

**THE JEWISH FEDERATION IN THE
HEART OF NEW JERSEY
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	6
Notes to Financial Statements	7



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Jewish Federation in the Heart of New Jersey

Report on the Financial Statements

I have audited the accompanying financial statements of The Jewish Federation of Middlesex and Monmouth Counties, a NJ Non-Profit Corporation, a/k/a The Jewish Federation in the Heart of New Jersey (a nonprofit organization) which comprise the statements of financial position as of December 31, 2018 and 2017 and the related statements of activities, functional expenses, and cash flows for the years 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Jewish Federation in the Heart of New Jersey as of December 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

May 22, 2019
Hillsborough, NJ

James M. Wood, CPA

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash & cash equivalents	\$ 1,236,727	\$ 843,603
Investments		
Investment securities	9,177,955	10,425,601
Pooled investments	<u>7,075,421</u>	<u>7,416,864</u>
	16,253,376	17,842,465
Pledges receivable		
Campaign	784,840	1,423,095
Other	<u>34,791</u>	<u>69,643</u>
	819,631	1,492,738
Grants receivable	-	15,526
Prepaid expenses	40,827	66,554
Property & equipment	411,458	401,498
Works of art	71,886	71,886
Cash surrender value of life insurance	679,349	677,517
Loans receivable	<u>128,053</u>	<u>224,571</u>
	<u>\$ 19,641,307</u>	<u>\$ 21,636,358</u>
Liabilities & Net Assets		
Liabilities		
Accounts payable & accrued expenses	\$ 687,144	\$ 56,470
Allocations payable	1,330,612	1,374,585
Custodial funds	440,558	157,000
Present value of annuity obligations	<u>190,436</u>	<u>227,604</u>
Total liabilities	2,648,750	1,815,659
Net assets		
Without donor restriction		
Undesignated	1,098,100	2,087,857
Board-designated endowment	<u>3,053,393</u>	<u>3,771,397</u>
	4,151,493	5,859,254
With donor restriction	<u>12,841,064</u>	<u>13,961,445</u>
Total net assets	<u>16,992,557</u>	<u>19,820,699</u>
	<u>\$ 19,641,307</u>	<u>\$ 21,636,358</u>

See accompanying notes to financial statements.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Public support						
Annual campaign						
Gross campaign pledges	\$ 2,136,425	\$ -	\$ 2,136,425	\$ 2,808,334	\$ 125,351	\$ 2,933,685
Pledges from endowment	(29,905)	-	(29,905)	(132,621)	-	(132,621)
Provision for uncollectible pledges	(159,280)	-	(159,280)	(95,988)	-	(95,988)
Net annual campaign	1,947,240	-	1,947,240	2,579,725	125,351	2,705,076
Special campaigns	224,253	-	224,253	187,726	-	187,726
Foundations & grants	91,457	-	91,457	182,116	-	182,116
Contributions	378,280	53,708	431,988	1,141,985	78,561	1,220,546
Corporate sponsorships	21,600	-	21,600	7,500	-	7,500
	2,662,830	53,708	2,716,538	4,099,052	203,912	4,302,964
Revenue and other income						
Events	121,196	-	121,196	91,372	-	91,372
Other income	123,171	1,832	125,003	287,774	57,754	345,528
	244,367	1,832	246,199	379,146	57,754	436,900
Investment income						
Interest & dividend income	156,533	158,862	315,395	146,069	158,948	305,017
Gain (loss) on investment securities	(523,819)	(558,361)	(1,082,180)	777,572	928,156	1,705,728
Investment fees	(36,556)	(33,126)	(69,682)	(21,506)	(25,226)	(46,732)
	(403,842)	(432,625)	(836,467)	902,135	1,061,878	1,964,013
Net assets released from restrictions	743,296	(743,296)	-	601,967	(601,967)	-
Total support and revenue	3,246,651	(1,120,381)	2,126,270	5,982,300	721,577	6,703,877
Functional expenses						
Program services	4,009,979	-	4,009,979	3,949,493	-	3,949,493
Support services	944,433	-	944,433	880,453	-	880,453
	4,954,412	-	4,954,412	4,829,946	-	4,829,946
Increase (decrease) in net assets	(1,707,761)	(1,120,381)	(2,828,142)	1,152,354	721,577	1,873,931
Net assets, beginning of year	5,859,254	13,961,445	19,820,699	4,706,900	13,239,868	17,946,768
Net assets, end of year	\$ 4,151,493	\$ 12,841,064	\$ 16,992,557	\$ 5,859,254	\$ 13,961,445	\$ 19,820,699

See accompanying notes to financial statements.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR 2017

	2018					2017				
	Program Services			Supporting Services		Program Services			Supporting Services	
	Marketing	Impact	Endowment & Legacy	Management	Fund Raising	Marketing	Impact	Endowment & Legacy	Management	Fund Raising
	Outreach	Public Relations		Total	Total	Outreach	Public Relations		Total	Total
Salaries	\$ 284,004	\$ 154,911	\$ 296,914	\$ 903,650	\$ 387,278	\$ 284,004	\$ 154,911	\$ 296,914	\$ 903,650	\$ 387,278
Fringe benefits	27,409	14,950	28,655	87,210	37,375	27,409	14,950	28,655	87,210	37,375
Payroll tax	22,418	12,228	23,437	71,331	30,571	22,418	12,228	23,437	71,331	30,571
	333,831	182,089	349,006	1,062,191	455,224	333,831	182,089	349,006	1,062,191	455,224
Programmatic funding	-	-	1,142,851	1,692,135	-	-	-	549,284	-	-
Dues & memberships	65,597	19,928	351	95,139	55,992	65,597	19,928	351	95,139	55,992
Sponsorships	-	-	36,903	36,903	-	-	-	-	-	-
Scholarships	135,952	-	-	135,952	-	135,952	-	-	135,952	-
Overseas grants	480,000	-	-	480,000	-	480,000	-	-	480,000	-
Programs	151,138	51,006	17,655	243,507	143,309	151,138	51,006	23,708	243,507	143,309
Newspaper publishing	-	119,500	-	119,500	-	-	119,500	-	119,500	-
Postage	2,532	1,381	2,647	8,056	3,452	2,532	1,381	1,496	8,056	3,452
Telephone	3,325	1,813	3,475	10,577	4,533	3,325	1,813	1,964	11,508	4,533
Insurance	1,343	1,532	5,577	11,939	14,991	1,343	1,532	3,487	15,110	14,991
Supplies, printing, & stationery	1,057	1,292	4,666	9,994	7,054	1,057	1,292	2,979	26,930	7,054
Occupancy	11,272	6,148	11,784	35,865	15,370	11,272	6,148	6,661	84,048	15,370
Professional fees	6,035	1,991	8,441	22,040	157,715	6,035	1,991	5,573	179,755	157,715
Computer	8,204	4,475	8,577	26,104	11,188	8,204	4,475	4,848	37,292	11,188
Board expenses	1,387	757	1,450	4,414	1,892	1,387	757	820	6,306	1,892
Total expenses before depreciation	1,201,673	391,912	1,593,383	3,994,316	937,720	1,201,673	391,912	807,348	4,932,036	937,720
Depreciation	4,923	2,685	5,146	15,663	6,713	4,923	2,685	2,909	22,376	6,713
Total expenses	\$ 1,206,596	\$ 394,597	\$ 1,598,529	\$ 4,009,979	\$ 944,433	\$ 1,206,596	\$ 394,597	\$ 810,257	\$ 4,954,412	\$ 944,433

See accompanying notes to financial statements.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

2017

	Program Services				Supporting Services				Total Expenses
	Outreach	Marketing Public Relations	Impact	Endowment & Legacy	Total	Management	Fund Raising	Total	
Salaries	\$ 252,454	\$ 138,850	\$ 265,077	\$ 151,473	\$ 807,854	\$ 151,473	\$ 302,945	\$ 454,418	\$ 1,262,272
Fringe benefits	21,756	11,966	22,844	13,054	69,620	13,054	26,108	39,162	108,782
Payroll tax	3,875	5,813	19,375	12,594	41,657	18,406	37,007	55,413	97,070
	<u>278,085</u>	<u>156,629</u>	<u>307,296</u>	<u>177,121</u>	<u>919,131</u>	<u>182,933</u>	<u>366,060</u>	<u>548,993</u>	<u>1,468,124</u>
Programmatic funding	-	-	1,133,480	628,957	1,762,437	-	-	-	1,762,437
Dues & memberships	157,857	-	-	-	157,857	-	-	-	157,857
Sponsorships	39,965	-	-	-	39,965	-	-	-	39,965
Scholarships	164,550	-	-	-	164,550	-	-	-	164,550
Overseas grants	455,000	-	-	-	455,000	-	-	-	455,000
Programs	129,045	1,600	52,649	16,552	199,846	-	120,560	120,560	320,406
Newspaper publishing	-	116,470	-	-	116,470	-	-	-	116,470
Postage	3,685	2,027	1,842	2,211	9,765	2,211	6,448	8,659	18,424
Telephone	1,972	1,085	2,071	1,183	6,311	1,183	2,367	3,550	9,861
Insurance	971	1,457	4,857	3,157	10,442	6,756	9,228	15,984	26,426
Supplies, printing, & stationery	1,487	1,377	4,591	2,984	10,439	9,937	33,108	43,045	53,484
Occupancy	4,863	4,343	12,044	7,572	28,822	12,288	20,416	32,704	61,526
Professional fees	10,591	3,594	13,822	16,731	44,738	26,512	47,620	74,132	118,870
Computer	2,209	1,973	5,471	3,439	13,092	5,581	9,273	14,854	27,946
Board expenses	380	121	402	261	1,164	6,138	1,096	7,234	8,398
Total expenses before depreciation	<u>1,250,660</u>	<u>290,676</u>	<u>1,538,525</u>	<u>860,168</u>	<u>3,940,029</u>	<u>253,539</u>	<u>616,176</u>	<u>869,715</u>	<u>4,809,744</u>
Depreciation	<u>1,597</u>	<u>1,426</u>	<u>3,955</u>	<u>2,486</u>	<u>9,464</u>	<u>4,034</u>	<u>6,704</u>	<u>10,738</u>	<u>20,202</u>
Total expenses	<u>\$ 1,252,257</u>	<u>\$ 292,102</u>	<u>\$ 1,542,480</u>	<u>\$ 862,654</u>	<u>\$ 3,949,493</u>	<u>\$ 257,573</u>	<u>\$ 622,880</u>	<u>\$ 880,453</u>	<u>\$ 4,829,946</u>

See accompanying notes to financial statements.

THE JEWISH FEDERATION IN THE HEARTH OF NEW JERSEY
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (2,828,142)	\$ 1,873,931
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	22,376	20,202
Provision for uncollectible pledges	159,280	95,988
Allocation liabilities recovered	(94,311)	(270,023)
(Gain) loss on investment securities	1,082,180	(1,705,728)
(Increase) decrease in:		
Pledges receivable, regular campaign	478,975	(3,316)
Pledges receivable, other	34,852	(18,679)
Grants receivable	15,526	(15,526)
Prepaid expenses	25,727	(57,229)
Loans receivable	96,518	99,809
Cash surrender value - life insurance	(1,832)	(57,753)
Increase (decrease) in:		
Accounts payable, accrued expenses, & allocations payable	586,706	(263,279)
Custodial funds	283,558	157,000
Cash used in operating activities	<u>(138,587)</u>	<u>(144,603)</u>
Cash flows from investing activities		
Acquisition of property & equipment	(32,336)	(9,950)
Acquisition of investment securities	(896,438)	(3,614,674)
Proceeds from sales & maturities of investment securities	<u>1,497,653</u>	<u>3,841,974</u>
Cash provided by investing activities	568,879	217,350
Cash flows from financing activities		
Present value of future annuity obligations	<u>(37,168)</u>	<u>(27,581)</u>
Cash used in financing activities	<u>(37,168)</u>	<u>(27,581)</u>
Net increase in cash & cash equivalents	393,124	45,166
Cash & cash equivalents		
Beginning of year	<u>843,603</u>	<u>798,437</u>
End of year	\$ <u><u>1,236,727</u></u>	\$ <u><u>843,603</u></u>

See accompanying notes to financial statements.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

(1) Nature of Organization

The Jewish Federation of Middlesex and Monmouth Counties, a New Jersey Non-Profit Corporation, also known as The Jewish Federation in the Heart of New Jersey (the Federation) was formed on January 1, 2015 as a result of the merger of The Jewish Federation of Greater Middlesex County and The Jewish Federation of Greater Monmouth County. The Federation is a central coordinating, fundraising, planning, budgeting, and community relations agency for the Jewish community in Middlesex and Monmouth Counties, New Jersey. The Federation's income is derived primarily from pledges of individuals and other parties located in the same geographic area. In addition, The Federation serves to maintain all social and welfare services, insuring the survival and continuity of The Jewish family at home and abroad.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The Federation's financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and the changes therein are classified and reported as follows:

Without donor restriction - Net assets that are not subject to donor imposed restrictions or law.

With donor restriction - Net assets subject to donor imposed restrictions or law wherein (a) the restriction will be met by actions of the Federation and/or the passage of time or (b) the principal will be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restriction unless their use is limited by explicit donor imposed restrictions or by law. Expenses are reported as decreases in net assets.

Accounting estimates

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

Fair value of financial instruments

Financial instruments are carried at fair value which is defined as 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 Federation uses various valuation approaches based on a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are readily available market data provided by independent sources and widely accepted by market participants to price assets and liabilities. Unobservable inputs are those that apply to funds and the underlying assets/liabilities that do not trade regularly in the open market, such as real estate funds, private equity funds, and hedge funds. Absent an active market for these investments, pricing inputs require that valuation estimates be based on the best information available in the circumstances, using informed judgment and experience. The valuation hierarchy is broken down into three levels based on the observability of inputs, as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets. Valuation adjustments and block discounts are not applied to Level 1 instruments. Because valuations are based on quoted prices that are readily and regularly available in the active market, valuation of these products does not entail subjective judgement.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

Level 2 - Valuations based on one or more quoted price for investments that are not exchange-traded, but for which all significant inputs are observable, either directly or indirectly, and for which transaction activity is unrestricted and occurs on a regular basis (e.g. individual fixed income securities as well as commingled stock and bond funds).

Level 3 - Valuations based on (a) inputs that are unobservable and significant to the overall fair value measurements, as is the case in all funds invested in real estate or private equity, and in some hedge funds; and/or (b) inputs that are observable but apply to assets in commingled vehicles from which the Federation cannot fully redeem within 30 days.

The availability of observable inputs can vary from asset to asset. It is affected by a wide variety of factors, including, but not limited to: the type of instrument, whether it is new and not yet established in the marketplace, the liquidity of markets, other characteristics particular to the investment. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires some degree of judgment. In determining fair value, investments are categorized as Level 3 if judgement is applied to the valuation process, and/or The Federation could not fully redeem the investment within 30 days of The Federation's measurement date.

In certain cases, the inputs used to measure the fair value of an investment entity may fall into different levels of the fair value hierarchy. In such cases, the entire investment has been assigned to the lowest significant level applicable to the valuation of such investments.

The Federation's financial statements use prices and inputs that were current as of the measurement date. Following is a description of the valuation techniques used for Level 1, 2 and 3 assets measured at fair value on dates of the statements of financial position.

Cash equivalents - The carrying value of money market funds approximates fair value due to their short term nature. Cash equivalents are classified as Level 1.

Government of Israel Bonds - Government of Israel bonds may be transferred to the Jewish Federations of North America for face value; they are classified as Level 2.

Mutual funds - Investments in mutual funds are measured at fair value using quoted market prices and are classified as Level 1.

Exchange-traded funds - . Investments in exchange-traded funds are measured at fair value using quoted market prices and are classified as Level 1.

Pooled investments - The Federation allocates a portion of its investments to the Jewish Community Endowment Pool, LLP. The Federation has an ownership share interest in the investment pool which is revalued on a monthly basis to market. The Jewish Community Endowment Pool, LLP monitors the valuation policies and controls for these funds. Withdrawals are made based on the ownership interest shares times the per share market value of the pool at every valuation date and are not subject to any significant withdrawal limitations. The investment in the Jewish Community Endowment Pool, LLP is classified as Level 2.

Concentrations of credit and market risk

Financial instruments that potentially expose The Federation to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash and cash equivalents are maintained at high quality financial institutions and credit exposure is limited to any one institution. The Federation has not experienced any losses on its cash and cash equivalents. The Federation's investments are generally diversified among issuers.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

Cash and cash equivalents

For the purposes of the statement of cash flows, all demand deposit accounts, money market funds and certificates of deposit with original maturities of 90 days or less are classified as cash and cash equivalents for financial statement purposes.

Investment securities

Investment securities are stated at fair value in the statement of financial position. All interest, dividends, realized gains and losses, and unrealized gains and losses are reported in the statement of activities as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulations or by law.

Pooled investments

Investments with the Jewish Community Endowment Pool, LLP are carried as pooled investments. As a participant in the pooled funds, the Federation's ownership interest is based on the allocation of the fair value of the Federation's units to the total fair value of the investment pool. The pool is revalued periodically; investment income and gains or losses are allocated to participants based on their units. All investments are measured at fair value in the statements of financial position. The change in fair value of pooled funds is included in investment income as net assets without donor restriction unless the income or loss is restricted by donor or law.

Custodial funds

Under a custodial arrangement, the Federation holds funds of three area nonprofit organizations which are included in the Federation's investment portfolio. Investment earnings are credited to the custodial liability due to the organizations.

Charitable gift annuities

The Federation has received contributions in the form of charitable gift annuities for which the Federation is the sole beneficiary and the gift administrator. The Federation will receive the remaining value of the charitable gift annuities upon the death of the donors. The underlying investments are included in the Federation's investment securities; the related payable for residual distributions due to the donors is included in the Federation's statement of financial position as it is making the periodic distributions to the donors.

Beneficial interests

The Federation is the beneficiary of one charitable remainder trust. The Federation will receive the remaining value of the trust upon the death of the donor. The underlying investments are included in the Federation's investment securities; the related payable for residual distributions due to the donor is included in the Federation's statement of financial position as it is making the periodic distributions to the donors.

Pledges and revenue recognition

The Federation records pledge revenue when pledges are made and classifies them either with or without donor restriction depending on the existence and nature of donor stipulation. Pledges received for campaign years subsequent to the current fiscal year are recorded as restricted due to the associated donor-imposed time restriction. Upon the expiration of donor stipulations, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the accompanying statements of activities as net assets released from restrictions.

Allowance for uncollectible pledges

An estimated allowance for uncollectible pledges is provided for each group of pledges receivable, based on historical trends, management's assessment, and current economic data.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs are charged directly to expense; major replacements and betterments are capitalized and depreciated over the estimated useful life of the assets using the straight line method of depreciation.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

Works of art

Judaic works of art were received as contributions and are carried at their estimated value on the date received.

Programmatic funding

Programmatic funding is recorded as an expense when the Federation commits to specific terms and amounts with the benefitting agencies.

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Expenses are charged to each program based on direct expenditures incurred. Management and fund raising expenses are charged as supporting services. Indirect costs are allocated to functions based on employee hours, occupancy square footage, or other applicable bases of allocation.

Loans receivable

Loans are made to local nonprofit organizations in need of resources to sustain their operations. The loans are interest-free. An allowance for uncollectibility is recorded against those loans for which payment is doubtful.

Income taxes

The Jewish Federation in the Heart of New Jersey qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for income taxes. All applicable returns for the exempt organization are filed in a timely manner. The Federation is liable for payment of payroll tax as an employer; all such amounts are paid in a timely manner as required by state and federal regulations.

The Federation's accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable and to disclose contingencies relating to uncertain tax positions when a liability is not probable or estimable. Management is not aware of any violation of tax status or exposure to uncertain tax positions that could require disclosure or which could affect its liquidity or future cash flows. The Federation's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended December 31, 2018, 2017, 2016 and 2015, are subject to examination by the IRS, generally for three years after they were filed. The Federation's New Jersey Charities Registration, Form CRI-300R, is also subject to examination for those same periods.

New accounting pronouncements

During the year ended December 31, 2018, the Federation implemented Financial Accounting Standards Board (FASB) Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). Accordingly, unrestricted net assets have been retitled as net assets without donor restriction. Temporarily restricted and permanent restricted net assets have been retitled as net assets with donor restrictions. Additional disclosures are included in the areas of liquidity and net assets.

The Financial Accounting Standards Board (FASB) issued Update No. 2016-02, *Leases* (Topic 842), in February 2016. Under this guidance, lessees are required to record most leases on their balance sheets but recognize expenses in the income statement. All entities will classify leases to determine how to recognize lease-related revenue and expense. In applying this guidance, entities must also determine whether an arrangement contains a lease or service agreement. Disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The amendments in this Update are effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. Management is evaluating the impact of this updated guidance on its financial statements.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

The FASB issued Update No. 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*, in November 2016, requiring a statement of cash flows to explain the change during the period in total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash or cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for fiscal years beginning after December 31, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, and the Update should be applied with a retrospective transition method to each period presented. Management is evaluating the impact the updated standard will have on the financial statements.

The FASB issued Update No. 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*, in June 2018. The amendments in the update assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update are effective fiscal years beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. Management is evaluating the impact the updated standard will have on the financial statements.

Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform with current year presentation.

(2) Investment Securities

As of December 31, 2018 and 2017 investment securities consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
<u>December 31, 2018</u>		
Operating		
Government of Israel bonds	\$ 542,500	\$ 542,500
Endowments		
Government of Israel bonds	220,000	220,000
Mutual funds		
Fixed income	3,962,048	3,620,756
Domestic equity	1,497,327	2,756,519
International equity	1,936,602	1,837,388
Exchange-traded funds		
Fixed income	88,249	87,799
Equity	97,837	112,993
	<u>7,802,063</u>	<u>8,635,455</u>
	<u>\$8,344,563</u>	<u>\$9,177,955</u>
<u>December 31, 2017</u>		
Operating		
Government of Israel bonds	\$ 548,500	\$ 548,500
Endowments		
Government of Israel bonds	220,000	220,000
Mutual funds		
Fixed income	3,849,249	3,866,922
Domestic equity	2,239,740	3,855,597
International equity	1,415,719	1,670,297
Exchange-traded funds		
Fixed income	103,941	104,772
Equity	108,821	159,513
	<u>7,937,470</u>	<u>9,877,101</u>
	<u>\$8,485,970</u>	<u>\$10,425,601</u>

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

(3) Pooled Investments

Pooled investments are funds invested with the Jewish Community Endowment Pool, LLP which holds the following types of securities: domestic equity, international equity, private equity/venture capital, absolute return/hedged equity, credit related, real assets, fixed income, and money market funds. As a participant in pooled funds, the Federation's ownership interest is based on the allocation of the Federation's units to the total fair value of the investment pool. The pool is revalued periodically, and income and gains or losses are allocated to participants based on their units. All investments are measured at fair value in the statement of financial position. The change in fair value is included in investment income as unrestricted net assets unless the income or loss is restricted by donor or law. The cost and fair value of pooled investments is as follows as of December 31, 2018 and 2017:

	Cost	Fair Value
December 31, 2018	<u>\$6,200,810</u>	<u>\$7,075,421</u>
December 31, 2017	<u>\$6,201,805</u>	<u>\$7,416,864</u>

(4) Recurring Fair Value Measurements

The following table summarizes financial instruments which are recorded at fair value on a recurring basis as of December 31, 2018 and 2017:

	Level 1	Level 2	Level 3	Total
<u>December 31, 2018</u>				
Cash equivalents	\$ 5,094	\$ -	\$ -	\$ 5,094
Government of Israel bonds	-	762,500	-	762,500
Mutual funds	8,214,663	-	-	8,214,663
Exchange-traded funds	200,792	-	-	200,792
Pooled investments	-	7,075,421	-	7,075,421
	<u>\$8,420,549</u>	<u>\$7,837,921</u>	<u>\$ -</u>	<u>\$16,258,470</u>
<u>December 31, 2017</u>				
Cash equivalents	\$ 3,515	\$ -	\$ -	\$ 3,515
Government of Israel bonds	-	768,500	-	768,500
Mutual funds	9,392,816	-	-	9,392,816
Exchange-traded funds	264,285	-	-	264,285
Pooled investments	-	7,416,864	-	7,416,864
	<u>\$ 9,660,616</u>	<u>\$8,185,364</u>	<u>\$ -</u>	<u>\$17,845,980</u>

The assets summarized in the table above are included in the accompanying statements of financial position in the following line items:

	2018	2017
Cash & cash equivalents	\$ 1,236,727	\$ 843,603
Investment securities	9,177,955	10,425,601
Pooled investments	<u>7,075,421</u>	<u>7,416,864</u>
	<u>\$17,490,103</u>	<u>\$18,686,068</u>

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

(5) **Campaign Pledges Receivable**

As of December 31, 2018 and 2017, campaign pledges receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Pledges receivable	\$1,149,814	\$1,815,249
Allowance for uncollectible pledges	(364,974)	(392,154)
Net pledges receivable	<u>\$ 784,840</u>	<u>\$1,423,095</u>

(6) **Property and Equipment**

As of December 31, 2018 and 2017, property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Land	\$105,300	\$105,300
Building	479,700	479,700
Building improvements	187,288	180,263
Furniture and equipment	<u>73,628</u>	<u>48,317</u>
	845,916	813,580
Less accumulated depreciation	(434,458)	(412,082)
	<u>\$411,458</u>	<u>\$401,498</u>

(7) **Loans Receivable**

As of December 31, 2018 and 2017, loans receivable consist of the following:

	<u>2018</u>	<u>2017</u>
<u>Nonprofit Organizations</u>		
Jewish Community Center of Middlesex County	\$ 84,000	\$ 84,000
Jewish Family Service	119,183	130,183
Rabbi Pesach Raymon Yeshiva	-	83,333
Jewish Community Center Jersey Shore	<u>5,000</u>	<u>5,000</u>
	208,183	302,516
Allowance for uncollectible loans	(84,000)	(84,000)
	124,183	218,516
<u>Hebrew Free Loan Federation Fund</u>		
Loans to individuals	<u>3,870</u>	<u>6,055</u>
	<u>\$128,053</u>	<u>\$224,571</u>

In 2009, the Federation advanced a total of \$220,183 to Jewish Family Services, formerly Jewish Family & Vocational Service of Middlesex County, to assist with cash flow needs. The loan is being repaid at a rate of \$1,000 per month, without interest.

During the year ended December 31, 2015, the Federation loaned \$250,000 to Rabbi Pesach Raymon Yeshiva. In accordance with the terms, the loan was repaid over the years ended December 31, 2016 through 2018.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

(8) **Contingencies and Commitments**

Cash Surrender Value - Life Insurance

The Federation is the owner and beneficiary of 16 life insurance policies which insure the lives of various donors. The policies' face amounts total approximately \$3.4 million. As of December 31, 2018 and 2017, the cash surrender values of the policies total \$679,349 and \$677,517, respectively. Upon death of the insureds, the proceeds from the policies are to endow the campaign pledges of those donors. The cash surrender value is included in net assets with donor restriction.

Leases

The Federation leases certain equipment under operating leases. Future minimum lease obligations for the years ending December 31 are as follows:

2019	\$ 11,843
2020	10,927
2021	3,313
2022	2,157
2023	<u>2,157</u>
	<u>\$30,397</u>

For the years ended December 31, 2018 and 2017, rent expense totaled \$10,676 and \$8,676, respectively.

(9) **Profit Sharing Plan**

The Federation sponsors a profit sharing plan covering all employees who are employed 21 or more hours per week. The Federation contributions for the years ended December 31, 2018 and 2017 were \$47,114 and \$47,211, respectively.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

(10) Endowment Funds

The Federation's endowment consists of approximately 90 individual funds established for a variety of purposes. They include funds without donor-imposed restrictions which are board-designated to the endowment, funds with donor-imposed use restrictions, and funds wherein the original contribution (corpus) is restricted in perpetuity. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Funds received with donor-imposed restrictions are managed individually in order to comply with the respective terms.

The Federation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of New Jersey as requiring the preservation of the fair value of the original gift as of the date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Federation maintains in perpetuity (1) the original value of gifts, (2) the original value of subsequent gifts, and (3) accumulations to the permanent endowment, if any, as stipulated by the applicable gift instrument. The remaining portion of the donor-restricted endowment fund, not classified as net assets maintained in perpetuity, is classified as net assets with use restrictions or time-imposed restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, The Federation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of various funds, (2) the purposes of the donor-restricted endowment funds, (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 Federation, and (7) The Federation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Federation has adopted investment and spending policies, approved by the Board of Trustees for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the longer term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions while growing the funds if possible. Actual returns in any given year are subject to market fluctuations. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes, and strategies are managed not to expose the fund to unacceptable levels of risk.

Spending Policy

The Federation has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value of the prior 3 years. From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Federation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018 and 2017, there were deficiencies of \$519,976 and \$145,578, respectively, in funds with original gift values of \$4,108,486

Endowment net asset composition by type of fund as of December 31, 2018 and 2017 and activity for the year then ended is as follows:

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, December 31, 2016	\$2,535,551	\$13,114,004	\$15,649,555
Investment return, net	883,085	1,061,878	1,944,963
Contributions	1,131,450	78,561	1,210,011
Other income	-	57,754	57,754
Distributions & appropriations			
pursuant to spending policy	(778,689)	(476,103)	(1,254,792)
Endowment net assets, December 31, 2017	3,771,397	13,836,094	17,607,491
Investment return, net	(424,587)	(432,625)	(857,112)
Contributions	370,513	53,708	424,221
Other income	-	1,832	1,832
Distributions & appropriations			
pursuant to spending policy	(663,930)	(617,945)	(1,281,875)
Endowment net assets, December 31, 2018	<u>\$3,053,393</u>	<u>\$12,841,064</u>	<u>\$15,894,457</u>

(11) Net Assets

As of December 31, 2018 and 2017, net assets with donor restrictions are as follows:

	<u>2018</u>	<u>2017</u>
Subject to the passage of time		
Pledges for future periods	\$ -	\$ 125,351
Cash surrender value of life insurance	679,349	677,517
Split-interest agreements	<u>147,638</u>	<u>145,088</u>
	826,987	947,956
Subject to specified use	7,869,023	8,868,435
Corpus restricted in perpetuity	<u>4,145,054</u>	<u>4,145,054</u>
	<u>\$12,841,064</u>	<u>\$13,961,445</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Expiration of time restrictions	\$125,351	\$125,864
Satisfaction of specified use restrictions	<u>617,945</u>	<u>476,103</u>
Total	<u>\$743,296</u>	<u>\$601,967</u>

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

(12) Liquidity & Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash & cash equivalents	\$ 1,237,537	\$ 843,603
Investment securities	9,177,145	10,425,601
Pooled investments	7,075,421	7,416,864
Pledges receivable, net	<u>819,631</u>	<u>1,492,738</u>
Total financial assets	18,309,734	20,178,806
Less:		
Custodial funds	440,558	157,000
Present value of annuity obligations	190,436	227,604
Board-designated (endowment) net assets	3,053,393	3,771,397
Net assets with donor restriction	<u>12,841,064</u>	<u>13,961,445</u>
	<u>16,525,451</u>	<u>18,117,446</u>
Financial assets available for general expenditure	<u>\$ 1,784,283</u>	<u>\$ 2,061,360</u>

The Federation's endowment funds consist of donor-restricted and board-designated funds. Income from donor-restricted endowments is available for specific purposes and is not available for general expenditure.

As part of the Federation's liquidity management plan, cash in excess of daily requirements is invested in inter-bearing demand deposits.

(13) Subsequent Events

Management has evaluated subsequent events through May 22, 2019 the date which the financial statements were available to be issued.