

HEBREW FREE LOAN SOCIETY, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2014

HEBREW FREE LOAN SOCIETY, INC.

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Balance Sheet

B - Statement of Activities

C - Statement of Functional Expenses

D - Statements of Cash Flows

Notes to Financial Statements

Schedule

1 - Analysis of Loan Activity

Independent Auditor's Report

**Board of Directors
Hebrew Free Loan Society, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Hebrew Free Loan Society, Inc., which comprise the balance sheet as of June 30, 2014, and the related statements of activities, functional expenses, 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 Hebrew Free Loan Society, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Hebrew Free Loan Society, Inc.'s June 30, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 21, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in the Analysis of Loan Activity 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.

Loeb H. Troper LLP

October 2, 2014

HEBREW FREE LOAN SOCIETY, INC.

BALANCE SHEET

JUNE 30, 2014

(With Summarized Financial Information for June 30, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 1,403,937	\$ 1,233,441
Investments (Note 3)	8,800,120	8,152,972
Loans receivable (net of allowance for doubtful loans of \$322,000 and \$380,000, respectively) (Note 4) (Schedule 1)	10,792,294	11,182,439
Contributions receivable - net (Note 5)	66,628	71,634
Prepaid expenses and other receivables	23,704	23,043
Furniture and equipment (net of accumulated depreciation of \$258,000 and \$247,000, respectively)	<u>7,854</u>	<u>18,031</u>
Total assets	<u>\$ 21,094,537</u>	<u>\$ 20,681,560</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 14,503	\$ 6,525
Accrued vacations	51,826	46,057
Advances payable	128,321	167,052
Deferred compensation	209,147	187,697
Loans payable (Note 6)	<u>1,527,833</u>	<u>1,650,311</u>
Total liabilities	<u>1,931,630</u>	<u>2,057,642</u>
Net assets (Exhibit B)		
Unrestricted	15,493,165	14,889,266
Temporarily restricted (Note 9)	292,294	357,204
Permanently restricted (Note 9)	<u>3,377,448</u>	<u>3,377,448</u>
Total net assets	<u>19,162,907</u>	<u>18,623,918</u>
Total liabilities and net assets	<u>\$ 21,094,537</u>	<u>\$ 20,681,560</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HEBREW FREE LOAN SOCIETY, INC.

EXHIBIT B

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014
(With Summarized Financial Information
for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2014	2013
Operating revenues, gains and other support					
United Jewish Appeal-Federation of Jewish Philanthropies of New York, Inc. (FOJP)					
Basic grant	\$ 147,624			\$ 147,624	\$ 148,493
Program grants	161,646			161,646	165,243
Administrative fees	70,800			70,800	70,800
	380,070			380,070	384,536
Contributions	256,126	\$ 58,082		314,208	326,774
Special events (net of direct costs of \$49,000)	72,163			72,163	82,634
In-kind rent (Note 8)	60,000			60,000	60,000
Investment income					
Board designated spending rate (Note 3)	243,192			243,192	225,195
Other investment income	363,892			363,892	289,184
Program service fees	14,040			14,040	17,714
Other program grants	85,000			85,000	35,000
Other administrative fees	20,668			20,668	8,088
Adjustment to allowance for doubtful accounts	56,000			56,000	
Total operating revenues, gains and other support	1,551,151	58,082		1,609,233	1,429,125
Operating expenses (Exhibit C)					
Program services (free loan programs)	986,172			986,172	1,002,391
Management and general	406,774			406,774	358,086
Fund raising	188,383			188,383	182,710
Total operating expenses	1,581,329			1,581,329	1,543,187
Excess (deficiency) of operating revenues, gains and other support over operating expenses	(30,178)	58,082		27,904	(114,062)
Nonoperating revenues, expenses, gains and other support					
Contributions	25,535			25,535	113,354
Investment income (Note 3)	485,550			485,550	360,018
Net assets released from restrictions (Note 9)	122,992	(122,992)			
Total nonoperating revenues, gains and other support	634,077	(122,992)		511,085	473,372
Change in net assets (Exhibit D)	603,899	(64,910)		538,989	359,310
Net assets, beginning of year	14,889,266	357,204	\$ 3,377,448	18,623,918	18,264,608
Net assets, end of year (Exhibit A)	\$ 15,493,165	\$ 292,294	\$ 3,377,448	\$ 19,162,907	\$ 18,623,918

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HEBREW FREE LOAN SOCIETY, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014
(With Summarized Financial Information
for the Year Ended June 30, 2013)

	Program Services	Supporting Services			Total	
	Free Loan Programs	Management and General	Fund Raising	Direct Cost of Special Events	2014	2013
Salaries	\$ 533,796	\$ 200,157	\$ 120,237		\$ 854,190	\$ 831,610
Payroll taxes and employee benefits	146,289	54,854	32,952		234,095	221,263
	680,085	255,011	153,189		1,088,285	1,052,873
Professional fees		33,472			33,472	31,020
Consultants		54,056	795		54,851	17,664
Insurance		22,751			22,751	23,035
Computer expenses	9,667	3,625	2,177		15,469	16,916
Office supplies, expenses and equipment	14,326	5,371	3,227		22,924	21,490
Postage	5,083	1,729	4,781		11,593	11,356
Printing and publications	7,420	1,145	11,549		20,114	20,399
Telephone	5,881	2,221	1,268		9,370	8,964
Conferences, training and transportation	5,680	2,146	1,225		9,051	6,104
Occupancy (Note 8)	119,732	18,982	7,301		146,015	142,031
Catering, facility rental and entertainment				\$ 49,022	49,022	45,317
Depreciation	7,178	2,712	1,549		11,439	12,910
Bank fees and credit reports	16,752		1,322		18,074	16,661
Interest expense	17,803				17,803	6,051
Investment management fees		13,071			13,071	17,906
Advertising	44,746				44,746	43,764
Training courses	51,339				51,339	98,643
Bad debt expense						10,000
Miscellaneous	480	3,553			4,033	3,306
Total expenses	986,172	419,845	188,383	49,022	1,643,422	1,606,410
Less investment management fees deducted from investment income on the statement of activities		(13,071)			(13,071)	(17,906)
Less special events expenses reported directly on the statement of activities				(49,022)	(49,022)	(45,317)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 986,172	\$ 406,774	\$ 188,383	\$ -	\$ 1,581,329	\$ 1,543,187

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HEBREW FREE LOAN SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 538,989	\$ 359,310
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net gain on investments	(1,078,149)	(826,334)
Depreciation	11,439	12,910
Adjustments to allowance for bad debt	(56,000)	
Bad debt expense		10,000
Decrease (increase) in assets:		
Contributions receivable	5,006	82,567
Prepaid expenses and other receivables	(661)	104
Increase (decrease) in liabilities		
Accounts payable	7,978	(2,429)
Accrued vacations	5,769	2,924
Advances payable	(38,731)	2,794
Deferred compensation	21,450	22,002
Net cash used by operating activities	<u>(582,910)</u>	<u>(336,152)</u>
Cash flows from investing activities		
Loans issued	(8,025,883)	(9,018,197)
Repayment of loans receivable	8,452,028	9,182,278
Purchase of investments	(218,999)	(201,160)
Proceeds from sale of investments	650,000	350,000
Purchase of fixed assets	(1,262)	(3,095)
Net cash provided by investing activities	<u>855,884</u>	<u>309,826</u>
Cash flows from financing activities		
Proceeds from loans payable		1,250,000
Principal payments of loans payable	(102,478)	(990,786)
Net cash provided (used) by financing activities	<u>(102,478)</u>	<u>259,214</u>
Net change in cash and cash equivalents	170,496	232,888
Cash and cash equivalents, beginning of year	<u>1,233,441</u>	<u>1,000,553</u>
Cash and cash equivalents, end of year	<u>\$ 1,403,937</u>	<u>\$ 1,233,441</u>
Cash paid during the year for interest	<u>\$ 17,803</u>	<u>\$ 6,051</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HEBREW FREE LOAN SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - NATURE OF ENTITY

Hebrew Free Loan Society (the "Society") makes interest-free loans for philanthropic purposes within the New York metropolitan area. The Society's activities are rooted in the age-old Jewish tradition of *Gemilut Chasadim*, which views interest-free lending as the highest form of charity because it renders assistance while preserving dignity and promoting self-help. The Society seeks to make loans where the availability of interest-free credit will make a significant difference in people's lives or have a significant impact on a Jewish institution.

In furtherance of these principles, the Society makes loans to individuals and families in need on a non-sectarian basis, and with a goal of promoting economic self-sufficiency. In addition, the Society's loans help ensure the continued vibrancy of the New York Jewish community by strengthening Jewish institutions and helping people meet the cost of participation in the Jewish community. The Society will, often working in partnership with local organizations, reach out into the Jewish community to identify needs and to bring its programs to the attention of those who might benefit.

The Society is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Society is supported primarily by contributions and investment income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

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

Cash and cash equivalents - Cash and cash equivalents include instruments with maturities of three months or less when acquired.

Investments - Investments are recorded at fair value. Unrealized gains and losses are due to fluctuations in the market value of investments.

-continued-

HEBREW FREE LOAN SOCIETY, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Loans receivable - The Society records loans receivable upon disbursing of loans to borrowers, net of an allowance for doubtful accounts.

Allowance for doubtful accounts - On a periodic basis, the Society evaluates its loans and contributions receivable and establishes an allowance for doubtful accounts, if necessary, based on a history of past write-offs and collections. Interest is not accrued on outstanding receivables.

Fixed assets - Fixed assets costing in excess of \$500 and having an estimated useful life of greater than one year are capitalized and depreciated on the straight-line method over 3-5 years.

Advances payable - Advances payable consist primarily of excess funds from advances to the Society to fund various scholarship programs it administers.

Contributions and other program grants - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions whose restrictions are satisfied in the year of restriction are classified as unrestricted.

In-kind rent - In-kind rent represents the excess of the fair value of the lease over actual rent charged.

Rent expense - Rent is recorded on the straight-line basis over the term of the lease. Deferred rent is recorded when material.

Advertising - Advertising costs are expensed when incurred.

-continued-

HEBREW FREE LOAN SOCIETY, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Nonoperating revenues, expenses, gains and other support - Contributions received for loan programs, investment income in excess of the board-approved spending rate (described in Note 5), and net assets released from restrictions are included in nonoperating revenues and expenses.

Unrestricted net assets - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

Temporarily and permanently restricted net assets - Temporarily restricted net assets are limited by donors to a specific time period or purpose. Permanently restricted net assets are revolving loan funds that are restricted by donors to be maintained in perpetuity.

Functional allocations of expenses - The costs of providing the Society's services are summarized on a functional basis. Certain costs are allocated among the programs and supporting services benefited.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access. Level 2 inputs to the valuation methodology include:

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

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

-continued-

HEBREW FREE LOAN SOCIETY, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Fair Value Measurements (continued)***

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014 compared to June 30, 2013.

Money market funds - Valued at the closing price reported on the active market on which the individual securities are traded.

FJC Agency Loan Fund - The investment in the FJC Agency Loan Fund is recorded at fair value based upon the cash liquidation value.

UJA pooled investment account - Valued at the Society's share of the investments of the UJA pooled investments as reported by UJA and its investment managers and advisors. The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value, absent readily available market values.

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

Summarized financial information for 2013 - The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Uncertainty in income taxes - The Society has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 2, 2014, which is the date the financial statements were available to be issued.

-continued-

HEBREW FREE LOAN SOCIETY, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 3 - INVESTMENTS**

The following table presents the investments measured at fair value by level, as described in Note 2, as of June 30, 2014:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 25,000		\$ 25,000
FJC Agency Loan Fund		\$ 853,000	853,000
UJA - Pooled Investment Account		<u>7,922,000</u>	<u>7,922,000</u>
	<u>\$ 25,000</u>	<u>\$ 8,775,000</u>	<u>\$ 8,800,000</u>

The following table sets forth the changes in Level 3 investments:

Balance, beginning	\$ 8,128,000
Total gains included in change in net assets for the year ended June 30, 2014	1,078,000
Purchases	205,000
Sales	(650,000)
Interest and dividends	27,000
Expenses	<u>(13,000)</u>
Balance, ending	<u>\$ 8,775,000</u>

The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date

\$ 637,000

-continued-

HEBREW FREE LOAN SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 3 - INVESTMENTS (continued)

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
FJC Agency Loan Fund (a)	\$ 853,000	\$ -	N/A	5 days
UJA - Pooled Investment Account (b)	<u>7,922,000</u>	<u>-</u>	N/A	30 days
Total	<u>\$ 8,775,000</u>	<u>\$ -</u>		

- a. *FJC Agency Loan Fund* - Participation in a pool of loans made to not-for-profit entities providing interest income on a quarterly basis.
- b. *UJA - pooled investment account* - A share in the pooled investments of UJA to benefit from the various diversified strategies that UJA invests in, including cash and bonds, multi-strategy hedge funds, long equity, private equity and real estate. The purpose is to generate appreciation while managing risk through diversification.

Investment income consists of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 28,000	\$ 66,000
Net realized and unrealized gains	1,078,000	826,000
Investment management fees	<u>(13,000)</u>	<u>(18,000)</u>
	<u>\$ 1,093,000</u>	<u>\$ 874,000</u>
Investment income included in operating revenues:		
Board designated spending rate	\$ 243,000	\$ 225,000
Other investment income	364,000	289,000
Investment income included in non-operating revenues	<u>486,000</u>	<u>360,000</u>
	<u>\$ 1,093,000</u>	<u>\$ 874,000</u>

-continued-

HEBREW FREE LOAN SOCIETY, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 3 - INVESTMENTS (continued)**

The Society has an investment in the UJA-Federation Pooled Investment Account (PIA.) The Board previously determined that the lesser of 5% of the balance in the PIA at the beginning of the year, or the actual earnings from such investment (but not less than \$150,000), would be allocated to operating investment income.

For the year ended June 30, 2014, the Board agreed to allocate 5% of the balance of the investment at the beginning of the year (\$4,864,000) to operations, regardless of the actual performance; therefore, \$243,000 was allocated to operating (investment) income from the PIA.

The Society invests in investments which are subject to various risks including interest, market, and credit risks, which could affect the amounts reported in the balance sheet.

NOTE 4 - LOANS RECEIVABLE

The majority of loans receivable are supported by unsecured personal guarantees except for approximately \$1,100,000 of special education loans, which are guaranteed by a not-for-profit organization.

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows:

Amounts due in less than one year	\$ <u>67,000</u>
-----------------------------------	------------------

-continued-

HEBREW FREE LOAN SOCIETY, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 6 - LOANS PAYABLE****A. The Avi Chai Foundation**

The Society operates and administers a loan program (Teacher Loan Program) that has been funded by The Avi Chai Foundation (ACF) which provided interest-free loans to full-time Judaic studies teachers in Jewish day schools in five communities outside New York State toward the purchase of primary residences under the terms of a loan agreement that required ACF to lend up to \$2.5 million to the Society to make interest-free loans (Teacher Loans) under the Teacher Loan Program. The Society repays ACF on all sums collected as repayment under the Teacher Loans on a quarterly basis. Half of each Teacher Loan is forgiven over its ten-year amortization period, provided the borrower continues to teach in a day school in accordance with the terms of the Teacher Loan Program. The Society has no obligation under the Loan Agreement to repay ACF any amounts borrowed and lent under a Teacher Loan but not repaid to the Society under the Teacher Loan Program.

In March, 2009, ACF notified the Society that it was discontinuing the Teacher Loan Program effective June 30, 2009. The Society will continue to perform its obligations, and ACF will continue to pay the Society administrative fees, until all the Teacher Loans have been repaid or forgiven.

During the year ended June 30, 2014, in addition to principal payments made, \$20,000 of Teacher Loans was forgiven, and ACF forgave a corresponding amount from the Society. The balance due at June 30, 2014 is \$215,000.

B. UJA-Federation

The Society entered into a \$1.5 million full recourse line of credit facility with United Jewish Appeal-Federation of Jewish Philanthropies of New York, Inc. (Federation) in February, 2009, amended in May, 2009, and further amended in February, 2012 ("Federation Loan Agreement"). Under the Federation Loan Agreement the Society may draw down up to \$500,000 to fund interest-free loans under its Microenterprise Loan Program and up to an aggregate of \$1,000,000 to fund interest-free loans under its Special Education Bridge Loan Program. The Society repays Federation on a quarterly basis all sums collected as repayments under the Microenterprise Loans, with the entire unpaid principal amount drawn down to fund Microenterprise Loans to be due and payable on December 31, 2014. In November, 2012, the Society repaid Federation \$610,000 representing all Federation funds drawn to fund Special Education Loans, including interest on amounts drawn down under the loan agreement at a rate equal to the 12-month Treasury Bill rate in effect on the last business day of the previous quarter.

-continued-

HEBREW FREE LOAN SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 6 - LOANS PAYABLE (continued)

B. UJA-Federation (continued)

As of June 30, 2014, the outstanding balance of funds drawn to fund Microenterprise Loans was \$41,000. The 12-month Treasury Bill rate at June 30, 2014 was 0.09%.

The Society operates and administers a loan program, Connect to Care (C2C), funded by Federation to provide interest-free loans to middle income Jewish families significantly impacted by the recession to pay for compelling nonrecurring needs. The outstanding balance on the loan as of June 30, 2014 was \$22,000. In August, 2014 the Society repaid the loan in full.

C. Marty and Dorothy Silverman Foundation (MDSF)

The Society entered into a loan agreement with the Marty and Dorothy Silverman Foundation (MDFS) in July, 2012 (MDSF Loan Agreement). Under the MDSF Loan Agreement, the Society may borrow up to \$1,250,000 to fund the Special Education Bridge Loan Program, with interest payable quarterly at prime plus 3% per annum, as published in the Wall Street Journal (6.25%). Principal and interest are due on December 31, 2017. The funds are secured by a security interest in all FJC accounts maintained by the Society, and loans made by the Society financed or refinanced by the MDSF Loan Agreement proceeds. The outstanding balance on the MDSF Loan at June 30, 2014 was \$1,250,000, and \$896,000 of the borrowed amount was on deposit in the Society's Restricted Earmarked Fund Account with FJC and, as provided in the MDSF Loan Agreement, the earnings on that deposit offset 100% of the loan interest accruing on that amount.

An unaffiliated organization which benefits from the Special Education Bridge Loan Program has agreed to pay the net interest due under the MDSF Loan Agreement.

Combined future minimum payments due are as follows:

Year Ending June 30	UJA	Avi Chai	MDSF	Total
2015	\$ 63,000	\$ 74,000		\$ 137,000
2016		45,000		45,000
2017		45,000		45,000
2018		45,000	\$ 1,250,000	1,295,000
Thereafter		6,000		6,000
	<u>\$ 63,000</u>	<u>\$ 215,000</u>	<u>\$ 1,250,000</u>	<u>\$ 1,528,000</u>

-continued-

HEBREW FREE LOAN SOCIETY, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 7 - DEFERRED COMPENSATION**

In 1996, the Society's Board approved a deferred compensation arrangement for the Society's executive director. The annual deferral was used to purchase a split-dollar life insurance policy for the benefit of the executive director. In December, 2008, the policy was terminated and the proceeds were received by the Society. Those proceeds, plus accrued appreciation and annual contributions, are currently being held by the Society pending the establishment of a formal plan.

NOTE 8 - LEASE COMMITMENT

The Society rents office space under an operating lease expiring on June 30, 2015 that was extended to June 30, 2020. The office space is leased from a real estate company that is affiliated with the family of a member and past president of the Board of Directors. For the year ended June 30, 2014, the Society recorded additional rent expense and an in-kind contribution of \$60,000, which approximates the difference between the fair value of the lease and the base rent plus additional ancillary costs charged to the Society. Rent expense for the year ended June 30, 2014 was \$146,000.

The minimum annual rental commitment is as follows:

Year Ending June 30	
2015	\$ 44,000
2016	50,000
2017	51,000
2018	53,000
2019	54,000
2020	<u>55,000</u>
	<u>\$ 307,000</u>

-continued-

HEBREW FREE LOAN SOCIETY, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 9 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2014 are available for use by the following programs:

Children with special needs	\$ 173,000
Women's Executive Circle New Start Loan Program	14,000
Microenterprise program	25,000
Available for periods after June 30, 2014	<u>80,000</u>
	<u>\$ 292,000</u>

Temporarily restricted net assets were released from restriction as follows:

Lapse of time restrictions	\$ 101,000
Release due to satisfaction of restricted purpose conditional contribution	<u>22,000</u>
	<u>\$ 123,000</u>

Permanently restricted net assets at June 30, 2014 are restricted to the following loan programs:

Residents of NYC, or nurses employed in specified New York City hospitals, who are currently attending NYC colleges, or who have graduated from NYC public schools, and special education bridge loans	\$ 735,000
Educational loans	500,000
Synagogue and Batei Midrashim	10,000
Medical and nursing education loans	140,000
Higher education to needy students	575,000
Emigré retraining program	425,000
Housing for educators	100,000
Children with special needs	25,000
Adoption	250,000
Emigré programs	<u>617,000</u>
	<u>\$ 3,377,000</u>

Investment income earned on funds not currently in use as loans is available to support general operations.

-continued-

HEBREW FREE LOAN SOCIETY, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****NOTE 10 - PENSION PLAN**

The Society's employees are eligible for pension benefits covered by the retirement plan of Federation of Jewish Philanthropies of New York. Pension expense for the years ended June 30, 2014 and 2013 was \$61,000 and \$53,000, respectively.

NOTE 11 - CONCENTRATIONS

Financial instruments which potentially subject the Society to a concentration of credit risk are cash accounts with a financial institution in excess of FDIC insurance limits.

SCHEDULE 1

HEBREW FREE LOAN SOCIETY, INC.

ANALYSIS OF LOAN ACTIVITY

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Loans</u>	<u>Amount</u>	<u>Allowance</u>	<u>Balance</u>
Loans receivable, July 1, 2013	2,148	\$ 11,562,439	\$ (380,000)	\$ 11,182,439
Loans issued	910	8,025,883		8,025,883
Loans repaid and adjusted	<u>(1,078)</u>	<u>(8,474,028)</u>	<u>58,000</u>	<u>(8,416,028)</u>
Loans receivable, June 30, 2014 (Exhibit A)	<u>1,980</u>	<u>\$ 11,114,294</u>	<u>\$ (322,000)</u>	<u>\$ 10,792,294</u>

See independent auditor's report.