEP. As manager, the Federation owned 84.4 percent of the PEP, as of December 31, 2018, and Jewish United Fund has a 12.0 percent interest in the Federation's portion of the PEP. The investment in the PEP is recorded at its estimated fair value based on the net asset value per share.

Investment transactions and related income: Jewish United Fund records investment transactions on a trade date basis. Realized gains and losses on investment transactions and change in unrealized gain (loss) on investments are reported as such on the statement of activities. Interest income is recognized under the accrual basis. Dividend income is recognized on the ex-dividend date. Investment fees are presented net against gains (losses) on investment activity.

Life insurance policies received as contributions: Cash surrender value of insurance policies on the lives of individuals, where ownership of the policies has been assigned to Jewish United Fund as contributions, is reflected as an investment in the policies (see Note 8) and is included in other investments on the statement of financial position.

Property and equipment: Property and equipment is recorded at cost or, if donated, at fair value at the time of donation. Provisions for depreciation of property and equipment are computed on the straight-line method over the estimated useful lives of the assets which range from five to seven years for office equipment and furniture, three to twelve years for software and four years for vehicles (see Note 9).

Allocations payable to beneficiaries: Amounts approved by the Board of Directors to be paid to beneficiary organizations are included in allocations payable to beneficiaries if unpaid at year-end. Adjustments are periodically made to allocations payable based on Board action.

Prepaid expenses, deposits and other receivables: Prepaid expenses, deposits and other receivables are comprised of costs related to events and missions for future years' campaigns, prepaid insurance and receivables for sponsorships, event registration fees and JUF News advertisements.

Functional expenses: Operating expenses directly identified with a specific functional area are fully allocated to that area. Operating expenses attributable to multiple functional areas are allocated based on a methodology established and consistently applied by management. Occupancy expenses are allocated on the basis of square footage. Certain expenses pertaining to Jewish United Fund's Communications and Campaign departments are allocated using ratios based on management's estimate of time and effort.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Management estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Donated services: No amounts have been reflected herein for donated services because they do not meet the defined requirements for inclusion in the financial statements.

Fair value of financial instruments: The fair value of Jewish United Fund's other assets and liabilities that qualify as financial instruments under the guidance on disclosures about fair value of financial instruments approximates the carrying amounts presented in the statement of financial position based on the short-term nature of the other assets and liabilities. The carrying amounts reflected in the statement of financial position for pledges receivable and related-party receivables and payables approximate their respective fair values, as management has estimated the fair values by discounting expected cash flows using interest rates that management believes are approximately equal to the interest rate currently available for similar financing arrangements.

Reclassifications: Certain prior-year amounts have been reclassified to conform to the current-year presentation without affecting prior-year net asset balances.

Income taxes: Jewish United Fund, an Illinois not-for-profit corporation, is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income, if any.

Jewish United Fund has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, Jewish United Fund may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of Jewish United Fund and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. At December 31, 2018, there were no unrecognized tax benefits identified or recorded as liabilities.

Jewish United Fund files Form 990 and Form 990-T in the U.S. federal jurisdiction and the state of Illinois.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Adopted accounting pronouncements: As permitted, in 2018, the Jewish United Fund adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The adoption was retrospectively applied to 2017.

Recent accounting pronouncements: In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in statement of activities. The new standard is effective for Jewish United Fund in the year ending December 31, 2020; early adoption is permitted. Jewish United Fund is currently evaluating the impact of the adoption of this standard on its financial statements.

Subsequent events: Jewish United Fund has evaluated subsequent events for potential recognition and/or disclosure through June 26, 2019, the date the financial statements were available to be issued.

Note 2. Liquidity

Jewish United Fund regularly monitors liquidity required to meet its operating needs and other commitments. As of December 31, 2018, financial assets available within one year to meet general operating needs are as follows:

Cash	\$ 8,317,021
Pledges receivable due within one year, net of allowance for uncollectible pledges	50,481,828
Due from JFMC Facilities Corporation	149,989
Campaign endowment distributions	7,073,515
	<u>\$ 66,022,353</u>

Jewish United Fund's annual campaign revenue is mainly comprised of contributions without donor restrictions and thus collections from the campaign are available to meet the organization's cash needs. Campaign pledges are collected throughout the year but the organization's cash position does have seasonal variations due to a large volume of contributions received near year-end.

Jewish United Fund has various campaign endowment funds, which totaled approximately \$125 million as of December 31, 2018, from which distributions are made annually based on the organization's approved spending policy (see Note 12) and credited to the annual campaign. Approximately \$7.1 million is expected to be withdrawn from campaign endowment funds in 2019.

To manage liquidity, campaign endowment distributions are made on a quarterly basis and the Jewish Federation makes advances to Jewish United Fund, as necessary, to support the cyclical nature of collections.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 3. Allocations

Allocations made by Jewish United Fund to beneficiary organizations from the 2018 campaign consist of:

	Jewish Federation of Metropolitan Chicago	Overseas - Jewish Federations of North America	Other Organizations	Total
Regular campaign	\$ 39,130,174	\$ 27,726,334	\$ 35,000	\$ 66,891,508
Other grants	895,457	9,444,074	1,715,215	12,054,746
	<u>\$ 40,025,631</u>	<u>\$ 37,170,408</u>	<u>\$ 1,750,215</u>	<u>\$ 78,946,254</u>

The regular campaign allocation to the Jewish Federation is used to fund a substantial portion of its operating expenses.

Allocations payable to beneficiaries at December 31, 2018, consist of:

Overseas	\$ 14,840,002
Jewish Federation	32,718,623
Other beneficiaries	35,000
	<u>\$ 47,593,625</u>

Note 4. Contribution Revenue and Pledges Receivable

Pledges receivable at December 31, 2018, net of allowances for uncollectible pledges, consist of:

Future years' campaigns	\$ 37,608,991
Current year's campaign	17,682,593
Prior year's campaign	2,038,210
	<u>57,329,794</u>
Allowance for uncollectible pledges	(5,900,474)
	<u>\$ 51,429,320</u>

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 5. Operating Expenses

Pursuant to an arrangement between Jewish United Fund and the Jewish Federation (which operate from common premises and, in many instances, utilize the same personnel), Jewish United Fund makes expenditures of all common expenses and charges the Jewish Federation for its share thereof. Such common expenses are allocated among the two organizations based, in part, on specific identification of certain expenses and, in part, by allocating other expenses on the basis of previously determined ratios.

For the year ended December 31, 2018, Jewish United Fund has charged the Jewish Federation for such expenses in the net amounts of \$3,655,534. The operating expenses of Jewish United Fund reflected in the statement of functional expenses are stated net of such allocated charges.

Jewish United Fund leases office space (at 30 South Wells Street, Chicago, Illinois) from the JFMC Facilities Corporation for which it pays rentals. Total rentals paid to the JFMC Facilities Corporation in 2018 were \$1,660,002, which is included in the occupancy line of the statement of functional expenses.

Note 6. Fair Value Measurements and Investments in Securities

As described in Note 1, Jewish United Fund records its investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the guidance on fair value measurements as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the guidance on fair value measurements are described below:

Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2. Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3. Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Jewish United Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The following section describes valuation techniques used by Jewish United Fund to measure its financial instruments at fair value and includes the level within the fair value hierarchy in which they are categorized.

Jewish United Fund's investment of \$129,572,701 represents its allocable share in the PEP and is measured at fair value using the net asset value per share (NAV) practical expedient and has not been categorized in the fair value hierarchy.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 6. Fair Value Measurements and Investments in Securities (Continued)

The PEP invests in various types of investments including: mutual funds, money market funds, U.S. Treasury bills, equity and credit securities, alternative investments and other investment vehicles. Jewish United Fund does not own or have any interest in the underlying investments held in the PEP. Jewish United Fund has the ability to contribute funds or withdraw funds from its account on the first day of each month. Withdrawal requests are required to be submitted to the PEP in writing at least 15 days prior to the beginning of each month and withdrawals representing more than 80 percent of an investor's assets are paid within 60 days.

The PEP's investment in money market funds, U.S. Treasury bills, registered investment companies which include mutual funds and exchange traded funds, investments in various equity and credit assets and securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. Options are valued at the mid-price between the highest bid and lowest ask price on the day of valuation across all listed exchanges. Commodities, such as precious metals, are valued based on the closing spot price, derived from the over-the-counter precious metals trading market. These financial instruments are classified as Level 1 in the fair value hierarchy.

Investments in government securities and bonds and corporate notes and debt securities which are traded on a national securities exchange or market are valued at the mean between the current "bid" and "asked" quotations on that day. If a reliable bid and asked quotation cannot be obtained from a national securities exchange, the security is priced at the mean between the bid and asked quotation of a reliable market maker. If the investments are not traded on an exchange, they are stated at cost plus accrued interest, which approximates the fair value. These financial instruments are classified as Level 2 in the fair value hierarchy.

Certain investments in underlying funds have been valued as of September 30, 2018 and 2017, and then adjusted for any purchases and withdrawals made between October 1 and December 31 because December 31 balances were not readily available from fund managers and general partners. The PEP prepares investment statements approximately 30 days after the end of each month. These statements are then sent to affiliates and other outside organizations invested in the PEP. The September 30 value is used for fund managers and general partners that do not provide their December 31 statements within this timeframe.

The practical expedient allows for investments such as opportunistic funds, certain equity and credit funds and also real asset funds and real estate funds, to be valued at the net asset value (NAV) which represents fair value and are not classified in the fair value hierarchy.

The PEP's investments in non-registered investment companies consisting of certain equity funds, hedged credit funds, opportunistic funds and also real asset and real estate funds are stated at fair value based on the applicable percentage ownership of the underlying investment funds' net assets as of the measurement date, as determined by the PEP. In determining fair value, the PEP utilizes valuations and other information provided by the underlying investment funds. The underlying investment funds value securities and other financial instruments substantially on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds, which may include private placements and other securities for which prices are not readily available, are determined by the managers of the respective investment fund and may not reflect amounts that ultimately may be realized. The fair value of the PEP's alternative investments generally represents the amount expected to be received if the PEP were to liquidate its alternative investments, excluding any redemption charges that may apply. Accordingly, the estimated fair values of the alternative investments may differ significantly from the values that would have been used had a ready market existed for these investments.

As of December 31, 2018, \$13,883,536 of Jewish United Fund's investment in the PEP is subject to donor restrictions.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 6. Fair Value Measurements and Investments in Securities (Continued)

Jewish United Fund assesses the levels of the financial instruments at each measurement date and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with Jewish United Fund's accounting policy regarding recognition of transfers between levels of the fair value hierarchy. There were no such transfers for the year ended December 31, 2018.

Jewish United Fund, through its investment in the PEP, enters into transactions with a variety of securities and derivative financial instruments. These derivative financial instruments may have market and/or credit risk in excess of the amounts recorded in the statement of financial position.

Market risk of investment in pooled endowment portfolio: Market risk arises primarily from changes in the market value of financial instruments. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the overall exposure to market risk. The Jewish Federation attempts to control the PEP's exposure to market risk through various analytical monitoring techniques.

Credit risk: Credit risk arises primarily from the potential inability of counterparties to perform in accordance with the terms of a contract. Exposure to credit risk associated with counterparty nonperformance is limited to the current cost to replace all contracts in which there is a gain. Exchange-traded financial instruments generally do not give rise to significant counterparty exposure due to the cash settlement procedures for daily market movements and the margin requirements of individual exchanges.

Concentration of credit risk: In the event the PEP does not fulfill its obligations, Jewish United Fund may be exposed to risk. This risk of default depends on the creditworthiness of the counterparty to these transactions. The PEP attempts to minimize this risk by monitoring the creditworthiness of the managers and clearing brokers.

Investments in funds: The managers of underlying investment funds in which the PEP invests may utilize derivative instruments with off-balance-sheet risk. Jewish United Fund's exposure to risk is limited to its allocable share of the PEP's investment.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 6. Fair Value Measurements and Investments in Securities (Continued)

As of December 31, 2018, the PEP was invested as follows:

	Percentage of Total Pooled Fund	Approximate Hierarchy Level within the Pooled Fund
	(Unaudited)	
Long only public equity	28%	1-NAV
Hedged equity	17%	NAV
Private equity	13%	NAV
Credit:		
Hedged credit	5%	NAV
Private credit	3%	NAV
Fixed income	13%	2
Money market funds	9%	1
Real assets	7%	NAV
Real estate	4%	NAV
Opportunistic	1%	NAV
	<u>100%</u>	

Note 7. Due to/from Jewish Federation and JFMC Facilities Corporation

Amounts due to/from the Jewish Federation and JFMC Facilities Corporation as of December 31, 2018, consist of:

Amounts due from JFMC Facilities Corporation:

Payroll	<u>\$ 149,989</u>
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Amounts due to Jewish Federation:

Contribution of marketable securities	\$ 4,522
Other	<u>8,000</u>
	<u>\$ 12,522</u>

Jewish Federation maintains a \$28 million line of credit on behalf of Jewish United Fund for working capital purposes. Borrowings on the line bear interest at LIBOR plus .60 percent (3.10 percent at December 31, 2018). As of December 31, 2018, there were no outstanding borrowings on the line. Interest expense related to this arrangement totaled \$176,519 for the year ended December 31, 2018.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 8. Other Investments

Other investments at December 31, 2018, consist of:

Investment in insurance policies	\$ 3,851,586
Other investments	275,896
	<u>\$ 4,127,482</u>

Jewish United Fund received, as contributions, assignments of the ownership (and designations as beneficiary) of insurance policies on the lives of several donors. The investment in the policies represents the cash surrender value.

Note 9. Property and Equipment

Property and equipment of Jewish United Fund, stated at acquisition cost, at December 31, 2018, consists of:

Computer software and equipment	\$ 15,715,737
Land	1,986,131
Buildings and improvements	771,752
Equipment, furniture and vehicles	184,777
	<u>18,658,397</u>
Accumulated depreciation and amortization	<u>(15,341,302)</u>
	<u>\$ 3,317,095</u>

The provision for depreciation of equipment and amortization of software for the year ended December 31, 2018, was \$2,871,957. Fully depreciated equipment (whether or not continued in use) is written off against the respective accumulated depreciation account.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 10. Defined Benefit Plan

Jewish United Fund is the sponsoring employer of the Federation Employees' Retirement Income Plan (FERIP), which is treated as a multi-employer plan for accounting purposes. FERIP is a noncontributory defined benefit plan which covers substantially all of the organizations' exempt employees who have performed one year of service. Participating employers in FERIP include: Jewish Federation of Metropolitan Chicago, JFMC Facilities Corporation, Chicago Board of Rabbis, CJE Senior Life, Jewish Child & Family Services and Jewish Community Centers of Chicago (participating employers). FERIP provides defined benefits based on years of service and final average salary. Jewish United Fund and the participating employers contribute to FERIP annually as determined by the plan's actuary.

In accordance with the guidance on employers' accounting for defined benefit pension and other postretirement plans, the liability for pension benefits reflects the total underfunded position of FERIP (the difference between the fair value of plan assets and the projected benefit obligation). To account for the participating employers' portion of the pension liability and corresponding expense, Jewish United Fund records an asset and reduces the pension expense which is allocated to operating expenses of the various departments. As of December 31, 2018, this asset totaled \$28,806,373. In addition, Jewish United Fund maintains a board designated investment for retirement benefits which totaled \$906,174 at December 31, 2018, to fund possible future liabilities of FERIP.

Plan contributions and the actuarial present value of accumulated plan benefits are prepared based on certain assumptions pertaining to interest rates, inflation rates, mortality rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements. The fair value of plan assets is subject to the market volatility of the underlying investments.

The measurement date used to determine benefit obligations and fair value of plan assets was December 31, 2018.

Information relative to Jewish United Fund's benefit obligations for FERIP (including all participating employers) are presented below:

Obligations and funded status:

Fair value of plan assets	\$ 80,964,603
Projected benefit obligation	(132,007,683)
Unfunded status (of which \$28,806,373 pertains to the participating employers)	<u>\$ (51,043,080)</u>

Amounts reported on the statement of financial position consist of:

Amounts due from participating employers for pension benefits	\$ 28,806,373
Liability for pension benefits	(51,043,080)
Net liability	<u>\$ (22,236,707)</u>

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 10. Defined Benefit Plan (Continued)

Amounts recognized on the statement of activities as a change in unrestricted net assets:

Pension expense recognized in operations	\$ 2,661,551
Amounts recognized on the statement of activities as pension-related changes other than pension expense	<u>(1,215,269)</u>
	1,446,282
Add: net amount pertaining to participating employers	<u>808,641</u>
	<u><u>\$ 2,254,923</u></u> *

Amounts not yet recognized as components of pension expense included in net assets without donor restrictions:

Prior service cost	\$ (9,613)
Net loss	<u>14,588,089</u>
	14,578,476
Add: net amount pertaining to participating employers	<u>20,242,681</u>
	<u><u>\$ 34,821,157</u></u> *

Amounts recognized for the year:

2018 employer contributions - JUF	\$ 1,486,267
Add: net amount pertaining to participating employers	<u>2,152,400</u>
Total FERIP contributions	<u><u>\$ 3,638,667</u></u> *

Benefits paid during 2018 - JUF	\$ 2,039,303
Add: net amount pertaining to participating employers	<u>3,719,866</u>
Total FERIP benefits paid	<u><u>\$ 5,759,169</u></u> *

* Amounts per actuary report

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 10. Defined Benefit Plan (Continued)

Weighted-average assumptions used in computing obligations and net periodic pension cost:

Benefit obligations:		
Discount rate	4.47	%
Rate of compensation increases	3.00	
Net periodic benefit cost:		
Discount rate	3.78	%
Rate of compensation increases	3.00	
Expected return on plan assets	6.25	

Jewish United Fund's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive review of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical real returns, net of inflation, for the asset classes covered by the investment policy and (b) projections of inflation over the long-term period during which benefits are payable to plan participants.

For the year ended December 31, 2018, a discount rate on benefit obligations of 4.47 percent was used (2017 – 3.78 percent).

For the year ended December 31, 2018, the RP-2014 Mortality Table for Males and Females was used in the determination of the present value of accumulated plan benefits. These tables are projected forward generationally using projection scale MP-2018.

FERIP's weighted-average asset allocation at the end of the year, by asset category, is as follows:

Asset category:		
Domestic fixed income	52	%
Domestic equity	15	
International equity	24	
Real estate	6	
Money market funds	3	
	<u>100</u>	<u>%</u>

Jewish United Fund's investment policy for FERIP includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges by major asset categories. The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plan's actuarial assumptions and achieve asset returns that are competitive with like institutions employing similar investment strategies.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 10. Defined Benefit Plan (Continued)

Jewish United Fund's investment policy for FERIP's overall investment strategy is to allocate approximately 60 percent of assets to a diversified equity-oriented return-seeking portfolio and 40 percent to a liability-hedging portfolio invested primarily in long duration fixed-income vehicles. Target allocations within the return-seeking portfolio are as follows: 70 percent to U.S. and international equity, 10 percent to global real estate and 20 percent to return-seeking credit investments. The JFMC Pooled Endowment Portfolio Committee regularly reviews FERIP's investment performance, funded status and investment policy. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

Expected required employer contributions for 2019 (of which \$2,173,922 pertains to the participating employers) \$ 3,675,053

The following benefit payments, which reflect future service, are expected to be paid:

2019	\$ 6,418,000
2020	6,758,000
2021	7,123,000
2022	7,426,000
2023	7,609,000
2024-2028	40,151,000
	\$ 75,485,000

The fair values of FERIP's assets at December 31, 2018, by asset category, are as follows:

Asset Category	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valued Using Net Asset Value ⁽¹⁾	Total
Money market fund	\$ 1,994,502	\$ -	\$ -	\$ -	\$ 1,994,502
Domestic fixed income	-	-	-	42,367,202	42,367,202
Domestic equity	-	-	-	11,787,845	11,787,845
International equity	-	-	-	19,644,792	19,644,792
Real estate	-	-	-	4,865,952	4,865,952
Absolute return hedge funds	-	-	-	304,310	304,310
Total	\$ 1,994,502	\$ -	\$ -	\$ 78,970,101	\$ 80,964,603

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the statement of financial position.

For the year ended December 31, 2018, there were no transfers between Levels 1, 2 and 3.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 10. Defined Benefit Plan (Continued)

Investments in money market funds are traded on national securities exchanges and are stated at the last reported sales price on the day of valuation.

Alternative investments and other investment vehicles are valued at fair value based on the applicable percentage ownership of the investment funds' net assets as of the measurement date, as determined by Jewish United Fund. In determining fair value, Jewish United Fund utilizes valuations and other information provided by the underlying investment funds. The underlying investment funds value securities and other financial instruments substantially on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds, which may include private placements and other securities for which prices are not readily available, are determined by the managers of the respective investment fund and may not reflect amounts that ultimately may be realized. The fair value of Jewish United Fund's alternative investments generally represents the amount expected to be received if Jewish United Fund were to liquidate its alternative investments, excluding any redemption charges that may apply. Accordingly, the estimated fair values of the alternative investments may differ significantly from the values that would have been used had a ready market existed for these investments.

In addition to sponsoring FERIP, Jewish United Fund is an employer participant in Federation Employees' Retirement Savings Trust Plan of the Jewish Federation of Metropolitan Chicago and Participating Employers (FERST).

FERST is a noncontributory defined contribution plan, employer contributions to which are computed on the basis of a percentage of salary. FERST plan participants include Jewish United Fund employees who have completed one year of service and are covered by a collective bargaining agreement.

Gross contributions provided by Jewish United Fund (determined on the basis of salaries of participating employees) were approximately \$64,000 for 2018.

Note 11. Self-Insurance Programs and Retirement Plans

Jewish United Fund participates with the Jewish Federation and its affiliated agencies in self-insurance programs for health and dental insurance. Contributions by Jewish United Fund for such coverage (made to the Jewish Federation as custodian for these programs) amounted to approximately \$863,222 as of December 31, 2018. All self-insurance programs include specific and aggregate stop loss insurance policies.

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 12. Endowment Net Assets

Jewish United Fund's endowment consists of donor-restricted funds established for a variety of purposes. In addition, its endowment includes funds designated by the Board of Directors to function as endowments. These funds are categorized as board designated. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Jewish United Fund has interpreted the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Jewish United Fund retains in perpetuity (a) the original value of the initial and subsequent gifts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by Jewish United Fund in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Jewish United Fund considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

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

Changes in Endowment Net Assets

The changes in endowment net assets for Jewish United Fund were as follows for the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 111,149,091	\$ 14,704,487	\$ 125,853,578
Investment return:			
Investment income	356,498	11,002	367,500
Loss on investment activity (net of realized and unrealized and related fee)	(2,215,488)	(963,093)	(3,178,581)
	(1,858,990)	(952,091)	(2,811,081)
Contributions	14,102,889	400,000	14,502,889
Other changes:			
Distributions	(8,647,499)	(231,360)	(8,878,859)
Endowment net assets, end of year	\$ 114,745,491	\$ 13,921,036	\$ 128,666,527

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 12. Endowment Net Assets (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Illinois UPMIFA requires Jewish United Fund to retain as a fund of perpetual duration. Jewish United Fund has interpreted UPMIFA to permit spending from funds with deficiencies in accordance with prudent measures required under law. Deficiencies of this nature are reported in net assets with donor restrictions. Certain funds with original gift values totaling approximately \$10,080,000 had deficiencies of \$1,808,000 at December 31, 2018. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions with donor restrictions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. In addition, Jewish United Fund also has funds with donor restrictions, which are to be maintained in perpetuity, with an accumulated surplus. The fair values of such funds at December 31, 2018 were approximately \$676,000 more than the original gift amounts of \$959,000.

Return Objectives and Risk Parameters

Jewish United Fund has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to achieve an annualized long-term average nominal return which is approximately equal to the long-term average return of the market as a whole, but with less volatility than the overall market. Actual returns in any given year may vary significantly from the targeted amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Jewish United Fund relies on a total return strategy in which returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Jewish United Fund's policy is to invest 100 percent of the endowment in the PEP (Note 6).

Spending Policy

Prior to 2018, Jewish United Fund used the controlled growth distribution policy (CGDP) for the majority of its endowment assets. Effective for 2018, JUF began a transition to a new spending policy that uses a 4 percent spending rate for all newly established endowment funds. For existing endowment funds, a 4 percent spending rate will be phased in over a period of years.

Note 13. Board Designated Net Assets

Net assets without donor restrictions have been designated by the Board of Directors for the following purposes:

Campaign endowment	\$ 114,588,169
Israel Partnership 2000	101,195
Birthright Program	172,608
Retirement benefits	(20,930,681)
Other	2,299,363
	<u>\$ 96,230,654</u>

Jewish United Fund of Metropolitan Chicago

Notes to Financial Statements

Note 14. Prior-Year Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with Jewish United Fund's financial statements for the year ended December 31, 2017, from which the summarized information was derived.