

**KADIMA: JEWISH SUPPORT SERVICES FOR
ADULTS WITH MENTAL ILLNESS**

FINANCIAL REPORT

SEPTEMBER 30, 2017 AND 2016

**KADIMA: JEWISH SUPPORT SERVICES FOR
ADULTS WITH MENTAL ILLNESS**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Kadima: Jewish Support Services for Adults With Mental Illness
Southfield, Michigan

We have audited the accompanying financial statements of Kadima: Jewish Support Services for Adults With Mental Illness (Kadima), which comprise the statement of financial position as of September 30, 2017, and 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.

Independent Auditor's Report
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kadima: Jewish Support Services for Adults With Mental Illness as of September 30, 2017, 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.

Other Matter – Previous Year Financial Statements

The financial statements of Kadima as of and for the year ended September 30, 2016 were audited by other auditors whose report dated February 8, 2017 expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses for the year ended September 30, 2017, on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The combined comparative totals for the year ended September 30, 2016 were audited by other auditors whose report dated February 8, 2017 expressed an unmodified opinion on such statement.

Alan C. Young; Assoc.

Detroit, Michigan
February 8, 2018

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Statements of Financial Position September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash & Cash Equivalents (Note 4)	\$ 12,373	\$ 5,861
Accounts Receivable, Net (Note 5)	269,237	227,412
Pledge Receivable	75,000	95,000
Prepaid Expenses	44,359	12,010
Total Current Assets	<u>400,969</u>	<u>340,283</u>
Fixed Assets (Note 2)		
Land	432,111	432,111
Building and Improvements	5,634,738	5,624,295
Vehicles	234,458	234,458
Office Equipment	226,126	226,126
Software	28,110	28,110
	<u>6,555,543</u>	<u>6,545,100</u>
Accumulated Depreciation	<u>(2,341,556)</u>	<u>(2,121,957)</u>
Total Fixed Assets	<u>4,213,987</u>	<u>4,423,143</u>
Other Assets		
Deposits and Escrow (Note 3)	21,982	16,668
Long Term Investments (Note 6)	3,428,570	3,995,638
Investment Held by Community Foundation (Note 7)	25,376	24,465
Investment Held in Trust (Note 7)	71,722	68,424
Total Other Assets	<u>3,547,650</u>	<u>4,105,195</u>
Total Assets	<u>\$ 8,162,606</u>	<u>\$ 8,868,621</u>

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

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Statements of Financial Position (Continued) September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Accounts Payable	\$ 124,533	\$ 94,724
Accrued Expenses & Other Liabilities	62,432	39,562
Security Deposits Payable	52,636	39,940
Deferred Revenue	40,439	464
Total Current Liabilities	<u>280,040</u>	<u>174,690</u>
Notes Payable- MSHDA (Note 12)	80,000	80,000
Total Long-Term Liabilities	<u>80,000</u>	<u>80,000</u>
Total Liabilities	<u>360,040</u>	<u>254,690</u>
Net Assets		
Unrestricted	3,851,254	4,605,432
Temporarily Restricted (Note 11)	2,799,568	2,856,755
Permanently Restricted (Notes 6 and 8)	1,151,744	1,151,744
Total Net Assets	<u>7,802,566</u>	<u>8,613,931</u>
Total Liabilities & Net Assets	<u>\$ 8,162,606</u>	<u>\$ 8,868,621</u>

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

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Statement of Activities Year Ended September 30, 2017 Comparative Totals for the Year Ended September 30, 2016

Revenue	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016
Grants	\$ 345,439	\$ -	\$ -	\$ 345,439	\$ 361,754
Program Fees, Net of Discount	1,426,061	-	-	1,426,061	1,339,920
Contractual Income	1,522,489	-	-	1,522,489	1,282,694
Contributions	522,863	-	-	522,863	672,280
Community Foundation Distributions	65,488	4,208	-	69,696	69,219
Fundraising and Special Events Sales	167,094	-	-	167,094	36,240
Gain (Loss) on Disposal of Assets	-	-	-	-	55,782
Other Revenue	10,964	-	-	10,964	14,431
Investment Income					
Dividends & Interest	47,146	21,892	-	69,038	103,165
Realized Gain (Loss) on Securities	(7,157)	(3,323)	-	(10,480)	(155,601)
Unrealized Gain (Loss) on Securities	169,248	78,593	-	247,841	340,784
Less Investment Fees	(22,988)	(11,370)	-	(34,358)	(28,384)
Net Investment Income	186,249	85,792	-	272,041	259,964
Released from Time Restrictions	101,439	(101,439)	-	-	-
Released for Spending	45,748	(45,748)	-	-	-
Total Revenue	4,393,834	(57,187)	-	4,336,647	4,092,284
Operating Expenses					
Program Services	3,813,520	-	-	3,813,520	3,861,428
Management & General	1,063,965	-	-	1,063,965	934,858
Fundraising	270,527	-	-	270,527	256,783
Total Operating Expenses	5,148,012	-	-	5,148,012	5,053,069
Change in Net Assets	(754,178)	(57,187)	-	(811,365)	(960,785)
Net Assets- Beginning of Year, as restated (Note 15)	4,605,432	2,856,755	1,151,744	8,613,931	9,574,716
Net Assets - End of Year	\$ 3,851,254	\$ 2,799,568	\$ 1,151,744	\$ 7,802,566	\$ 8,613,931

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

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Statements of Cash Flows Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (811,365)	\$ (960,785)
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities		
Depreciation	219,599	209,724
Bad Debt Allowance	-	33,000
Disposal of Fixed Assets	-	(55,782)
Unrealized (Gain) Loss on Securities	(247,841)	(340,785)
Non-Cash Interest & Dividends	(69,038)	(103,165)
Non-Cash Investment Fees	34,358	28,384
(Increase) / Decrease in Assets		
Accounts Receivable	53,175	(20,178)
Pledges Receivable	(75,000)	-
Deposits	(5,314)	-
Prepaid Expenses	(32,349)	-
Accounts Payable	29,809	32,963
Accrued Payroll & Related Taxes	22,870	(79,993)
Deferred Revenue	39,975	-
Security Deposit Payable	12,696	7,833
Total Adjustments	<u>(17,060)</u>	<u>(287,999)</u>
Net Cash Used in Operating Activities	(828,425)	(1,248,784)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(10,443)	(101,619)
Sale of Land, Buildings & Improvements	-	194,959
Withdrawal/Sale of Investments	<u>845,380</u>	<u>1,020,517</u>
Net Cash Provided by Investing Activities	834,937	1,113,857
Net Increase (Decrease) in Cash	6,512	(134,927)
Cash and Cash Equivalents - Beginning of Year	<u>5,861</u>	<u>140,788</u>
Cash and Cash Equivalents - End of Year	<u>\$ 12,373</u>	<u>\$ 5,861</u>

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

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

**Notes to Financial Statements
September 30, 2017 and 2016**

1) ORGANIZATION

Kadima: Jewish Support Services for Adults With Mental Illness (Kadima) is a non-profit, non-sectarian voluntary mental health agency which offers innovative programs for adults and children with psychiatric disabilities. The different programs offered by Kadima are described below:

Staffed Homes – Kadima operates fifteen staffed homes promoting the relearning of daily living skills such as cooking, cleaning, budgeting, working and socializing. Funds to support staffed group homes are received primarily from Easter Seals and Community Network Services.

Supported Independent Program – Kadima operates eleven homes supporting independent living where individuals are given the opportunity to live independently, with daily supervision. These individuals are responsible for maintaining their apartments in addition to volunteering or working within the community.

Outreach Program – This program provides support services including one-on-one case management, focus work to assist with daily living skills, and family support groups facilitated by social workers. In addition, the outreach program allows individuals to participate in activity groups enjoying sporting events, concerts, holiday parties, etc. Seniors are provided in-home services which enable them to continue to live independently, thereby preventing institutionalization.

2) SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Kadima: Jewish Support Services for Adults with Mental Illness and its wholly-owned subsidiary, Kadima Non-Profit Housing Corporation, known collectively as Kadima. All significant inter-organization transactions and balances have been eliminated.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, Kadima considers all highly liquid instruments with an initial maturity of three months or less to be cash equivalents.

Promises to Give

Unconditional promises to give made to Kadima are recorded in the year the pledge is made. An allowance for uncollectible promises to give is determined based on experience.

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Notes to Financial Statements (Continued)
September 30, 2017 and 2016

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Receivables from outside funding sources and from client accounts are reflected in the financial statements. Management records an allowance for doubtful accounts based on historical experience and managements evaluation. A reserve of \$32,025 and \$33,000 was recorded at September 30, 2017 and 2016 respectively.

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Kadima records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the consolidated statements of activities as increases or decreases in unrestricted net assets, unless the income or loss is restricted by donor or law.

Fair Value Measurements

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes 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 or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are briefly described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At September 30, 2017 and 2016, all investments held by Kadima were classified as Level 1 within the fair value hierarchy, as they are openly sold on markets and values are published daily. See note 6 for Equity and Fixed Income totals.

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Notes to Financial Statements (Continued)
September 30, 2017 and 2016

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Kadima capitalizes all expenditures for property and equipment in excess of \$2,000 with a useful life in excess of one year. Purchased property and equipment are carried at cost. Depreciation is provided using primarily the straight-line method over the estimated useful lives of the related assets. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Impairment of Long-lived Assets

Kadima reviews long-lived assets, including property and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Security Deposits

Security deposits are amounts collected on various leased properties. The amounts are expected to be returned upon the expiration of the lease.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, Kadima's net assets are classified and reported as follows:

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

Temporarily Restricted – Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Kadima pursuant to those stipulations.

Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by Kadima.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocations are management's estimates.

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Notes to Financial Statements (Continued)
September 30, 2017 and 2016

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in restricted net assets. If the restriction expires in the reporting period in which the support is recognized, it is Kadima's policy to report the support as unrestricted. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Income Taxes

Kadima is a not-for-profit organization that is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code.

Taxes

Kadima is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code. Accordingly, Kadima is also exempt from State sales and real property taxes.

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, Kadima 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. 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% 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 period. Kadima's federal tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

Grant Revenue

Kadima receives grants from funding agencies. Most grants are reimbursable grants and revenue is recoded as the expenses are incurred.

Deferred Income

Income received in advance from clients or tenants is recognized as deferred income in the period of receipt.

Reclassifications

Certain 2016 amounts have been reclassified to conform with the 2017 presentation.

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Notes to Financial Statements (Continued)
September 30, 2017 and 2016

3) CASH HELD IN ESCROW

Cash held in escrow represents the balance of required monthly deposits. The required monthly deposit amount is \$42. The Michigan State Housing Development Authority (“MSHDA”) requires these deposits with respect to the MSHDA property. This amount is held in escrow and used for repairs and maintenance projects for the property. Total cash held in escrow for the property for the year ended September 2017 was \$21,982, and \$16,668 as of September 30, 2016.

4) CONCENTRATION OF RISK

Kadima maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. As of September 30, 2017, and 2016, Kadima had no deposits in excess of FDIC insured limits.

Kadima maintains cash and cash equivalents in brokerage accounts which, at times, may exceed insured limits. The cash in the broker accounts are guaranteed by the Security Investor Protection Corporation (“SIPC”) up to \$100,000 (up to \$500,000 for the brokerage account in total). As of September 30, 2017, and 2016, Kadima had \$2,931,807 and \$3,495,638, respectively of deposits in excess of SIPC insured limits.

5) ACCOUNTS RECEIVABLE

Accounts Receivable consists of service contracts, grants, and fees earned in the ordinary course of business but not yet received. Accounts receivable also includes promises to give. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value, discounted at 4%, if expected to be collected in more than one year. Kadima had a gross account receivable of \$301,262 and \$260,412 at September 30, 2017 and 2016, respectively. An allowance for doubtful accounts of \$32,025 and \$33,000 was recorded as of September 30, 2017 and 2016, respectively.

6) INVESTMENTS AND ENDOWMENT

An investment pool held by Kadima includes both endowed (permanently restricted) and non-endowed funds. Return is prorated between the two funds based on year-end ending balances. Investments are in CDs, cash equivalents, or publicly traded securities and are carried at fair market value. Investments as of September 30, 2017 with comparative totals for 2016, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Cash Equivalents	\$ 11,637	\$ 1,657	\$ 6,088	\$ 19,382	\$ 3,612
Equities	1,001,934	142,681	524,163	1,668,778	1,719,341
Fixed Income	1,045,101	148,816	546,493	1,740,410	2,272,685
Total	<u>\$ 2,058,672</u>	<u>\$ 293,154</u>	<u>\$ 1,076,744</u>	<u>\$ 3,428,570</u>	<u>\$ 3,995,638</u>

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Notes to Financial Statements (Continued)
September 30, 2017 and 2016

6) INVESTMENTS AND ENDOWMENT (Continued)

The following table summarizes Kadima's investments based on inputs used to determine their values at September 30:

	2017			
	Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Cash and Cash Equivalents	\$ 19,382	\$ -	\$ -	\$ 19,382
Equities	1,668,778	-	-	1,668,778
Fixed Income	1,740,410	-	-	1,740,410
TOTAL	\$ 3,428,570	\$ -	\$ -	\$ 3,428,570

	2016			
	Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Cash and Cash Equivalents	\$ 3,612	\$ -	\$ -	\$ 3,612
Equities	1,719,341	-	-	1,719,341
Equities and Other Investments	2,272,685	-	-	2,272,685
TOTAL	\$ 3,995,638	\$ -	\$ -	\$ 3,995,638

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Notes to Financial Statements (Continued)
September 30, 2017 and 2016

6) INVESTMENTS AND ENDOWMENT (Continued)

Investment activity for the year ended September 30, 2017, with comparative totals for 2016 consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Interest and Dividends	\$ 46,849	\$ 22,189	\$ -	\$ 69,038	\$ 101,077
Net Realized Gain (Loss)	(7,112)	(3,368)	-	(10,480)	(155,601)
Net Unrealized Gain (Loss)	168,185	79,656	-	247,841	334,685
Fees	(26,782)	(12,685)	-	(39,467)	(27,631)
Withdrawals	(834,000)	-	-	(834,000)	(860,000)
Net Change	(652,860)	85,792	-	(567,068)	(607,470)
Balance - Beginning of Year	2,711,532	207,362	1,076,744	3,995,638	4,603,108
Balance - End of Year	<u>\$ 2,058,672</u>	<u>\$ 293,154</u>	<u>\$ 1,076,744</u>	<u>\$ 3,428,570</u>	<u>\$ 3,995,638</u>

Investment policies are the same for endowment funds and non-endowment funds. See note 8 regarding investment and spending policies.

7) OTHER ENDOWMENTS AND RESTRICTIONS

In addition to invested endowment and other investments (Note 6), Kadima's endowment consists of two other fund groups: 1) funds in trusts held by other; 2) donated group homes and other home and service funds. All the endowment principal is restricted, as per the instructions of the donors. The Kadima held portion of the endowment is invested in the organization's pool of investments (Note 6). Funds are held and invested by the Cohn-Hochman Endowment Fund and the Community Foundation of Southeast Michigan. These two fund groups are summarized as follows as of September 30, 2017 with comparative totals for 2016:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Beginning Cohn-Hochman Endowment Fund	\$ 18,425	\$ 50,000	\$ 68,425	\$ 66,836
Beginning CFSEM	(535)	25,000	24,465	23,535
Total Beginning Balance	17,890	75,000	92,890	90,371
Distribution/Grant	(4,112)	-	(4,112)	(4,917)
Unrealized Gain/(Loss), Net of Fees	8,320	-	8,320	7,436
Ending Cohn-Hochman Endowment Fund	21,722	50,000	71,722	68,425
Ending CFSEM	376	25,000	25,376	24,465
Total Ending Balance	<u>\$ 22,098</u>	<u>\$ 75,000</u>	<u>\$ 97,098</u>	<u>\$ 92,890</u>

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Notes to Financial Statements (Continued)
September 30, 2017 and 2016

7) OTHER ENDOWMENTS AND RESTRICTIONS (Continued)

Donated Group Homes and other Funds, by net asset type (see note 10). Restrictions on group homes are satisfied based upon the useful life of the structure (as reflected by depreciation expense) and expenses incurred to maintain and improve the properties and to provide ancillary services.

	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 2,536,503	\$ 2,915,486
Less: Spending on Homes and Programs	(45,748)	(297,544)
Less: Depreciation on Donated Homes	<u>(81,439)</u>	<u>(81,439)</u>
Ending Balance	<u>\$ 2,409,316</u>	<u>\$ 2,536,503</u>

8) ENDOWMENT AND INVESTMENT POLICIES

Interpretation of Relevant Law

The Board of Directors of Kadima has interpreted the 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, Kadima classifies as permanently restricted net assets: a) the original value of gifts donated to the permanent endowment, b) the original value of subsequent gifts to the permanent endowment, and c) accumulations to the permanent endowment 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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Notes to Financial Statements (Continued)
September 30, 2017 and 2016

8) ENDOWMENT AND INVESTMENT POLICIES (Continued)

Interpretation of Relevant Law (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. Deficiencies may result from unfavorable market fluctuations that occur from time to time. The Community Foundation endowment had a balance of \$24,465 at September 30, 2016, which resulted in a deficiency of \$535. There were no such deficiencies at September 30, 2017.

Return Objectives and Risk Parameters

Kadima has adopted investment and spending policies for endowment assets 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. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to yield an absolute 4-5% annually, while assuming a low level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Kadima relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Kadima has a policy of appropriating for distribution each year the earnings, gains, and losses of the funds. Such appropriations are transferred to temporarily restricted funds until spent.

9) BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

Kadima endowment funds include two investments held by others:

Community Foundation of Southeast Michigan – During 2006, Kadima transferred \$25,000 to establish the Kadima Operation Endowment Fund, a component fund of the Community Foundation of Southeast Michigan (“CFSEM”). Under the terms of the agreement, in June and December of each year, Kadima is entitled to receive a distribution equal to 5% of the total average quarterly market value on the invested assets in the prior year. Kadima cannot withdraw any portion of the original amount transferred or any appreciation of those transferred assets. The value of this fund as of September 30, 2017 and 2016, was \$25,376 and \$24,465 respectively.

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Notes to Financial Statements (Continued)
September 30, 2017 and 2016

9) BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS (Continued)

Additionally, third parties have donated to the CFSEM with Kadima as a named beneficiary. Kadima may also receive 5% of the average quarterly market value each year. Those funds were valued at \$1,464,345 and \$1,411,700 as of September 30, 2017 and 2016, respectively. However, these funds do not qualify under generally accepted accounting standards as Kadima assets. Kadima has granted variance power to CFSEM. That power gives CFSEM the right to distribute the investment income to another not-for-profit organization of its choice if Kadima ceases to exist or if the governing board of CFSEM votes that support of Kadima is no longer necessary or is inconsistent with the needs of the community.

Cohn-Hochman Endowment Fund – The Cohn Federated Endowment funds are held in perpetuity at United Jewish Foundation of Detroit for the benefit of Kadima. The original principal is \$50,000, which is maintained as permanently restricted. Investment return is transferred to temporarily restricted funds. The market value of the fund was \$71,722 as of September 30, 2017, and \$68,425 as of September 30, 2016.

10) DONATED HOME SUPPORT

Funds have been donated for the purchase and upkeep of homes to be occupied by individuals. The organization may receive contributions of long-lived assets or of cash and other assets restricted to the purchase of long-lived assets, such as homes. These are contributions for which the donors have not expressly stipulated how or how long the long-lived asset must be used by the organization or how to use any proceeds resulting from the asset's disposal. The organization has adopted an accounting policy of implying time restrictions on the use of such contributed assets that expire over the assets expected useful lives. Depreciation is recorded over the assets useful life. Net assets are reclassified annually from temporarily restricted to unrestricted as depreciation is recognized. Total depreciation expense for the homes was \$81,439 for the years ended September 30, 2017 and 2016.

11) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Donated Homes	\$ 2,084,129	\$ 2,165,568
Home Repair/Maintenance	325,187	370,935
CFSEM	376	(535)
Cohn-Hochman Endowment Fund	21,722	18,425
Pledges Receivable	75,000	95,000
Endowment Investments	<u>293,154</u>	<u>207,362</u>
	<u>\$ 2,799,568</u>	<u>\$ 2,856,755</u>

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Notes to Financial Statements (Continued)
September 30, 2017 and 2016

12) LONG-TERM DEBT

Long-term debt consists of the following at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Forgivable mortgage note payable due to Michigan State Housing Development Authority (MSHDA), forgiven at 1/120th beginning May 2025, subject to usage restrictions and secured by a condominium unit. Interest expense at the rate of 8% and a corresponding in-kind contribution has been recorded to reflect the value of the interest forgiven by MSHDA.	\$ 40,000	\$ 40,000
Forgivable mortgage note payable due to Michigan State Housing Development Authority (MSHDA), forgiven at 1/120th beginning May 2026, subject to usage restrictions and secured by a condominium unit. Interest expense at the rate of 8% and a corresponding in-kind contribution has been recorded to reflect the value of the interest forgiven by MSHDA.	<u>40,000</u>	<u>40,000</u>
Total	<u>\$ 80,000</u>	<u>\$ 80,000</u>

Principal maturities on long-term debt are as follows as of September 30, 2017:

2017	\$ -
Thereafter	<u>80,000</u>
Total	<u>\$ 80,000</u>

13) TAX DEFERRED GROUP ANNUITY PLAN

Kadima maintains a tax deferred group annuity plan. Under the plan, employees may elect to reduce their salary and have the salary reduction applied toward the purchase of a fully vested annual benefit. The plan covers all full and part-time employees of the organization. Kadima does not match the employee contributions to the plan, nor does Kadima incur any expense related to the administration of the plan.

14) SIMPLIFIED EMPLOYEE PENSION

Kadima maintains a Simplified Employee Pension for the benefit of all employees. Contributions to the plan were \$93,505 and \$21,111 for the year ended September 30, 2017 and 2016 respectively. All amounts due are current.

15) NET ASSETS

Beginning net assets at October 1, 2016 have been restated to reflect a reclassification of \$95,000 from unrestricted net assets to temporarily restricted net assets to reflect the time restriction related to Kadima's pledges receivable.

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Notes to Financial Statements (Continued)
September 30, 2017 and 2016

16) SUBSEQUENT EVENTS

Management has evaluated all subsequent events through February 8, 2018, the date the financial statements were available to be issued. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

STATEMENT OF FUNCTIONAL EXPENSES

KADIMA: JEWISH SUPPORT SERVICES FOR ADULTS WITH MENTAL ILLNESS

Statement of Functional Expenses Year Ended September 30, 2017 With Combined Comparative Totals for 2016

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total 2016</u>
Salaries	\$ 2,671,222	\$ 244,474	\$ 190,380	\$ 3,106,076	\$ 3,015,374
Payroll Taxes & Benefits	293,927	190,003	15,590	499,520	534,245
Occupancy Expense	170,718	29,740	8	200,466	270,500
Repairs & Maintenance	82,153	47,508	-	129,661	112,897
Contractual	17,607	19,548	-	37,155	46,788
Vehicle & Travel	87,743	1,008	121	88,872	79,913
Telephone	48,725	4,389	425	53,539	66,799
Activities, Food, & Supplies	230,303	4,371	49,602	284,276	277,269
Office Expense	12,034	36,323	91	48,448	79,505
Professional Fees	6,831	126,307	178	133,316	140,333
Postage	94	4,361	329	4,784	8,110
Printing & Publication	1,386	2,201	133	3,720	4,077
Advertising	5,612	29,411	9,676	44,699	84,637
Insurance	32,407	32,406	-	64,813	87,891
Other Expense	6,359	218,715	3,994	229,068	35,007
Depreciation	146,399	73,200	-	219,599	209,724
Total Expenses	\$ 3,813,520	\$ 1,063,965	\$ 270,527	\$ 5,148,012	\$ 5,053,069