Spertus Institute for Jewish Learning and Leadership

Financial Report
With Independent Auditor's Report
June 30, 2016

Contents

RSM

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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 18, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Chicago, Illinois
December 27, 2016

Spertus Institute for Jewish Learning and Leadership

Statement of Financial Position
June 30, 2016 (With Comparative Totals for 2015)

	2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015
Assets					
Cash and cash equivalents	$ 3,884,383	$ 281,234	$ 271,985	$ 4,437,602	$ 2,836,125
Student accounts receivable, net	70,781	-	-	70,781	134,248
Pledges receivable, net	-	131,747	-	131,747	292,518
Interest receivable	184	18,741	-	18,925	24,948
Other receivables	132,894	-	-	132,894	36,286
Permanently restricted borrowings	(4,068,840)	-	4,068,840	-	-
Other assets	2,974,842	-	-	2,974,842	773,402
	2,994,244	431,722	4,340,825	7,766,791	4,097,527
Investments	25,079,373	-	15,798,419	40,877,792	43,541,965
Restricted investments	54,749	-	-	54,749	1,636,459
Less held by Jewish Federation of Metropolitan Chicago	(25,079,363)	-	(7,456,370)	(32,535,733)	(35,005,430)
Net investments	54,759	-	8,342,049	8,396,808	10,172,994
Facilities and equipment, net	43,294,546	-	-	43,294,546	44,328,626
Collections	3,716,668	-	-	3,716,668	3,716,668
	47,011,214	-	-	47,011,214	48,045,294
	$ 50,060,217	$ 431,722	$ 12,682,874	$ 63,174,813	$ 62,315,815
Liabilities and Net Assets					
Accounts payable	$ 192,825	$ -	$ -	$ 192,825	$ 199,359
Other liabilities and accrued expenses	875,773	-	-	875,773	336,743
Bonds payable	34,960,000	-	-	34,960,000	43,570,000
Payable to Jewish Federation of Metropolitan Chicago	4,540,000	-	-	4,540,000	4,540,000
Fair value of swap agreements	4,662,272	-	-	4,662,272	126,597
Postretirement benefit liability	270,981	-	-	270,981	432,228
	45,501,851	-	-	45,501,851	49,204,927
Net assets	4,558,366	431,722	12,682,874	17,672,962	13,110,888
	$ 50,060,217	$ 431,722	$ 12,682,874	$ 63,174,813	$ 62,315,815

See notes to financial statements.

Spertus Institute for Jewish Learning and Leadership

Statement of Activities
Year Ended June 30, 2016 (With Comparative Totals for 2015)

	2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015
Revenue:					
Tuition revenue (net of scholarships and discounts of $247,239)	$ 331,018	$ -	$ -	$ 331,018	$ 598,878
Gifts and bequests, net	1,375,205	314,665	-	1,689,870	2,042,636
Government grants	-	12,494	-	12,494	29,428
Jewish Federation of Metropolitan Chicago grants	839,171	587,553	-	1,426,724	1,414,173
Interest and dividend income	5,190	151,072	-	156,262	186,989
Realized and unrealized gains	(14,794)	37,734	-	22,940	183,423
Auxiliary services	2,927,434	-	-	2,927,434	2,182,907
Miscellaneous revenue	199,474	-	-	199,474	193,518
Release of restricted funds	1,452,672	(1,452,672)	-	-	-
	7,115,370	(349,154)	-	6,766,216	6,831,952
Expenses:					
Program services:					
Spertus College programs	2,195,596	-	-	2,195,596	2,368,772
Spertus Collections programs	749,374	-	-	749,374	685,046
Auxiliary services	2,554,296	-	-	2,554,296	2,095,494
	5,499,266	-	-	5,499,266	5,149,312
Supporting services:					
Management and general	1,315,824	-	-	1,315,824	1,677,067
Fundraising	374,253	-	-	374,253	352,088
	1,690,077	-	-	1,690,077	2,029,155
	7,189,343	-	-	7,189,343	7,178,467

Spertus Institute for Jewish Learning and Leadership

Statement of Activities (Continued)
Year Ended June 30, 2016 (With Comparative Totals for 2015)

	2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015
Revenue less than expenses	$ (73,973)	$ (349,154)	$ -	$ (423,127)	$ (346,515)
Other changes in net assets:					
Gain from extinguishment of debt	8,645,335	-	-	8,645,335	-
Guarantee on swap agreements	2,386,336	-	-	2,386,336	-
Amortization of guarantee	(259,338)			(259,338)	-
Net unrealized (loss) gain on interest rate swaps	(4,602,174)	-	-	(4,602,174)	746,720
Bond interest and other debt expenses	(1,184,958)	-	-	(1,184,958)	(1,104,074)
Change in net assets	4,911,228	(349,154)	-	4,562,074	(703,869)
Net assets (deficit):					
Beginning of year	(352,862)	780,876	12,682,874	13,110,888	13,814,757
End of year	$ 4,558,366	$ 431,722	$ 12,682,874	$ 17,672,962	$ 13,110,888

See notes to financial statements.

Spertus Institute for Jewish Learning and Leadership

Statement of Cash Flows
Year Ended June 30, 2016 (With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ 4,562,074**	$ (703,869)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**1,618,303**	1,651,755
Gain on extinguishment of debt	**(8,645,335)**	-
Change in fair value of swap transactions	**4,602,174**	(746,720)
Guarantee on swap agreements	**(2,386,336)**	-
Amortization of bond issuance and other costs	**29,575**	25,334
Amortization of tenant improvements	**75,407**	25,826
Amortization of guarantee	**259,338**	-
Bad debt expense	**53,833**	64,726
Increase in inventory reserve	**20,000**	35,000
Net realized and unrealized gain on investments	**(22,940)**	(183,423)
Changes in:		
Student accounts receivable	**9,634**	95,940
Pledges receivable	**160,771**	26,828
Interest receivable	**6,023**	(2,809)
Other receivables	**(96,608)**	(4,931)
Other assets	**(118,209)**	145,968
Accounts payable	**(6,534)**	144,843
Other liabilities and accrued expenses	**539,030**	(124,145)
Postretirement benefit liability	**(161,247)**	24,118
Net cash provided by operating activities	**498,953**	474,441
Cash flows from investing activities:		
Purchases of facilities and equipment	**(584,223)**	(131,400)
Purchases of investments	**(319,458)**	(540,041)
Proceeds from sales of investments	**2,072,704**	742,836
Net cash provided by investing activities	**1,169,023**	71,395
Cash flows from financing activities:		
Net payments on line of credit	**-**	(56,250)
Cash paid to terminate swap agreement	**(66,499)**	-
Net cash used in financing activities	**(66,499)**	(56,250)
Increase in cash and cash equivalents	**1,601,477**	489,586
Cash and cash equivalents:		
Beginning of year	**2,836,125**	2,346,539
End of year	**$ 4,437,602**	$ 2,836,125
Supplemental disclosure of cash flow information:		
Interest paid	**$ 1,769,850**	$ 794,916

See 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 2008, 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.

In September 2015, the Institute refinanced its bonds, which resulted in an $8,645,335 gain on extinguishment of debt and a reduction of a similar amount in its bond payable liability, to $34,960,000 at June 30, 2016. The Jewish Federation provided a guarantee in connection with the bonds and holds investments in a board designated project endowment fund totaling $25,079,363 at June 30, 2016. 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 (Note 4).

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. The Institute paid the first installment in September 2016. The Institute previously borrowed $1,700,000 in fiscal year 2009 due to recurring losses. The Institute had not obtained written permission from donors to borrow the funds, and such borrowings may not be in compliance with donors' restrictions. Management has not received notification from donors to return funds or regarding any noncompliance (Note 12).

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 (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.

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 2016). Based on historical collection experience and review of individual receivable balances, management has no allowance for uncollectible pledges as of June 30, 2016.

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.

Donated services: The Institute has recorded income and corresponding expenditures in the amount of $112,974, 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.

Bond interest and other debt service expenses for the year ended June 30, 2016 were included as other changes in net assets on the statement of activities.

These expenses are allocated to functional expense categories as follows:

Program services:	
Spertus College programs	$ 295,181
Spertus Collections programs	342,302
Auxiliary services	431,324
Supporting services:	
Management and general	82,266
Fundraising	33,885
	$ 1,184,958

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

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.

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.

Restricted investments: Restricted investments consists of certificates of deposit held which are recorded at cost plus accrued interest. At June 30, 2015, the Institute held a $1,512,035 certificate of deposit in a debt service reserve account to comply with a debt covenant under the terms of the extinguished Series 2005 bonds (Note 9).

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, 2016, the Institute recognized a loss of $4,602,174 on the swap arrangement.

Student accounts receivable: Student accounts receivable represents amounts due from students and are stated net of an allowance for doubtful accounts of $151,375, 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.

Other assets: Other assets consists of unamortized value of a guarantee on swap agreements, capitalized bond issuance costs, inventories, prepaid expenses and escrowed funds.

The Institute received a guarantee of its interest rate swap agreements from the Jewish Federation of Metropolitan Chicago, which enabled the Institute to obtain a lower interest rate on its borrowings. The estimated fair value of the guarantee is the 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.

Certain costs incurred in connection with the issuance of bonds have been capitalized and are being amortized over the life of the bonds.

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 reserve at June 30, 2016 is $55,000.

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

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

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.

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
	$	3,716,668

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 has a postretirement benefit plan to provide supplemental medical and dental benefits which 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.

Fair value of financial instruments: The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and line of credit, approximate fair value due to the short-term maturity of these instruments. The fair value of pledges receivable is not materially different than its carrying value. The fair value of long-term debt is estimated based on current market interest rates and credit spreads for instruments with similar maturities.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended June 30, 2015, from which the summarized information was derived. Certain items in the 2015 summarized comparative information have been reclassified to conform to the current-year presentation. These reclassifications have no effect on net assets or change 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 forms 990 in the U.S. federal jurisdiction and the State of Illinois. The Institute is generally no longer subject to examination by the Internal Revenue Service for tax years before 2013.

Subsequent events: The Institute has evaluated subsequent events for potential recognition and/or disclosure through December 27, 2016, the date the financial statements were available to be issued.

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (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 April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30)*, simplifying the presentation of debt issuance costs. This ASU will require that debt issuance costs be presented in the statement of financial position as a direct deduction from the carrying amount of the debt liability, in the same manner as debt discounts or premiums. This updated standard will be effective for the Institute's June 30, 2017 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 balance sheet 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.

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, 2016 consists of:

Building	$	49,011,334
Land		3,048,620
Furniture, software and equipment		6,442,686
Tenant improvements		748,450
		59,251,090
Accumulated depreciation		(15,956,544)
	$	43,294,546

The Institute has a lease agreement with an unrelated third party to lease space in the building for a ten-year period ending in June 2017. Rental revenue was $51,543 for the year ended June 30, 2016, and is included in auxiliary services on the statement of activities.

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 $258,512 for the year ended June 30, 2016, and is included in auxiliary services on the statement of activities. The lease also requires the Institute to maintain an escrow account of $162,500 (previously $275,000), 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 ending in May 2016. In July 2015, the agreement was amended and extended the license period 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 lease agreement, the Institute paid $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 $285,139 for the year ended June 30, 2016, and is included in auxiliary services on the statement of activities.

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

2017	$	685,000
2018		649,000
2019		666,000
2020		682,000
Thereafter		2,599,000
	$	5,281,000

Note 3. Fair Value Measurements

The Institute follows ASC Topic, Fair Value Measurements and Disclosure, which provides the framework for measuring fair value under generally accepted accounting principles. 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.

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, 2016.

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.

Note 3. Fair Value Measurements (Continued)

For the year ended June 30, 2016, 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 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, 2016, the estimated fair value of the swap arrangements was a liability of $4,662,272. The change in value of the swaps for the fiscal year 2016 of $4,602,174 is reflected in the statement of activities as a net unrealized loss on interest rate swaps.

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	$ 4,108,774	$ -	$ -	$ -	$ 4,108,774
U.S. mid cap	156,778	-	-	-	156,778
International developed	291,454	-	-	-	291,454
Emerging markets	123,526	-	-	-	123,526
Corporate bonds	-	1,749,604	-	-	1,749,604
State of Israel bonds	-	50,000	-	-	50,000
Real estate funds	168,098	-	-	-	168,098
Investment in the Jewish Federation PEP	-	-	-	1,693,825	1,693,825
	$ 4,848,630	$ 1,799,604	$ -	$ 1,693,825	8,342,059
Certificates of deposit					54,749
					$ 8,396,808
Liabilities					
Swap arrangements	$ -	$ (4,662,272)	$ -	$ -	$ (4,662,272)

(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.

Note 4. Investments

Investments at June 30, 2016, are as follows:

	Fair Value	Cost
Corporate stocks:		
U.S. large cap	$ 4,108,774	$ 2,454,397
U.S. mid cap	156,778	237,650
International developed	291,454	216,130
Emerging markets	123,526	135,075
Certificate of deposit	54,749	54,749
Corporate bonds	1,749,604	1,741,535
State of Israel bonds	50,000	50,000
Jewish Federation PEP	1,693,825	1,000,000
Real estate funds	168,098	141,876
Funds held by Jewish Federation of Metropolitan Chicago	32,535,733	29,073,470
	40,932,541	35,104,882
Funds held by Jewish Federation of Metropolitan Chicago	(32,535,733)	(29,073,470)
	$ 8,396,808	$ 6,031,412

The above investments provided interest and dividend income of $156,262 in fiscal year 2016. During fiscal year 2016, the Institute's realized and unrealized losses on investments were as follows:

Realized gains	$ 43,612
Unrealized losses	(20,672)
	$ 22,940

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 $7,456,370 as of June 30, 2016. The Institute received distributions of $587,553 from the Jewish Federation in relation to these funds in fiscal year 2016 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 $25,079,363 as of June 30, 2016. 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 $839,171 from the Jewish Federation in relation to this fund in fiscal year 2016 which are reported as unrestricted grants from the Jewish Federation on the statement of activities.

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. Pledges Receivable

The present value of unconditional pledges receivable at June 30, 2016 is as follows:

Unconditional pledges receivable expected to be collected in:		
One year	$	91,900
One to five years		53,000
		144,900
Present value discount		(13,153)
Allowance for uncollectible pledges		-
	$	131,747

Note 6. Other Assets

Other assets at June 30, 2016 consisted of:

Guarantee on swap agreements, net accumulated amortization of $259,338	$	2,126,998
Bond issuance costs, net accumulated amortization of $25,352		583,115
Facility lease escrow		162,500
Prepaid expenses		55,170
Inventory		36,130
Other		10,929
	$	2,974,842

Note 7. Other liabilities and Accrued Expenses

Other liabilities and accrued expenses at June 30, 2016 consisted of:

Facility rental deposits	$	390,986
Deferred rental income		280,000
Deferred revenue		161,880
Other		42,907
	$	875,773

Note 8. 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 Jewish Federation had previously indicated they considered these amounts, presented below, to be due in 2035.

Funds collected from donors	$ 2,890,000
Jewish Federation's share of profits	1,650,000
Payable to Jewish Federation	$ 4,540,000

In connection with a September 1, 2015 debt refinancing (Note 9), an agreement between the Institute and the Jewish Federation, dated December 8, 2015, specified repayment terms of 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 the 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 9. Bonds Payable

In 2005, the Illinois Finance Authority issued Adjustable Rate Demand Revenue Bonds Series 2005 in the amount of $51,570,000 on behalf of the Institute. The proceeds of the bonds were used to pay off the combined outstanding balances of $8,200,000 of the operating and facilities lines of credit, fund the construction of the new building (610 Building), pay the interest during the construction period and pay certain expenses incurred in connection with issuing the bonds. In 2006, the Institute repaid $8,000,000 of the outstanding bond principal using the proceeds from the sale of the 618 Building.

The bonds were to mature and principal was due in 2035 with interest at a floating rate paid monthly. On October 21, 2005, the Institute entered into a ten-year interest rate swap agreement with BMO Harris Bank N.A. The agreement effectively changed the Institute's interest rate exposure from a variable rate to a fixed rate of 3.84 percent, based upon an original notional amount of $40,570,000, which was reduced to $20,285,000 on September 1, 2010.

The bonds were secured by an irrevocable direct pay letter of credit facility issued by a bank pursuant to an agreement dated October 20, 2005. The letter of credit was for $43,987,795 upon its initial expiration on October 20, 2010. The letter of credit agreement was replaced as part of a new reimbursement agreement between the Institute and Northern Trust Company dated October 18, 2011. The new agreement, which waived prior defaults on debt covenants, contained various financial and non-financial covenants that the Institute was required to meet, including the maintenance of a debt service reserve account of at least $1,500,000. The debt reserve account was recorded in restricted investments. The Jewish Federation also provided a limited guarantee on the new agreement. The agreement expired on October 26, 2015.

Note 9. Bonds Payable (Continued)

The Institute was required to make interest-only payments on the outstanding bond debt. Earnings from the Project Endowment Fund held by the Jewish Federation were expected to fund this expense, together with related fees. To the extent that earnings from the Project Endowment Fund were ever insufficient to fully fund this expense, the Board had directed management, as a matter of policy, to use revenue generated from the space agreements (described in Note 2) to fund the difference.

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 the outstanding Series 2005 bonds and to pay certain costs incurred in connection with the issuance of the Series W-1 bonds. As part of this refinancing, the Institute entered into an agreement with its previous lenders to accept a principal payment of $34,570,000 in full satisfaction of $43,570,000 outstanding Series 2005 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 Institute recorded a gain on extinguishment in an amount equivalent to the difference between the debt's reacquisition price and its net carrying amount. The debt's reacquisition price is the amount paid to extinguish the debt, including any debt issuance costs. 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. The gain on extinguishment is as follows:

Series 2005 bonds extinguished	$ 43,570,000
Write-off unamortized Series 2005 bond issuance costs	(399,997)
Series W-1 bond proceeds	(34,960,000)
Series W-1 cost of issuance	608,468
Other	(173,136)
	$ 8,645,335

Certain costs associated with the issuance of the bonds were capitalized and are to be amortized over the life of the bonds. Amortization expense was $25,353 in fiscal year 2016.

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 $4,662,272 at June 30, 2016 and is recorded as a liability on the statement of financial position. For the year ended June 30, 2016, the Institute recorded losses (non-cash) in the amount of $4,602,174 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 represents the 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, and is an increase in unrestricted net assets for fiscal year 2016.

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets were available at June 30, 2016 for the following activities:

Building Project	$	219,612
Academic		55,919
Asher Library		1,289
Spertus Museum		15,999
Operations		138,903
	$	431,722

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes for the following programs for the year ended June 30, 2016:

Academic	$	863,354
Asher Library		352,626
Spertus Museum		39,464
Operations		197,228
	$	1,452,672

Note 11. 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, 2016:

Building Project	$	21,500
Academic		4,113,342
Asher Library		2,637,605
Spertus Museum		2,833,878
Operations		3,076,549
	$	12,682,874

Note 12. 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.

Note 12. Endowment Funds (Continued)

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.

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 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Donor-Restricted
Endowment net assets, July 1, 2015	$ (3,866,915)	$ -	$ 12,682,874	$ 8,815,959
Investment income	-	188,806	-	188,806
Net distributions from fund	(201,925)	(188,806)	-	(390,731)
Balance, June 30, 2016	$ (4,068,840)	$ -	$ 12,682,874	$ 8,614,034

Funds With Deficiencies
As of June 30, 2016, the Institute's endowment funds have a combined historic dollar value of $12,682,874 and related endowment investments have a fair value of $8,614,034. The difference of $4,068,840, reflected above as an unrestricted endowment fund deficiency, is primarily attributable to previous years' market conditions 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.

Note 12. Endowment Funds (Continued)

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 a 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 paid the first installment in September 2016.

During fiscal year 2016, the Institute budgeted and appropriated for expenditure $390,731, based on expected investment earnings. However, the final endowment fund investment income for the fiscal year was ultimately $188,806. Therefore the difference of $201,925 was spent from the corpus of the endowment and increases the endowment fund deficiency to $4,068,840, 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 (Note 4).

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 2016, 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. The amount budgeted and appropriated in fiscal year 2016 ultimately exceeded the investment income for the year, which increased the loan from the endowment fund.

Note 13. 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 2016.

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.

Note 13. Benefit Plans (Continued)

The Institute follows the accounting guidance applicable to postretirement pension and other defined benefit plans. As of June 30, 2016, the Institute accrued an amount of $270,981 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 2016 is recorded as a liability on the statement of financial position and is as follows:

Retirees	$	76,709
Active participants		194,272
	$	270,981

Net postretirement health care cost includes the following components:

Service cost benefits earned during the year	$	9,418
Interest cost on accumulated postretirement benefit obligations		10,839
	$	20,257

Estimated future benefit payments are as follows:

2017	$	-
2018		8,000
2019		-
2020		-
2021		4,000
Thereafter		258,981
	$	270,981

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.

Note 14. Related-Party Transactions

In addition to other related-party transactions noted previously, a member of the Board is a partner at a law firm which donated legal services valued at $112,974 during fiscal year 2016. The value of these services are included in gifts and bequests revenue, with corresponding expense in the statement of activities.

Note 15. Commitments

The Institute has entered into an agreement with a food service company to provide catering services. The contract term commenced in November 2014 and will terminate in fiscal year 2018. The contract allows for a commission of 12 percent to 15 percent of gross revenue. The Institute recognized approximately $93,000 of revenue from the contract in the year ended June 30, 2016.