

Spertus Institute for Jewish Learning and Leadership

Financial Report
With Independent Auditor's Report
June 30, 2018

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Statement of financial position	3
Statement of activities	4-5
Statement of cash flows	6
Notes to financial statements	7-23



RSM US LLP

Independent Auditor's Report

To the Board of Trustees
Spertus Institute for Jewish Learning and Leadership

Report on the Financial Statements

We have audited the accompanying financial statements of Spertus Institute for Jewish Learning and Leadership which comprise the statement of financial position as of June 30, 2018, the related statements of activities and cash flows for the year 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 Spertus Institute for Jewish Learning and Leadership as of June 30, 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.

Report on Summarized Comparative Information

We have previously audited Spertus Institute for Jewish Learning and Leadership's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Chicago, Illinois
December 10, 2018

Spertus Institute for Jewish Learning and Leadership

**Statement of Financial Position
June 30, 2018 (With Comparative Totals for 2017)**

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Assets					
Cash and cash equivalents	\$ 3,578,262	\$ 1,447,730	\$ 1,343,906	\$ 6,369,898	\$ 9,580,242
Student accounts receivable, net	254,543	-	-	254,543	126,058
Pledges receivable	-	207,189	-	207,189	24,945
Interest receivable	891	3,105	-	3,996	25,927
Other receivables	110,881	-	-	110,881	121,346
Permanently restricted borrowings	(3,436,722)	(5)	3,436,727	-	-
Inventories	10,591	-	-	10,591	-
Other assets, net	1,612,685	-	-	1,612,685	2,026,790
	<u>2,131,131</u>	<u>1,658,019</u>	<u>4,780,633</u>	<u>8,569,783</u>	<u>11,905,308</u>
Investments	27,772,889	-	20,730,512	48,503,401	43,493,155
Restricted investments	29,391	-	-	29,391	29,377
Less held by Jewish Federation of Metropolitan Chicago	(27,772,880)	-	(7,558,000)	(35,330,880)	(34,143,378)
Net investments	<u>29,400</u>	<u>-</u>	<u>13,172,512</u>	<u>13,201,912</u>	<u>9,379,154</u>
Facilities and equipment, net	40,518,744	-	-	40,518,744	41,875,099
Collections	3,716,668	-	-	3,716,668	3,716,668
	<u>44,235,412</u>	<u>-</u>	<u>-</u>	<u>44,235,412</u>	<u>45,591,767</u>
	<u>\$ 46,395,943</u>	<u>\$ 1,658,019</u>	<u>\$ 17,953,145</u>	<u>\$ 66,007,107</u>	<u>\$ 66,876,229</u>
Liabilities and Net Assets					
Accounts payable	\$ 220,363	\$ -	\$ -	\$ 220,363	\$ 153,038
Other liabilities and accrued expenses	872,142	-	-	872,142	784,788
Bonds payable, net	34,437,732	-	-	34,437,732	34,407,308
Payable to Jewish Federation of Metropolitan Chicago	4,540,000	-	-	4,540,000	4,540,000
Fair value of swap agreements	385,461	-	-	385,461	2,341,207
Postretirement benefit liability	298,389	-	-	298,389	283,846
	<u>40,754,087</u>	<u>-</u>	<u>-</u>	<u>40,754,087</u>	<u>42,510,187</u>
Net assets	<u>5,641,856</u>	<u>1,658,019</u>	<u>17,953,145</u>	<u>25,253,020</u>	<u>24,366,042</u>
	<u>\$ 46,395,943</u>	<u>\$ 1,658,019</u>	<u>\$ 17,953,145</u>	<u>\$ 66,007,107</u>	<u>\$ 66,876,229</u>

See notes to financial statements.

Spertus Institute for Jewish Learning and Leadership

Statement of Activities

Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue:					
Tuition revenue (net of scholarships and discounts of \$226,213)	\$ 300,711	\$ -	\$ -	\$ 300,711	\$ 307,888
Gifts and bequests, net	1,545,063	879,726	462,162	2,886,951	7,646,019
Government grants	-	12,500	-	12,500	42,206
Jewish Federation of Metropolitan Chicago grants	597,212	524,599	-	1,121,811	1,135,633
Interest and dividend income	9,934	195,348	-	205,282	171,481
Realized and unrealized gains	340,897	3,181	-	344,078	656,649
Auxiliary services	3,436,279	-	-	3,436,279	3,107,965
Miscellaneous revenue	232,998	-	-	232,998	133,309
Release of restricted funds	1,389,130	(1,389,130)	-	-	-
	<u>7,852,224</u>	<u>226,224</u>	<u>462,162</u>	<u>8,540,610</u>	<u>13,201,150</u>
Expenses:					
Program services:					
Spertus college programs	2,395,615	-	-	2,395,615	1,951,986
Spertus collections programs	866,600	-	-	866,600	976,554
Auxiliary services	2,771,565	-	-	2,771,565	2,327,858
	<u>6,033,780</u>	<u>-</u>	<u>-</u>	<u>6,033,780</u>	<u>5,256,398</u>
Supporting services:					
Management and general	1,374,921	-	-	1,374,921	1,505,285
Fundraising	590,538	-	-	590,538	571,488
	<u>1,965,459</u>	<u>-</u>	<u>-</u>	<u>1,965,459</u>	<u>2,076,773</u>
	<u>7,999,239</u>	<u>-</u>	<u>-</u>	<u>7,999,239</u>	<u>7,333,171</u>
Revenue in excess of (less than) expenses	<u>(147,015)</u>	<u>226,224</u>	<u>462,162</u>	<u>541,371</u>	<u>5,867,979</u>

Spertus Institute for Jewish Learning and Leadership

Statement of Activities (Continued)

Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Other changes in net assets:					
Amortization of guarantee	(328,845)	-	-	(328,845)	(319,348)
Net unrealized gain on interest rate swaps	1,955,746	-	-	1,955,746	2,321,065
Bond interest and other debt expenses	(1,281,294)	-	-	(1,281,294)	(1,176,616)
Increase in net assets	198,592	226,224	462,162	886,978	6,693,080
Net assets:					
Beginning of year	5,443,264	1,431,795	17,490,983	24,366,042	17,672,962
End of year	<u>\$ 5,641,856</u>	<u>\$ 1,658,019</u>	<u>\$ 17,953,145</u>	<u>\$ 25,253,020</u>	<u>\$ 24,366,042</u>

See notes to financial statements.

Spertus Institute for Jewish Learning and Leadership

Statement of Cash Flows

Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 886,978	\$ 6,693,080
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,617,925	1,608,096
Change in fair value of swap transactions	(1,955,746)	(2,321,065)
Amortization of bond issuance costs	30,424	30,423
Amortization of tenant improvements	66,271	66,271
Amortization of guarantee	328,845	319,348
Bad debt (recovery) expense	(27,969)	19,424
Increase in inventory reserve	-	35,378
Net realized and unrealized gain on investments	(344,078)	(656,649)
Proceeds from contributions restricted for permanent endowment	(462,162)	(4,808,109)
Changes in:		
Student accounts receivable	(100,516)	(74,701)
Pledges receivable	(182,244)	106,802
Interest receivable	21,931	(7,002)
Other receivables	10,465	11,548
Inventories	(10,591)	-
Other assets	18,989	10,211
Accounts payable	67,325	(39,787)
Other liabilities and accrued expenses	87,354	(90,985)
Postretirement benefit liability	14,543	12,865
Net cash provided by operating activities	67,744	915,148
Cash flows from investing activities:		
Purchases of facilities and equipment	(261,570)	(254,920)
Purchases of investments	(6,781,370)	(1,464,937)
Proceeds from sales of investments	3,302,690	1,139,240
Net cash used in investing activities	(3,740,250)	(580,617)
Cash flows from financing activities:		
Proceeds from contributions restricted for permanent endowment	462,162	4,808,109
Net cash provided by financing activities	462,162	4,808,109
(Decrease) increase in cash and cash equivalents	(3,210,344)	5,142,640
Cash and cash equivalents:		
Beginning of year	9,580,242	4,437,602
End of year	\$ 6,369,898	\$ 9,580,242
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,040,299	\$ 1,040,595

See notes to financial statements.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Spertus Institute for Jewish Learning and Leadership (the Institute) is a Jewish institution grounded in Jewish values that invites people of all ages and backgrounds to explore the multi-faceted Jewish experience. Through its innovative public programming, exhibitions, collections, research facilities and degree programs, Spertus inspires learning, serves diverse communities and fosters understanding for Jews and people of all faiths, locally, regionally and around the world. In 2018, the Institute was re-accredited by the North Central Association for a ten year period, the maximum accreditation awarded by that body. The Institute 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. Activities are conducted from its facilities in Chicago, Illinois.

The Jewish Federation of Metropolitan Chicago (Jewish Federation), a nonprofit organization with relationships with the Institute, provided a guarantee in connection with the Institute's bonds and holds investments in a board designated project endowment fund totaling \$27,772,880 at June 30, 2018 (Note 4). The project endowment fund is intended for the benefit of the Institute primarily to cover its debt service obligations, including the repayment of its bond payable liability at maturity on September 1, 2035. Fifty percent of the funds remaining in the project endowment fund after satisfaction of the bond payable liability will be payable to the Institute.

In June 2016, the Board authorized a plan to repay \$1,700,000 in borrowings from donor restricted endowment funds in equal quarterly installments from October 2016 through June 2027 (Note 11). The Institute previously borrowed \$1,700,000 in fiscal year 2009 due to recurring losses. These borrowings (less repayments) are included in permanently restricted borrowings on the statement of financial position.

Significant accounting policies are as follows:

Basis of accounting: The Institute follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial condition, changes in net assets and cash flows. References to Generally Accepted Accounting Principles in the United States of America (U.S. GAAP) in these footnotes are to the *FASB Accounting Standards Codification™*, sometimes referred to as the "Codification" or "ASC."

The financial statements are prepared on the accrual basis of accounting and in conformity with accounting principles applicable to nonprofit organizations, and include unrestricted, temporarily restricted and permanently restricted net asset classes.

Unrestricted net assets include resources not subject to donor-imposed restrictions. These include unrestricted resources available to support the Institute's activities and net assets designated by the Board of Trustees (the Board) for specific purposes. Unrestricted net assets include proceeds from the fiscal year 2008 sale of de-accessioned museum collection items totaling \$194,835. These funds have been designated by the Board to be used solely for the purchase of additional collection items.

Temporarily restricted net assets represent contributions, grants and investment earnings with donor-imposed purpose restrictions or time restrictions that have not yet been satisfied.

Permanently restricted net assets are subject to donor-imposed restrictions and represent contributions invested in perpetuity, the earnings from which are available to support activities of the Institute.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

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

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 affecting 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 these estimates.

Contributions and pledges receivable: Contributions, including unconditional pledges, gifts and bequests, are recognized in the period received. Donors' promises to give cash and other assets that are conditional are not recognized until the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate in the year pledged (4 percent for fiscal year 2018). Based on historical collection experience and review of individual receivable balances, management has determined that no allowance for uncollectible pledges was necessary as of June 30, 2018.

Contributions received with donor-imposed restrictions are recorded as temporarily restricted or permanently restricted revenue, depending on the nature of the restriction. Upon expiration of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as release of restricted funds.

Government grants: Revenue from government grant and contract agreements is recognized as it is awarded and earned in accordance with the agreement.

Jewish Federation of Metropolitan Chicago grants: Grants received from the Jewish Federation of Metropolitan Chicago (Jewish Federation) are recorded in the period received as unrestricted or temporarily restricted revenue based on the grant's specified purpose.

Revenue recognition: Tuition and fees are recorded in the period in which they are earned. Tuition billed and received in advance of scheduled classes for certain degree programs is deferred and recorded in other liabilities and accrued expenses on the statement of financial position. These amounts will be recorded as unrestricted revenue as classes take place.

Auxiliary services: Auxiliary activities include revenues and certain direct expenses related to facility rental and catering services.

Donated services: The Institute has recorded income and corresponding expenditures in the amount of \$123,182, representing the fair value of professional services provided on a pro bono basis.

Functional expenses: Operating expenses directly identified with a functional area are charged to that area and, where these expenses affect more than one area, they are allocated among the appropriate areas. Allocations are based on time spent by personnel, facilities used by functional area, or other bases, which reflect an appropriate allocation of mutually shared expenses.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

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

Bond interest and other debt service expenses and amortization of guarantee for the year ended June 30, 2018, are reflected as other changes in net assets on the statement of activities. Functional expenses including these items for the year ended June 30, 2018, are as follows:

Program services:	
Spertus college programs	\$ 2,877,820
Spertus collections programs	1,041,035
Auxiliary services	3,329,444
Supporting services:	
Management and general	1,651,674
Fundraising	709,405
	<u>\$ 9,609,378</u>

Cash and cash equivalents: The Institute considers all highly liquid debt instruments acquired with an original maturity of three months or less to be cash equivalents. The Institute maintains its cash and cash equivalent balances in bank accounts which, at times, may exceed federally insured limits. The Institute has not experienced any losses in such accounts and management believes that the Institute is not exposed to any significant credit risk on cash.

Student accounts receivable: Student accounts receivable represents amounts due from students and are stated net of an allowance for doubtful accounts of \$103,982, which is determined based on historical collection experience and analysis of specific accounts. Uncollectible accounts are written off in the year they are deemed to be uncollectible.

Investments: The fair value of investments in marketable securities is based on quoted market prices or third-party pricing services for the same or similar instruments. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Derivative financial instruments: The interest rate swap arrangement is recognized as either an asset or liability at fair value in the statement of financial position, with changes in fair value reported as net unrealized gain or loss on interest rate swap in other changes in net assets on the statement of activities. For the fiscal year ended June 30, 2018, the Institute recognized a gain of \$1,955,746 on the swap arrangement.

Other assets: Other assets consists of unamortized value of a guarantee on swap agreements, plus prepaid expenses and escrowed funds.

The Institute received a guarantee of its interest rate swap agreements from the Jewish Federation, which enabled the Institute to obtain a lower interest rate on its borrowings. The guarantee was initially recorded at its estimated fair value which represented the discounted present value of the difference between the interest payments using the actual swap rate and the interest payments using an estimated market rate on its interest rate swap agreements. The guarantee is being amortized as interest expense over the life of the swap agreements using the effective interest method.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

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

Inventories: Inventories are stated at the lower of cost or market. The Institute periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions. The inventory for the shop is fully reserved at June 30, 2018.

Bond issuance costs: Certain costs incurred in connection with the issuance of bonds have been capitalized and are being amortized over the life of the bonds. The Institute has presented bonds payable net of unamortized bond issuance costs.

Facilities and equipment: Purchases of property, equipment and exhibits are recorded as capital assets at cost. The Institute capitalizes expenditures for property and equipment in excess of \$2,500. Donated items are recorded at their estimated fair value at the date of receipt. Depreciation and amortization are being provided using the straight-line method over the estimated useful lives of the assets as follows:

Building	40 years
Equipment	3 - 10 years
Furniture and fixtures	7 - 10 years
Exhibits	10 years

Collections: Items within the Institute's rare and valuable collection are not valued in the statement of financial position, except for items contributed after June 30, 1995, which carry a value established by an independent appraisal or the actual cost as of the date of acquisition, and library materials as noted below.

Rare and valuable collections pre-1996	\$	1
Rare and valuable collections post-1995		1,578,394
Collection of library materials (net of allowance for lost or missing library materials of \$98,750)		2,138,273
	\$	<u>3,716,668</u>

The Institute has stewardship over approximately 20,000 rare and valuable collectible items, including artwork in many different media, rare books, antique audio recordings, antique maps and rare manuscripts. Those acquired prior to 1996 carry a value of \$1.

Stewardship over library materials: The Institute considers library materials to be cultural and historical treasures and considered inexhaustible assets; therefore, these items are not subject to depreciation. Library materials are charged to expense only when withdrawn from service due to loss, damage, disposal, or when available at public libraries in the local area.

Postretirement benefit liability: The Institute discontinued offering a postretirement benefit plan to provide supplemental medical and dental benefits. For the employees in the plan at the time it was discontinued, an obligation is recognized as a liability in the statement of financial position. The benefit obligation is the accumulated postretirement benefit obligation which represents the actuarial present value of postretirement benefits attributed to employee service already rendered.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

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

Comparative information: 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. GAAP. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended June 30, 2017, from which the summarized information was derived. Certain items in the 2017 summarized comparative information have been reclassified to conform to the current-year presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

Tax status: The accounting standard on accounting for uncertainty in income taxes 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, the Institute 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 the Institute, and various positions related to the potential sources of unrelated business taxable income. There were no unrecognized tax benefits identified or recorded as liabilities for the reporting period presented in these financial statements. The Institute files Form 990 in the U.S. federal jurisdiction and the State of Illinois.

Subsequent events: The Institute has evaluated subsequent events for potential recognition and/or disclosure through December 10, 2018, the date the financial statements were available to be issued.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP. The updated standard will be effective for the Institute's June 30, 2020, financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Institute's June 30, 2020, financial statements.

In February 2016, the 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 statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard will be effective for the Institute's June 30, 2021, financial statements.

In August 2016, the FASB issued 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 new standard will be effective for the Institute's June 30, 2019, financial statements.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

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

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides guidance surrounding the categorization of certain transactions as contributions or exchange transactions. It further clarifies when contributions should be deemed conditional. The new standard will be effective for the Institute's June 30, 2020, financial statements.

The Institute is currently evaluating the impact of the adoption of the above standards on its financial statements.

Note 2. Facilities and Equipment

Facilities and equipment at June 30, 2018, consists of:

Building	\$ 49,011,334
Land	3,048,620
Furniture, software and equipment	6,938,336
Tenant improvements	748,450
Construction in progress	20,841
	<hr/>
	59,767,581
Accumulated depreciation	(19,248,837)
	<hr/>
	<u>\$ 40,518,744</u>

The Institute has a lease agreement with an unrelated third party to lease space in the building for a ten-year period ending in December 2021. In accordance with the lease agreement, the Institute paid \$47,743 to reimburse the tenant for improvements in their space and \$20,000 for relocation expenses. These amounts are capitalized in facilities and equipment in accordance with the accounting guidance applicable to leases. The improvements are being amortized on a straight-line basis as a reduction of rental revenue over the term of the lease. Rental revenue, net of the amortization on tenant improvements, was \$269,613 for the year ended June 30, 2018, and is included in auxiliary services on the statement of activities. The lease also requires the Institute to maintain an escrow account of \$50,000, which is included as other assets on the statement of financial position.

The Institute entered into a license agreement with an unrelated third party to use space in the building for a 4.5-year period through May 2016. In July 2015, the agreement was amended and the license period was extended through May 2025. In accordance with the original license agreement, the Institute paid \$85,735 to reimburse the licensee for improvements to the space used by the licensee. In accordance with the amended license agreement, the Institute paid an additional \$594,971 to reimburse the licensee for improvements to the space used by the licensee. These amounts are capitalized in facilities and equipment in accordance with the accounting guidance applicable to license agreements. The improvements are being amortized on a straight-line basis as a reduction of fee revenue over the term of the license agreements. Fee rental revenue, net of the amortization on space improvements, was \$315,820 for the year ended June 30, 2018, and is included in auxiliary services on the statement of activities.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 2. Facilities and Equipment (Continued)

Future rentals to be received under these agreements are approximately as follows:

2019	\$	666,000
2020		682,000
2021		699,000
2022		555,000
2023		435,000
Thereafter		910,000
		<u><u>\$ 3,947,000</u></u>

The Institute had a lease agreement with an unrelated third party to lease space in the building for a ten-year period through October 2017. Rental revenue was \$22,455 for the year ended June 30, 2018, and is included in auxiliary services on the statement of activities. This lease was not renewed.

Note 3. Fair Value Measurements

The Institute follows ASC Topic, *Fair Value Measurements and Disclosure*, which provides the framework for measuring fair value under U.S. GAAP. This topic applies to all financial instruments that are being measured and reported on a fair value basis. As defined in the topic, 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. In determining fair value, the Institute uses various methods including market, income and cost approaches. Based on these approaches, the Institute often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Institute utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used on the valuation techniques, the Institute is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1. Valuations for assets and liabilities traded in active exchange markets. Level 1 assets primarily include mutual funds and corporate stocks. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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. The Institute'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.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

In determining the appropriate levels, the Institute performs a detailed analysis of the assets and liabilities subject to accounting guidance on fair value. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs would be classified as Level 3.

The Institute assesses the levels of the investments 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 the Institute's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no such transfers for the year ended June 30, 2018.

Investments received as contributions are recorded at fair value at the date of receipt. Changes in the fair value of investments are recorded as unrealized gains and losses.

For the year ended June 30, 2018, the application of valuation techniques applied to similar assets has been consistent with previous years. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment in Marketable Securities

Mutual funds and corporate stocks are recorded at fair value based on quoted market prices in an active market, if available. State of Israel bonds are recorded at fair value based on estimates provided by the Institute's investment managers. Changes in the fair value of securities are recorded as unrealized gains and losses.

Investment in Jewish Federation Pooled Endowment Portfolio

The fair value of the investment in the Jewish Federation Pooled Endowment Portfolio (PEP) is based on the Institute's percentage ownership of the portfolio's net asset value (NAV), using the practical expedient, as of year-end, as determined by the Jewish Federation.

Derivative Instruments

The Institute uses an interest rate swap to manage interest rate risk on its bonds. The interest rate swap agreements are recognized as either an asset or liability at its fair value on the statement of financial position with changes in the fair value reported in other changes in net assets on the statement of activities, as the Institute has chosen not to account for the derivatives as "cash-flow" hedge instruments, as defined by U.S. GAAP. The valuations of these instruments are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of the interest rate swap. This analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market based inputs, including LIBOR rate curves. At June 30, 2018, the estimated fair value of the swap arrangements was a liability of \$385,461. The change in value of the swaps for fiscal year 2018 of \$1,955,746 is reflected in the statement of activities as a net unrealized gain on interest rate swaps.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

The following table presents the balances of investments measured at fair value on a recurring basis.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valued Using Net Asset Value (1)	Total
Investments					
Equities:					
U.S. large cap	\$ 6,381,833	\$ -	\$ -	\$ -	\$ 6,381,833
U.S. mid cap	73,739	-	-	-	73,739
International developed	1,017,197	-	-	-	1,017,197
Emerging markets	80,324	-	-	-	80,324
Corporate bonds	-	3,746,773	-	-	3,746,773
State of Israel bonds	-	50,000	-	-	50,000
Investment in the Jewish Federation PEP	-	-	-	1,822,655	1,822,655
	<u>\$ 7,553,093</u>	<u>\$ 3,796,773</u>	<u>\$ -</u>	<u>\$ 1,822,655</u>	<u>13,172,521</u>
Certificates of deposit					29,391
					<u>\$ 13,201,912</u>
Liabilities					
Swap arrangements	\$ -	\$ 385,461	\$ -	\$ -	\$ 385,461

(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 in the statement of financial position.

The Jewish Federation is the manager and administrator of the PEP and is also the majority owner of the PEP. The PEP invests in various types of investments including: mutual funds, equity and debt securities, alternative investments and other investment vehicles. The Institute does not own or have any interest in the underlying investments held by the PEP. The Institute has the ability to contribute funds or withdraw funds from its account on the first day of each month. Withdrawal request 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.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 4. Investments

Investments at June 30, 2018, are as follows:

	Fair Value	Cost
Corporate stocks:		
U.S. large cap	\$ 6,381,833	\$ 3,869,117
U.S. mid cap	73,739	68,266
International developed	1,017,197	1,050,800
Emerging markets	80,324	89,108
Certificate of deposit	29,391	29,391
Corporate bonds	3,746,773	3,767,070
State of Israel bonds	50,000	50,000
Jewish Federation PEP	1,822,655	1,386,260
Funds held by Jewish Federation of Metropolitan Chicago	35,330,880	34,880,685
	<u>48,532,792</u>	<u>45,190,697</u>
Funds held by Jewish Federation of Metropolitan Chicago	(35,330,880)	(34,880,685)
	<u>\$ 13,201,912</u>	<u>\$ 10,310,012</u>

The above investments provided interest and dividend income of \$205,282 in fiscal year 2018. During fiscal year 2018, the Institute's realized and unrealized gains on investments were as follows:

Realized gains	\$ 189,639
Unrealized gains	154,439
	<u>\$ 344,078</u>

The Jewish Federation holds various funds that are for the benefit of the Institute. Because the Jewish Federation has variance power over these funds, they are not considered assets of the Institute. The Institute has included these amounts in investments for informational purposes, but offsets the amounts for an impact on net assets of \$0. These funds consist of the following:

- (i) Funds intended for specific programs and activities of the Institute with a market value of \$7,558,000 as of June 30, 2018. The Institute received distributions of \$524,599 from the Jewish Federation in relation to these funds in fiscal year 2018 which are reported as temporarily restricted grants from the Jewish Federation on the statement of activities.
- (ii) A board-designated project endowment fund with a market value of \$27,772,889 as of June 30, 2018. The project endowment fund is intended for the benefit of the Institute primarily to cover its debt service obligations, including the repayment of its bond payable liability at maturity on September 1, 2035. Fifty percent of the funds remaining in the project endowment fund after satisfaction of the bond payable liability will be payable to the Institute. The Institute received distributions for operations of \$597,212 from the Jewish Federation in relation to this fund in fiscal year 2018 which are reported as unrestricted grants from the Jewish Federation on the statement of activities.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 4. Investments (Continued)

Funds held by the Jewish Federation for the benefit of the Institute include investments in equity securities and debt securities which are carried at fair value. Alternative investments in other investment vehicles are valued at fair value based on the applicable percentage ownership of the investment funds' net assets as of year-end, as determined by the Jewish Federation. In determining fair value, the Jewish Federation utilizes valuations and other information provided by fund managers or the general partners of investment partnerships. The underlying investment funds value securities and other financial instruments substantially on a fair value basis of accounting. 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.

Note 5. Other Assets

Other assets at June 30, 2018, consisted of:

Guarantee on swap agreements, net of accumulated amortization of \$907,531	\$ 1,478,805
Facility lease escrow	50,000
Prepaid expenses and other	83,880
	<u>\$ 1,612,685</u>

Amortization expense for the guarantee on swap agreements totaled \$328,845 for fiscal year 2018.

Note 6. Other Liabilities and Accrued Expenses

Other liabilities and accrued expenses at June 30, 2018, consisted of:

Facility rental deposits	\$ 342,833
Deferred rental income	240,000
Deferred revenue	274,725
Other	14,584
	<u>\$ 872,142</u>

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 7. Payable to Jewish Federation of Metropolitan Chicago

In October 2001, the Institute purchased the land and building at 618 South Michigan Avenue (the "618 Building") and the unimproved adjacent land at 610 South Michigan Avenue (ultimately, the "610 Building") from the Jewish Federation. As part of the transaction, it was agreed that the Jewish Federation would be entitled to share in a portion of any profits to be realized by the Institute as a result of a future sale of the 618 Building. In May 2006, the Institute sold the 618 Building to an unrelated nonprofit organization. The Jewish Federation's share of the resulting profits was \$1,650,000. Additionally, the Institute had previously collected funds from donors in the aggregate amount of \$2,890,000, which funds were intended for the Project Endowment Fund owned by the Jewish Federation for the benefit of the Institute. The Institute recorded a liability for these amounts, reflected in the statement of financial position as a payable to the Jewish Federation:

Funds collected from donors	\$ 2,890,000
Jewish Federation's share of profits	1,650,000
	<u>\$ 4,540,000</u>

The Jewish Federation had previously indicated they considered these amounts to be due in 2035.

In connection with a September 1, 2015 debt refinancing, an agreement between the Institute and the Jewish Federation, dated December 8, 2015, specified repayment terms for the \$4,540,000 payable. The Jewish Federation would receive, as payment in full of the \$4,540,000 payable, a portion of the net sale proceeds resulting from the future sale or other transfer of the 610 Building. Net sale proceeds, as defined, would be net of reductions for any capital improvement investments funded by the Institute, and repayment of bond financing amounts. The payment would be the lesser of an amount equal to 16 percent of the net sale proceeds, or a sum equal to \$4,540,000 plus 4 percent compounded annual interest, beginning on the debt refinancing date. The agreement provides the Institute with a right to use any net sales proceeds, for a period of three years, to acquire a new facility in which case the Jewish Federation's rights to payment would then apply to a sale of the new facility.

Note 8. Bonds Payable

In September 2015, the Colorado Educational & Cultural Facilities Authority issued \$34,960,000 of Series W-1 tax-exempt fixed rate bonds on behalf of the Institute, the proceeds of which were used to effectively pay off outstanding bond debt and to pay certain costs incurred in connection with the issuance of the Series W-1 bonds. The Series W-1 bonds bear interest at the fixed annual rate of 6.75 percent, are secured by a mortgage on the 610 Building, and mature on September 1, 2035. The debt's net carrying amount is the amount of outstanding principal (including any accrued but unpaid interest) minus any related unamortized debt issuance costs. Following is a summary of bonds payable as of June 30, 2018:

Series W-1 bond	\$ 34,960,000
Less: unamortized bond issuance costs	(522,268)
	<u>\$ 34,437,732</u>

Certain costs associated with the issuance of the bonds totaling \$608,468 were capitalized and are being amortized over the life of the bonds. Amortization expense was \$30,424 in fiscal year 2018.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 8. Bonds Payable (Continued)

Effective September 1, 2015, the Institute entered into an agreement with Deutsche Bank whereby Deutsche Bank purchased the Series W-1 Bonds, and swapped the fixed interest rate associated with the Series W-1 bonds to a variable interest rate for a seven-year term. In addition, the Institute entered into an agreement with PNC Bank effective September 1, 2015, with a notional amount of \$34,960,000, swapping a variable interest rate with a fixed annual interest rate of 2.9432 percent for a twenty-year term. The fair value of swap agreements is \$385,461 at June 30, 2018, and is recorded as a liability on the statement of financial position. For the year ended June 30, 2018, the Institute recorded gains (non-cash) in the amount of \$1,955,746 for the change in the fair value of the swap agreements, as reflected on the statement of activities.

The interest rate swap agreements are guaranteed by the Jewish Federation, which enabled the Institute to obtain a lower effective interest rate. The fair value of the guarantee of \$2,386,336 recorded in fiscal year 2016 represented the discounted present value (using a discount rate of 4 percent) of the estimated interest savings (that is, the difference between the interest payments using the actual swap rate and the interest payments using a market rate, which is estimated as the rate that the Institute would otherwise pay had the guarantor not provided the guarantee). The guarantee is recorded as an other asset, which is being amortized over the life of the swap agreements using the effective interest method.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets were available at June 30, 2018, for the following activities:

Building Project	\$	211,836
Academic		1,403,892
Asher Library		1,289
Spertus Museum		15,999
Time restricted		25,003
		<u>25,003</u>
	\$	<u>1,658,019</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes for the following programs for the year ended June 30, 2018:

Academic	\$	939,214
Asher Library		310,479
Spertus Museum		34,049
Time restricted		105,388
		<u>105,388</u>
	\$	<u>1,389,130</u>

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 10. Permanently Restricted Net Assets

Permanently restricted net assets are invested in perpetuity, the income from which is expendable to support the following activities at June 30, 2018:

Building Project	\$ 21,500
Academic	9,394,461
Asher Library	2,637,605
Spertus Museum	2,833,878
Time restricted	3,065,701
	<u>\$ 17,953,145</u>

During fiscal year 2018, the Institute received two bequests in the amount of \$462,162 which increased the permanently restricted net assets for Academic.

Note 11. Endowment Funds

The Institute's endowment is comprised of contributions received and restricted by donors to be invested in perpetuity for a variety of purposes. 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 Uniform Prudent Management of Institutional Funds Act (UPMIFA) governs endowment funds in Illinois. UPMIFA allows the Board to expend as much of a donor-restricted endowment fund as is reasonable absent explicit donor stipulations to the contrary. In accordance with UPMIFA, the Institute considers the following factors in making a determination whether spending from an endowment fund is reasonable:

- 1) The duration and preservation of the fund.
- 2) The purpose of the Institute 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 the Institute.
- 7) The investment policies of the Institute.

The Institute has classified as permanently restricted net assets the following: (a) the original value of gifts donated to its endowment funds, (b) the original value of subsequent gifts to such endowment funds and (c) the value of accumulations to such endowment funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. Under certain circumstances and with careful attention to the standards set by UPMIFA, the Institute may make a decision to spend a portion of the endowment funds classified as permanently restricted.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 11. Endowment Funds (Continued)

Endowment Composition and Changes in Endowment Net Assets

The Institute's endowment consists of donor-restricted investments and cash. Changes in the endowment net assets for fiscal year 2018 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Donor-Restricted
Endowment net assets, July 1, 2018	\$ (3,566,500)	\$ -	\$ 17,490,983	\$ 13,924,483
Contributions	-	-	462,162	462,162
Repayments	170,000	-	-	170,000
Investment income	292,002	195,348	-	487,350
Appropriations	(332,229)	(195,348)	-	(527,577)
Balance, June 30, 2018	<u>\$ (3,436,727)</u>	<u>\$ -</u>	<u>\$ 17,953,145</u>	<u>\$ 14,516,418</u>

Funds With Deficiencies

As of June 30, 2018, the Institute's endowment funds have a combined historic dollar value of \$17,953,145 and related endowment investments have a fair value of \$14,516,418. The difference of \$3,436,727, reflected above as an unrestricted endowment fund deficiency, is primarily attributable to market conditions in certain years and resulting investment losses, appropriations for expenditure in excess of investment income earned, and borrowings of \$1,700,000 in fiscal year 2009 to fund operations.

The Institute's Board of Trustees had approved in 2009 the temporary use of \$1,700,000 in donor restricted endowment funds with the intention of gradually reimbursing the funds as soon as reasonably practicable. The Institute had not obtained written permission in 2009 from donors to borrow the funds and such borrowings may not be in compliance with donors' restrictions. Noncompliance with donor restrictions could have consequences for the Institute, including return of funds to donors. Management has not received notification from donors to return funds or regarding any noncompliance. In June 2016, the Board authorized an internally developed plan to repay the borrowings through transfers from an operating cash account to an endowment investment account, in equal quarterly installments from October 2016 through June 2027. This is part of the Institute's plan which is intended to achieve the dual objectives of strategically growing its programmatic offerings and repaying borrowings over a reasonable period of time. The Institute repaid \$170,000 during the fiscal year 2018.

During fiscal year 2018, the Institute recorded \$487,350 in investment income and appropriated \$527,577 to operations in accordance with the donor intentions. Additionally, the Institute repaid \$170,000 to the corpus in accordance with the plan adopted by the Board. The total endowment deficit decreased by \$129,733, decreasing the endowment fund deficiency to \$3,436,727, as reflected above.

Return Objectives, Risk Parameters and Strategies Employed for Achieving Objectives

The Institute's investment objective is to reduce overall risk while seeking to maintain the purchasing power of the endowment assets. To satisfy its long-term rate-of-return objectives, the Institute invests in a portfolio mix of equities, fixed income securities and the PEP.

Spending Policy

The Institute annually determines an appropriate spending rate for each of its endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. In fiscal year 2018, the Institute spent endowment earnings based on programmatic needs and as approved for appropriation by the Board through the annual budgetary process. The Institute budgets its appropriations based on investment information received from the Jewish Federation and actual investment performance over several years.

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 11. Endowment Funds (Continued)

The amount budgeted and appropriated in fiscal year 2018 ultimately was \$40,227 more than the actual investment income recorded for the year.

Note 12. Benefit Plans

The Institute maintains a Section 403(b) retirement plan. The Spertus Institute of Jewish Studies Retirement Plan (the Plan), a defined contribution plan, covers all eligible full-time personnel. The Institute matched employee contributions at a rate of 50 percent, and up to 4 percent of the salaries of eligible employees. In fiscal year 2009, the Institute discontinued payments to the retirement fund, and therefore, there was no plan expense for fiscal year 2018.

The Institute provides postretirement benefits in the form of reimbursement for Medicare supplemental health insurance premiums and for continuing dental insurance coverage up to a monthly maximum dollar amount not to exceed the most recent premium cost paid for full time regular employees. By policy, this benefit will not exceed \$333 per month per retired employee; therefore, a health cost trend rate of zero percent was assumed.

The Institute follows the accounting guidance applicable to postretirement pension and other defined benefit plans. As of June 30, 2018, the Institute accrued an amount of \$298,389 for the accumulated postretirement benefit obligation (APBO), using a discount rate of 4 percent, as the Institute's estimated cost for this benefit through the fiscal year ended June 30, 2067, which is the last fiscal year of actuarial life expectancy per Table I of the Internal Revenue Service's Publication 939 for any current employee who may become eligible for this benefit. The Plan is unfunded and annual expenses incurred are funded through operations.

The Institute's estimated APBO for fiscal year 2018 is recorded as a liability on the statement of financial position and is as follows:

Retirees	\$ 70,519
Active participants	<u>227,870</u>
	<u><u>\$ 298,389</u></u>

Net postretirement health care cost includes the following components:

Service cost benefits earned during the year	\$ 28,687
Interest cost on accumulated postretirement benefit obligations	<u>11,936</u>
	<u><u>\$ 40,623</u></u>

Estimated future benefit payments are as follows:

2019	\$ 4,000
2020	-
2021	8,000
2022	-
2023	-
Thereafter	<u>286,000</u>
	<u><u>\$ 298,000</u></u>

Spertus Institute for Jewish Learning and Leadership

Notes to Financial Statements

Note 12. Benefit Plans (Continued)

The Institute maintains a Flexible Spending Plan under Section 125 of the Internal Revenue Code. This plan enables employees to set aside pre-tax dollars from their gross pay for health and dental insurance premiums, health care costs not covered by insurance, and qualified day care expenses.