

**JEWISH FEDERATION OF NASHVILLE
AND MIDDLE TENNESSEE**

FINANCIAL STATEMENTS

June 30, 2013

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE

Table of Contents

Independent Auditor's Report.....	1 – 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
Notes to the Financial Statements	7 – 14



INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Jewish Federation of Nashville and Middle Tennessee
Nashville, Tennessee

We have audited the accompanying financial statements of the Jewish Federation of Nashville and Middle Tennessee (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and the related statements of activities, cash flows and functional expenses for the ten-month period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Jewish Federation of Nashville and Middle Tennessee as of June 30, 2013, and the changes in its net assets and its cash flows for the ten-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Frosin, Don & Hand, PLLC

January 17, 2014

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
STATEMENT OF FINANCIAL POSITION
June 30, 2013

Assets

Cash and cash equivalents	\$ 598,623
Investments	27,192,675
Pledges receivable, less allowance for uncollectible pledges of \$72,355	1,103,610
Prepaid expenses	160,139
Other receivables	8,386
Furniture and equipment, net of accumulated depreciation of \$25,306	<u>9,349</u>
Total assets	<u><u>\$ 29,072,782</u></u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 39,019
Allocations payable	362,953
Funds held for others	<u>372,976</u>
Total liabilities	<u>774,948</u>

Net assets:

Unrestricted:

Designated by governing board:

Endowment program	22,464,074
Other	801,948
Net investment in furniture and equipment	<u>9,349</u>

Total unrestricted 23,275,371

Temporarily restricted 5,022,463

Total net assets 28,297,834

Total liabilities and net assets \$ 29,072,782

See accompanying notes.

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
For the Ten-Month Period Ending June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Public support received directly	\$ 1,146,850	\$ 1,895,104	\$ 3,041,954
Net gain on investments	1,166,720	140,805	1,307,525
Interest and dividends	399,462	65,420	464,882
Observer publication	104,981	-	104,981
Other	98,882	-	98,882
Net assets released from restrictions:			
Annual campaign	1,885,066	(1,885,066)	-
Other	140,125	(140,125)	-
	<u>4,942,086</u>	<u>76,138</u>	<u>5,018,224</u>
Total support and revenue			
Expenses:			
Program services	2,642,915	-	2,642,915
Supporting services:			
Fund raising	296,409	-	296,409
Management and general	361,409	-	361,409
	<u>3,300,733</u>	<u>-</u>	<u>3,300,733</u>
Total expenses			
Change in net assets	1,641,353	76,138	1,717,491
Net assets - beginning of period	<u>21,634,018</u>	<u>4,946,325</u>	<u>26,580,343</u>
Net assets - end of period	<u>\$ 23,275,371</u>	<u>\$ 5,022,463</u>	<u>\$ 28,297,834</u>

See accompanying notes.

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
STATEMENT OF CASH FLOWS
For the Ten-Month Period Ended June 30, 2013

Cash flows from operating activities:	
Change in net assets	\$ 1,717,491
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	3,655
Net gain on investments	(1,307,525)
Changes in operating assets and liabilities:	
Pledges receivable	29,455
Other receivables	38,467
Prepaid expense	(160,139)
Checks written in excess of bank balance	(39,020)
Accounts payable and accrued expenses	10,216
Allocations payable	43,071
Funds held for others	7,758
	<hr/>
Net cash provided by operating activities	343,429
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Cash flows from investing activities:	
Purchases of furniture and equipment	(2,247)
Purchases of investments	(16,477,282)
Proceeds from sale or redemption of investments	15,915,331
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Net cash used in investing activities	(564,198)
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Net decrease in cash and cash equivalents	(220,769)
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Cash and cash equivalents - beginning of period	819,392
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Cash and cash equivalents - end of period	\$ 598,623
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See accompanying notes.

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
For the Ten-Month Period Ended June 30, 2013

	Program Services	Fund Raising	Management and General	Total
Salaries	\$ 217,540	\$ 198,893	\$ 205,109	\$ 621,542
Payroll taxes	14,454	13,215	13,628	41,297
Employee insurance	13,237	12,103	12,481	37,821
Retirement plan expense	5,215	4,768	4,917	14,900
Employee benefits	294	269	277	840
Total salaries and employee benefits	250,740	229,248	236,412	716,400
Grants	1,507,000	-	-	1,507,000
Allocations	736,759	-	-	736,759
Observer publication	94,157	-	-	94,157
Campaign programs	12,777	47,198	-	59,975
Other operations	-	-	38,920	38,920
Bad debts	-	-	33,000	33,000
Postage	12,964	1,509	2,357	16,830
Accounting fees	-	-	16,536	16,536
Equipment contract	4,058	4,058	4,059	12,175
Printing and publications	5,269	5,268	684	11,221
Staff development	2,660	4,332	1,804	8,796
Contract services	8,298	-	-	8,298
Telephone	2,404	2,404	2,403	7,211
Credit card fees	-	-	5,838	5,838
Insurance	-	-	5,385	5,385
Conferences, meetings and travel	1,300	1,200	2,803	5,303
Memberships and subscriptions	4,150	305	788	5,243
Storage and back-up	-	-	4,217	4,217
Supplies	379	887	2,548	3,814
Depreciation and amortization	-	-	3,655	3,655
Total expenses	<u>\$ 2,642,915</u>	<u>\$ 296,409</u>	<u>\$ 361,409</u>	<u>\$ 3,300,733</u>

See accompanying notes.

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – NATURE OF OPERATIONS

Jewish Federation of Nashville and Middle Tennessee (the "Federation") is a Tennessee not-for-profit corporation. Its purposes are to develop and strengthen Jewish community life, to carry on and support such activities as are in the community interest, to provide a common ground for the discussion of all matters pertaining to the general welfare of the Jewish community and for action thereupon where indicated, and to administer and staff a unified Jewish community fundraising campaign and allocation process to support a wide variety of local, national and international needs. As discussed in Note 12, the Federation changed its fiscal year end from August 31 to June 30.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Federation are presented on the accrual basis. The significant accounting policies followed are described below.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Federation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Federation and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Federation. Generally, the donors of these assets permit the Federation to use all or part of the income earned on any related investments for general or specific purposes. At June 30, 2013, the Federation had no permanently restricted net assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Federation reports the support as unrestricted.

Cash Equivalents

The Federation considers all highly-liquid investments with original maturities of three months or less to be cash equivalents.

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are shown at their fair values in the statement of financial position. Investment income shown in the statement of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income is reported in the period earned as an increase in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Investment income that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions are met or expire in the year in which the income is recognized. All other donor-restricted investment income is reported as an increase in temporarily restricted net assets depending on the nature of the restrictions.

Furniture and Equipment

Furniture and equipment are stated at cost. Donated assets are recorded at their estimated market value at the date of the gift. Depreciation and amortization are provided over the assets' estimated useful lives using the straight-line method.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

Income Taxes

The Federation is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes is included in the financial statements.

Under accounting principles generally accepted in the United States of America, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Federation has no uncertain tax positions that qualify for recognition or other disclosure in the financial statements. As of June 30, 2013, the Federation has accrued no interest and no penalties related to uncertain tax positions. It is the Federation's policy to recognize interest and/or penalties related to income tax matters in income tax expense. The Federation files a U.S. federal information return. Tax years prior to the year ended August 31, 2010 are closed to examination.

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Public Support and Revenue

Fund-raising campaigns are conducted each fall through the following spring to fund allocations for the subsequent year beginning September 1. Annual campaign pledges (unconditional promises to give) are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Contributions receivable in future periods are recorded at their estimated net realizable value. The majority of the promises to give to the annual campaign are received from Nashville and Middle Tennessee contributors. Pledges receivable are reported net of a provision for uncollectible pledges, which is estimated based on past experience with collections and management's evaluation of current outstanding pledges.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions.

Allocations and Grants

Allocations and grants (unconditional promises to give to others) are recorded when authorized by the board of directors.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Federation has evaluated events and transactions that occurred between June 30, 2013 and January 17, 2014, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013

NOTE 3 – CREDIT RISK AND OTHER CONCENTRATIONS

Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation or the Security Investors Protection Corporation ("SIPC") up to \$250,000. The Federation generally maintains accounts at financial institutions in excess of insured amounts. The Federation has not experienced any losses in such accounts and management believes the organization is not exposed to any significant credit risk related to these accounts.

The Federation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

NOTE 4 – INVESTMENTS

A summary of investments is as follows at June 30:

Money market funds	\$ 64,722
Mutual funds:	
Domestic equity	9,779,656
Fixed income	7,517,941
International equity	3,297,512
Israel and fixed income bonds	996,707
Alternative investments funds	<u>5,536,137</u>
 Total investments	 <u>\$ 27,192,675</u>

NOTE 5 – FAIR VALUE MEASUREMENTS

The Organization has adopted the provisions of the Fair Value Measurement Topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"). This guidance establishes a framework for measuring fair value for financial assets and financial liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Federation has the ability to access.

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measurement at fair value. There have been no changes in the methodologies used during the ten-month period ended June 30, 2013.

- *Money market and mutual funds:* Valued at the net asset value of shares held by the Federation at year-end.
- *Israel and fixed income bonds:* Valued using observable inputs including benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency.
- *Alternative investment funds:* Valued by applicable fund administrator based on reported values of underlying funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Federation's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30, 2013:

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 64,722	\$ -	\$ -	\$ 64,722
Mutual funds:				
Domestic equity	9,779,656	-	-	9,779,656
Fixed income	7,517,941	-	-	7,517,941
International equity	3,297,512	-	-	3,297,512
Israel and fixed income bonds	-	996,707	-	996,707
Alternative investment funds	<u>-</u>	<u>-</u>	<u>5,536,137</u>	<u>5,536,137</u>
Total	<u>\$ 20,659,831</u>	<u>\$ 996,707</u>	<u>\$ 5,536,137</u>	<u>\$ 27,192,675</u>

The following table sets forth a summary of changes in the fair value of the Federation's Level 3 assets for the ten-month period ended June 30, 2013:

	<u>Alternative Investment Funds</u>
Balance at August 31, 2012	\$ 5,110,923
Sales	(1,200,000)
Purchases	1,200,000
Unrealized gain	<u>425,214</u>
Balance at June 30, 2013	<u>\$ 5,536,137</u>

NOTE 6 – FUNDS HELD FOR OTHERS

The funds held for the Gordon Jewish Community Center ("GJCC") and Akiva School are agency funds that earn investment income and losses through the pooled fund instruments. Unlike regular philanthropic funds, the Federation does not own them, but rather they are the property of the GJCC and Akiva School. The Federation only administers the changes in these funds.

NOTE 7 – RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2013 are available for the following purposes:

Contributions received to fund the following year's allocations	\$ 2,098,237
Various other funds established by donors for the Foundation program with contributions restricted for specific fields of interest	<u>2,924,226</u>
	<u>\$ 5,022,463</u>

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013

NOTE 8 – ENDOWMENTS

The Federation's endowments were established to further the charitable purposes established by the Federation and include funds designated by the board of directors to function as endowments. Contributions received for the various funds are invested in money market funds, mutual funds, Israel and fixed income bonds, and alternative investment funds in accordance with the investment policy statement maintained by the Federation, which states that the primary purpose of the investment activities is to provide a regular and reliable source of income to meet the needs and services of the Federation. In order to provide the means by which to support the policy objectives, the Federation will continue to maintain a diversified portfolio of investments intended to achieve a long-term return on assets that is approximately 6% greater than the rate of inflation as measured by the Consumer Price Index. Distributions from the endowments are made as determined by the board of directors to satisfy program objectives described in Note 2.

Endowment Net Asset Composition by Type of Fund

Unrestricted:

Board-designated endowments	\$ 22,464,074
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Changes in Endowment Net Assets for the ten-month period ended June 30, 2013:

Balance at August 31, 2012	\$ 20,979,908
Support, revenue and transfers	2,696,080
Allocations, grants, expenses and transfers	<u>(1,211,914)</u>
Balance at June 30, 2013	\$ <u>22,464,074</u>

NOTE 9 – RETIREMENT PLAN

The Federation sponsors a retirement plan covering substantially all employees. Participants must contribute a minimum of 1% of their compensation and may contribute up to a maximum of 20% each year. The Federation makes matching contributions of up to 3% of compensation for employees who have at least one year of service. The Federation will make matching contributions up to 5% of compensation for employees effective July 2013. The Federation made contributions of \$14,901 to the plan during the ten months ended June 30, 2013. Additionally, the Federation has established a deferred compensation plan for the benefit of one employee in which this employee received a contribution equal to 2% of the employee's compensation through June 30, 2013. Effective July 1, 2013, further contributions to this deferred compensation plan are discretionary as may be determined by the employer.

JEWISH FEDERATION OF NASHVILLE AND MIDDLE TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013

NOTE 10 – DONATED SERVICES AND FACILITIES

The value of services donated by individuals in annual fund raising campaigns is not reflected in the financial statements because of the lack of an objective basis by which to measure such value. In addition, the Federation does not recognize the value (approximately \$70,000 annually) of the use of facilities furnished by the Gordon Jewish Community Center. In management's opinion, such reporting does not materially affect the financial statements.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Federation uses the services of a financial institution which has one officer that serves on the Federation's board of directors.

The Federation received pledges from board members and employees amounting to approximately \$99,000 for the ten-month period ended June 30, 2013.

NOTE 12 – FISCAL YEAR

The Federation's board of directors voted to change the fiscal year end from August 31 to June 30. Accordingly the accompanying financial statements are presented for the ten-month period from September 1, 2012 to June 30, 2013.