Bet Tzedek

Financial Statements
and Other Audit Report

August 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bet Tzedek
Los Angeles, California

We have audited the accompanying financial statements of Bet Tzedek (the "Organization"), which comprise the statement of financial position as of August 31, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 Bet Tzedek as of August 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has elected early adoption of the Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities and 2018-18, Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Armanino LLP

Armanino LLP
Los Angeles, California

January 3, 2019

Bet Tzedek
Statement of Financial Position
August 31, 2018

ASSETS	
Cash and cash equivalents	$ 2,738,033
Investments	8,233,737
Contributions and grants receivable	1,031,221
Notes receivable	328,000
Prepaid expenses and other assets	91,931
Property and equipment, net	54,039
Total assets	$ 12,476,961
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued expenses	$ 695,891
Deferred rent	308,828
Deferred revenue	298,770
Total liabilities	1,303,489
Commitments and contingencies (Notes 9 and 11)	
Net assets	
Without donor restrictions	5,220,551
With donor restrictions	5,952,921
Total net assets	11,173,472
Total liabilities and net assets	$ 12,476,961

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

Bet Tzedek
Statement of Activities
For the Year Ended August 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and support			
Donated subscriptions and services	$ 5,978,474	$ -	$ 5,978,474
Private grants	1,565,569	2,075,036	3,640,605
Fundraising from special events, net of direct costs of $392,812	1,999,148	100,000	2,099,148
Federal funds	1,388,235	-	1,388,235
General contributions	685,034	145,007	830,041
Cy Pres	540,079	-	540,079
Program service fees	111,146	-	111,146
Other awards	537,317	-	537,317
Investment income appropriated for operations	249,615	-	249,615
Net assets released from restriction	2,202,624	(2,202,624)	-
Total revenues, gains and support	15,257,241	117,419	15,374,660
Functional expenses			
Program services	12,640,646	-	12,640,646
Support services			
Management and general	846,956	-	846,956
Fundraising	647,474	-	647,474
Total support services	1,494,430	-	1,494,430
Total functional expenses	14,135,076	-	14,135,076
Change in net assets from operations	1,122,165	117,419	1,239,584
Non-operating investment activity			
Interest and dividend income, net of fees	68,898	167,511	236,409
Realized and unrealized gains	93,449	236,126	329,575
Investment income appropriated for operations	(249,615)	-	(249,615)
Total non-operating investment activity	(87,268)	403,637	316,369
Change in net assets	1,034,897	521,056	1,555,953
Net assets, beginning of year	4,185,654	5,431,865	9,617,519
Net assets, end of year	$ 5,220,551	$ 5,952,921	$ 11,173,472

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

Bet Tzedek
Statement of Functional Expenses
For the Year Ended August 31, 2018

	Program Services	Management and General	Fundraising	Total
Personnel expenses	$ 5,356,208	$ 762,218	$ 547,954	$ 6,666,380
Donated subscriptions and services	5,978,474	-	-	5,978,474
Staff training and education	70,761	2,367	2,367	75,495
Books and research materials	23,468	-	-	23,468
Depreciation and amortization	65,838	3,658	3,658	73,154
Insurance	49,808	2,767	2,767	55,342
Consulting fees	94,772	5,062	5,062	104,896
Litigation costs	22,091	-	-	22,091
Professional fees	67,738	6,084	5,759	79,581
Office expenses	395,195	36,212	51,319	482,726
Rent	334,130	18,563	18,563	371,256
Temporary help	89,471	4,971	4,971	99,413
Travel	92,692	5,054	5,054	102,800
	$ 12,640,646	$ 846,956	$ 647,474	$ 14,135,076
Percentage of total	89.4 %	6.0 %	4.6 %	100.0 %

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

Bet Tzedek
Statement of Cash Flows
For the Year Ended August 31, 2018

Cash flows from operating activities	
Change in net assets	$ 1,555,953
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Realized and unrealized gain on investments	(329,575)
Investment income, net of fees	(218,064)
Change in allowance for doubtful accounts	(12,710)
Depreciation and amortization	73,154
Changes in operating assets and liabilities	
Contributions and grants receivable	(443,183)
Prepaid expenses and other assets	(44,038)
Accounts payable and accrued expenses	8,788
Deferred rent	(96,975)
Deferred revenue	298,770
Net cash provided by operating activities	792,120
Cash flows from investing activities	
Purchase of investments	(1,175,316)
Proceeds from sale of investments	749,615
Payments on notes receivable	328,000
Purchase of property and equipment	(58,643)
Net cash used in investing activities	(156,344)
Net increase in cash and cash equivalents	635,776
Cash and cash equivalents, beginning of year	2,102,257
Cash and cash equivalents, end of year	$ 2,738,033

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

1. NATURE OF OPERATIONS

For more than forty years, Bet Tzedek (the "Organization") has been a leader in the nation's legal services community, providing free comprehensive assistance, creating innovative service delivery solutions, and partnering with premier corporate, public, and non-profit organizations to ensure justice for all. Each year, the Organization assists more than 40,000 people of every racial and religious background throughout the greater Los Angeles area. In addition to providing services at its headquarters in Los Angeles, the Organization provides assistance at more than 25 senior centers, 5 courthouses, 3 food pantries, 2 hospitals, 2 homeless shelters, and various other community service locations throughout Los Angeles County. Through the Holocaust Survivors Justice Network, the Organization also serves Holocaust survivors in 30 cities nationwide. With a dedicated staff of over 65 people, the Organization makes a crucial difference in the lives of the most vulnerable members of the community.

Nationally recognized for its pro bono model, the Organization leverages the donated services of thousands of volunteers to dramatically increase the impact of its staff's work. In calendar year 2017, the Organization recruited, trained and mentored 1,286 pro bono attorneys, paralegals and law students who provided 60,578 hours of service to its clients, which management values at $17,339,159. While most of the volunteers provided these services as outside co-counsel with the support and supervision of their law firm employers, dozens of dedicated volunteers spent several thousand hours in Bet Tzedek's offices, directly supervised by Bet Tzedek's staff and performing core functions of the organization much like paid staff. In fiscal year 2018, these inhouse volunteers' contributions exceeded $4.4 million, which was audited and included in the financial statements (see Note 2 – "Donated goods and services").

The Organization maintains staff experts in more than a dozen distinct subject areas including:

- Justice for Seniors
  - Elder Abuse Prevention & Response
  - Caregiver Rights & Kinship Care
  - Holocaust Survivor Reparations & Services
  - Public Benefits
  - Housing Rights
  - Advanced Planning Documents
- Justice for Workers
  - Wage Theft & Workplace Abuse
  - Human Trafficking Remedies
  - Low Income Tax Controversies
  - Small Business Support
  - Small Claims Assistance
- Rapid Response
  - Homelessness Prevention
  - Transgender Rights
  - Immigrants Rights

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting principles

The Organization has elected early adoption of the Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements for Not-for-Profit-Entities.* The standard requires (1) that net assets be classified and presented in two categories: net assets without donor restrictions and net assets with donor restrictions and (2) additional disclosures concerning the liquidity of the Organization, among other requirements.

The Organization has also elected early adoption of the Financial Accounting Standards Board ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made.* That standard clarifies guidance about whether funds received from contracts and grants are contributions or exchange transactions. The standard further provides that when both a barrier to be overcome and a right of return exist, a donor-imposed condition exists and contribution revenue should not be recognized until the condition has been met. A probability assessment about whether the recipient is likely to meet the stipulation is not a factor when determining whether an agreement contains a barrier. The Organization has adopted the standard on a modified prospective basis, meaning that it has been applied to all arrangements that were not completed as of September 1, 2017, or were entered into after that date.

Basis of accounting and financial statement presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP") in the United States of America.

The Organization reports information regarding its financial position and activities based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Without donor restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.
- *With donor restrictions* (See Notes 10 and 12): Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with GAAP 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.

Management believes all contributions and grants receivable will be collected and an allowance for doubtful accounts has not been established at August 31, 2018.

Concentration of credit risk

Certain financial instruments held by the Organization potentially subject the Organization to concentrations of credit risk. These financial instruments include cash and cash equivalents, receivables and investments.

The Organization maintains its cash and cash equivalents accounts with high-credit, quality financial institutions; accounts at each institution are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At times during the year, cash in these accounts may exceed the federally insured amounts. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

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

Cash and cash equivalents

The Organization considers cash on deposit and temporary investments with financial institutions with an original maturity of three months or less to be cash equivalents.

Restricted cash

Restricted cash represents amounts over which donors place temporary or permanent restrictions or are donor-restricted for long-term purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses

The Organization allocated its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their functional expense classification. Expenses that are common to several functions are allocated accordingly.

Grants and revenue recognition

The Organization recognizes government grant funds as contributions rather than exchange transactions when the recipients of services are members of the general public, rather than the government agency. Government grants frequently include conditions, and the Organization recognizes support revenues when any applicable conditions are fulfilled. Conditions usually include expenditure of eligible costs. A receivable is recognized to the extent contract support earned exceeds cash advances. Conversely, a liability (refundable advance) is recorded when contract cash advances exceed support earned.

The grantor may, at its discretion, request the return of unexpended funds or apply such funds to a future grant period. In addition, if the Organization terminates its legal assistance activities, all unexpended funds are to be returned to the grantor.

Contributions and pledges

Contributions, including pledges, representing unconditional promises to give are recorded at estimated fair value, and recognized as revenue in the period received. The Organization reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Contributions and grants receivable

The Organization records contributions and grants receivable, net of allowances for uncollectible amounts, whenever there is sufficient evidence in the form of verifiable documentation that an unconditional promise was made and received. The provision for allowances for uncollectible amounts is based on management's estimate of uncollectible accounts.

Property and equipment

Property and equipment include the cost of the law library, furniture, equipment and leasehold improvements used in the operation of the Organization and related activities. Additions, improvements and renewals that materially extend the useful lives of the assets are capitalized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Depreciation and amortization of property and equipment are computed using the straight-line method over estimated useful lives as follows:

Computer equipment	3 - 5 years
Furniture and fixtures	3 - 5 years
Leasehold improvements	shorter of initial lease period or useful life of asset

When assets are retired or sold, the related costs and accumulated depreciation are removed from the accounts, and any profit or loss arising from such disposition is recorded as a gain or loss. Expenditures for repairs and maintenance are charged to expenses as incurred.

Deferred rent

Rent expenses for operating leases, which have escalating rentals over the term of the lease, are recorded on a straight-line basis over the initial lease term. The difference between rent expense and rent paid is recorded as "deferred rent."

Donated subscriptions and services

Donated subscriptions and services in the amount of $5,978,474 is comprised of $1,497,846 in donated subscriptions and $4,480,628 in donated services (see Note 1). Donated subscriptions are recorded at their fair value when an unconditional promise to give has been made or when subscriptions have been received. The value of the donation is based on appraisal and other objective bases for determining the value or, in certain instances, based on management's best estimate of the fair value. Donated services are comprised of in-kind support for contributed professional services of volunteer attorneys, paralegals and law clerks for services received from the external and internal legal professionals based on the fiscal year.

Donated services represent an essential component of Bet Tzedek's service model and are recognized as matching funds by public grant makers if the services received (a) create or enhance long-lived assets, (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Donated services are valued at rates normally charged by the volunteers for similar services. In fiscal year 2018, Bet Tzedek received 26,984 hours of donated services that were provided as part of case work overseen by Bet Tzedek attorneys, paralegals, and law students. These services are tracked and calculated on a monthly basis and reported as specific in-kind requirements for certain grants. Donated goods and services are included as support and revenue and expensed for the same amount under contributed professional services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

The Organization is exempt from federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and the corresponding sections of the California Revenue and Taxation Code.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 740, "Uncertainty in Income Taxes" ("ASC 740"), the Organization recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. To date, the Organization has not recorded any uncertain tax positions. During the year ended August 31, 2018, the Organization performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which may have an effect on its tax-exempt status. The Organization's income tax returns remain subject to examination for all tax years ended on or after August 31, 2014 with regard to all tax positions and the results reported.

Subsequent events

The Organization has evaluated events subsequent to August 31, 2018, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 3, 2019, the date the financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred, except as disclosed in Note 13, that require recognition or additional disclosure in the financial statements.

3. FAIR VALUE MEASUREMENT

Investments are measured at fair value and are classified and disclosed in one of the following categories based on inputs:

- *Level 1* - Quoted prices are available in active markets for identical instruments as of the reporting date. As the Organization's investments are comprised of investments in marketable securities with readily determinable fair values and debt securities, these would generally be classified as Level 1inputs.
- *Level 2* - Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date but are other than quoted prices in active markets as in Level 1.
- *Level 3* - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument.

3. FAIR VALUE MEASUREMENT (continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement. The Organization'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 instrument.

The majority of the Organization's investments consist of funds that have been restricted by donors or designated by the board of directors as endowment funds (see Note 10). The Organization's investments are managed as a single diversified portfolio governed by the Organization's investment policy, which sets asset allocation ranges for marketable and nonmarketable investments.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of August 31, 2018:

	Level 1	Level 2	Level 3	Total
Equities	$ 4,545,689	$ -	$ -	$ 4,545,689
Fixed income	3,438,048	-	-	3,438,048
	$ 7,983,737	$ -	$ -	7,983,737
Certificates of deposit				250,000
				$ 8,233,737

4. CONTRIBUTIONS AND GRANTS RECEIVABLE

Promises to give are scheduled to be realized in the following periods at August 31, 2018:

In less than one year	$ 1,026,221
In one to five years	5,000
	$ 1,031,221

5. CONDITIONAL GRANTS

The Organization is a recipient of a number of contracts and grants that have been determined to contain both a right of return or release and a specific performance barrier. While many of these arrangements contain barriers such as provision of a required number of hours or units or service, almost all of these arrangements are also subject to expenditures in accordance with specific budget requirements that result in the arrangements being subject to cost reimbursement requirements.

5. CONDITIONAL GRANTS (continued)

Funds promised and not yet received under conditional grants consist of the following:

Federal grants subject to cost reimbursement arrangements	$	1,016,267
Other grants subject to cost reimbursement arrangements		1,759,157
Contribution subject to matching funds		75,000
	$	2,850,424

6. PROPERTY AND EQUIPMENT

Property and equipment as of August 31, 2018 consist of the following:

Computer equipment	$	178,365
Furniture and fixtures		179,416
Leasehold improvements		25,368
		383,149
Less accumulated depreciation and amortization		(329,110)
	$	54,039

Depreciation and amortization expense for the year ended August 31, 2018 was $73,154.

7. RETIREMENT BENEFITS

Employees of the Organization hired before January 1, 2006 are eligible to receive benefits under a multiemployer defined benefit pension plan. The plan is administered by the Jewish Federation Council of Greater Los Angeles ("the plan"). Contributions are determined in accordance with the provisions of the plan. Information with respect to the Organization's proportionate share of the excess, if any, of the actuarial computed value of vested benefits over the total of the pension plan's net assets is not available from the plan's administrator.

The Multiemployer Pension Plan Amendments Act of 1980 (the "Act") significantly increased the pension responsibilities of participating employers. Under the provisions of the Act, if the plan terminates or the Organization withdraws, the Organization could be subject to a substantial withdrawal liability. The Organization has no plans to withdraw from the plan as of August 31, 2018.

The risks to the Organization of participating in this multiemployer pension plan are different from single-employer plans in the following aspects:

1. Assets contributed to the multiemployer plan by one employer must be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

7. RETIREMENT BENEFITS (continued)

3. If the Organization chooses to stop participating in some of its multiemployer plans, the Organization may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Details of the pension plan are as follows:

Pension Fund Name	EIN/ Pension Plan #	Projection Zone Status	FIP/PP Status Pending/ Implemented	Contributions to Plan from the Organization	Surcharge on Contributions	Expiration of Collective Bargaining Agreement
Basic Plan of the Jewish Federation Council of Greater Los Angeles	95-1643388/ 001	Green	Yes	$ 379,748	No	December 31, 2019

The Organization's contributions to the plan during calendar year 2018 were greater than 5% of the total contributions made. The contributions are made pursuant to a collective bargaining agreement ("CBA") expiring on December 31, 2019.

A Form 5500 has been filed for the plan for the annual period ended December 31, 2017.

A defined contribution plan is also offered to the employees. Included in pension expense is $139,253 of contributions made to the defined-contribution plan and $379,748 pertaining to the multiemployer defined-benefit plan.

8. LINE OF CREDIT

The Organization has a line of credit with a maximum loan commitment of $300,000 and an interest rate at Prime (5% at August 31, 2018) plus 0.50% per annum. Borrowings on the line are secured by the Organization's business assets. The line of credit will expire on February 10, 2019. As of August 31, 2018, there was $300,000 available on the line of credit.

9. COMMITMENTS AND CONTINGENCIES

Operating lease

The Organization leases office space under an operating lease which includes periods of abated and discounted rents and escalating payments, that expires in August 2022. Rent expense in the amount of $416,318 was incurred during fiscal year 2018.

9. COMMITMENTS AND CONTINGENCIES (continued)

Operating lease (continued)

Future minimum lease payments under the operating lease are as follows:

Year Ending August 31,	
2019	$ 480,310
2020	489,916
2021	499,715
2022	466,456
	$ 1,936,397

Litigation

The Organization, from time to time, is involved in certain legal matters which arise in the normal course of business. Management believes that any resolution of such matters will not have a material adverse effect on the Organization's financial position.

10. EFFECTS OF IMPLEMENTATION OF ASU 2016-14

As described in Note 2, during the year the Organization early adopted ASU Update 2016-14, resulting in a re-characterization of the classifications of its net assets. As a result, net asset classes previously referred to as permanently and temporarily restricted net assets are now combined into a new classification – net assets with donor restrictions.

The following table shows the effects of the accounting changes in adopting ASU 2016-14 and reclassifications of the Organization's net assets as of August 31, 2017:

	Unrestricted - Without Donor Restrictions	Temporarily Restricted	Permanently Restricted	With Donor Restrictions	Total
Net assets as previously reported, August 31, 2017	$ 4,185,654	$ 1,438,375	$ 3,993,490	$ -	$ 9,617,519
Reclassification resulting from ASU 2016-14	-	(1,438,375)	(3,993,490)	5,431,865	-
	$ 4,185,654	$ -	$ -	$ 5,431,865	$ 9,617,519

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for specified purpose	
Seniors	$ 500,833
Workers	250,000
Rapid Response	100,000
Adler Fellowships	89,220
Impact Litigation	75,000
Other programs	38,750
	1,053,803
Time restricted	
Earnings on donor-restricted endowments not yet appropriated for spending	833,741
Contributed receivable with donor-specified purpose restriction	16,100
	849,841
Donor-restricted endowment funds	
Donor corpus restricted in perpetuity	4,049,277
	4,049,277
	$ 5,952,921

12. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

Board-designated endowment	$ 2,596,453
Undesignated	2,624,098
	$ 5,220,551

13. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS

The Organization's endowment funds consist of three separate funds, of which two funds are restricted by donors and one fund is designated by the board of directors. The endowment funds were established for a variety of purposes to benefit the Organization.

Interpretation of laws and accounting guidance

The Organization's governing board has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains the original value of all gifts to the donor-restricted endowment plus unspent accumulated earnings in accordance with the applicable donor gift instrument.

13. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS (continued)

Interpretation of laws and accounting guidance (continued)

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the Organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Organization

(7) The investment policies of the Organization

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization's general policy is to diversify investments within both equity and fixed-income securities to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. The Organization believes that a balanced approach to portfolio management is required to reduce volatility and prudently maximize total return for the long term. The Organization recognizes that economic and security market conditions are not constant but ever-changing and, as a result, continuous portfolio adjustments will be required.

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce total returns (net of inflation) in excess of the endowment spend-out rate, thus allowing for real growth of endowment assets while assuming a moderate level of investment risk.

13. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS (continued)

Spending policy and how investment objectives relate to spending policy

The Organization has a policy to distribute 4.5% of the trailing three-year average of the endowment's total invested asset value each year, so long as the endowment corpus continues to exceed $2 million. In establishing this policy, the Organization considered the long-term returns expected on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment asset held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies of this nature as of August 31, 2018.

For the year ended August 31, 2018, the Organization's endowment net assets changed as follows:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance, beginning of year	$ 1,856,991	$ 4,673,209	$ 6,530,200
Net investment return			
Interest and dividends	66,564	167,511	234,075
Realized/unrealized appreciation on investments	93,829	236,126	329,955
Total investment return	160,393	403,637	564,030
Contributions	-	71,002	71,002
Provision for unfulfilled pledges	-	(15,215)	(15,215)
Fees and bank charges	(20,545)	-	(20,545)
Appropriation of endowment assets for expenditure	-	(249,615)	(249,615)
Transfer to endowment	599,614	-	599,614
	739,462	209,809	949,271
Balance, end of year	$ 2,596,453	$ 4,883,018	$ 7,479,471

13. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS (continued)

Funds (continued)

For the year ended August 31, 2018, the Organization's endowment net asset composition by type of fund was as follows:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 2,596,453	$ -	$ 2,596,453
Endowments restricted by donors in perpetuity	-	4,049,277	4,049,277
Accumulated investment gains on donor-restricted endowments	-	833,741	833,741
	$ 2,596,453	$ 4,883,018	$ 7,479,471

14. NOTES RECEIVABLE

The Organization sold interests in a limited liability company to a group which includes a board member and the board member's siblings. The purchasers remitted payments over a five-year period and paid interest at the then-applicable federal funds rate. The remaining balance of $328,000 was collected in December 2018.

15. LIQUIDITY AND AVAILABILITY

The Organization is significantly supported by contributions with donor restrictions. The Organization maintains sufficient resources to meet its responsibilities to its donors. The Organization's liquidity management policy is designed to provide that its remaining financial assets are available for operations as its general expenditures, liabilities, and other obligations come due.

The following reflects the Organization's financial assets reported on the statement of financial position, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions. Consequently, amounts available exclude net assets with donor-restrictions (see Note 10) as of August 31, 2018.

15. LIQUIDITY AND AVAILABILITY (continued)

Liquidity of financial assets as of August 31, 2018 is as follows:

Cash and cash equivalents	$ 2,738,033
Investments	8,233,737
Contributions and grants receivable	1,031,221
Notes receivable	328,000
	12,330,991
Endowment funds restricted in perpetuity	(4,049,277)
Accumulated endowment earnings not available within one year	(583,740)
Contributions receivable due past one year	(5,000)
Endowments without donor restrictions	(2,596,453)
	(7,234,470)
Net liquid assets available for operations	$ 5,096,521

Additionally, as discussed in more detail in Note 6, the Organization maintains a $300,000 line of credit, of which $300,000 remained available on August 31, 2018.

OTHER AUDIT REPORT

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Bet Tzedek
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bet Tzedek (the "Organization"), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Armanino LLP

Armanino LLP
Los Angeles, California

January 3, 2019