

**THE JEWISH FEDERATION IN THE  
HEART OF NEW JERSEY  
FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY  
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YEARS ENDED DECEMBER 31, 2017 AND 2016**

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## 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, 2017 and 2016 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 audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit 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, 2017 and 2016 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.

November 9, 2018  
Hillsborough, NJ

*James M. Wood, CPA*

**THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash & cash equivalents	\$ 843,603	\$ 798,437
Investments		
Investment securities	10,425,601	12,475,963
Pooled investments	7,416,864	3,888,074
	<u>17,842,465</u>	<u>16,364,037</u>
Pledges receivable		
Campaign	1,423,095	1,515,767
Other	69,643	50,964
	<u>1,492,738</u>	<u>1,566,731</u>
Grants receivable	15,526	-
Prepaid expenses	66,554	9,325
Property & equipment	401,498	411,750
Works of art	71,886	71,886
Cash surrender value of life insurance	677,517	619,764
Loans receivable	224,571	324,380
	<u>\$ 21,636,358</u>	<u>\$ 20,166,310</u>
<b>Liabilities &amp; Net Assets</b>		
<b>Liabilities</b>		
Accounts payable & accrued expenses	\$ 56,470	\$ 246,118
Allocations payable	1,374,585	1,718,239
Custodial funds - Jewish Cemetery Management Corp.	157,000	-
Present value of annuity obligations	227,604	255,185
	<u>1,815,659</u>	<u>2,219,542</u>
<b>Total liabilities</b>	<b>1,815,659</b>	<b>2,219,542</b>
<b>Net assets</b>		
Unrestricted		
Operating	2,087,857	2,171,349
Endowment	3,771,397	2,535,551
Temporarily restricted		
Operating	125,351	125,864
Endowment	9,691,040	8,969,086
Permanently restricted		
Endowment	4,145,054	4,144,918
	<u>19,820,699</u>	<u>17,946,768</u>
<b>Total net assets</b>	<b>19,820,699</b>	<b>17,946,768</b>
	<u>\$ 21,636,358</u>	<u>\$ 20,166,310</u>

See accompanying notes to financial statements.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	2017						2016 Total
	Unrestricted		Temporarily Restricted		Permanently Restricted		
	Operating	Endowment Fund	Operating	Endowment Fund	Endowment Fund	Total	
Public support							
Annual campaign							
Gross campaign pledges	\$ 2,808,334	\$ -	\$ 2,808,334	\$ -	\$ 125,351	\$ 2,933,685	\$ 3,070,133
Pledges from endowment	(132,621)	-	(132,621)	-	-	(132,621)	(91,684)
Provision for uncollectible pledges	(95,988)	-	(95,988)	-	-	(95,988)	(89,817)
Net annual campaign	2,579,725	-	2,579,725	-	125,351	2,705,076	2,888,632
Special campaigns							
Foundations & grants	187,726	-	187,726	-	-	187,726	244,959
Contributions	182,116	-	182,116	-	-	182,116	149,775
Corporate sponsorships	10,535	1,131,450	1,141,985	78,425	136	1,220,546	386,623
Total public support	7,500	-	7,500	-	-	7,500	1,000
	2,967,602	1,131,450	4,099,052	78,425	203,776	4,302,964	3,670,989
Revenue and other income							
Events	91,372	-	91,372	-	-	91,372	130,057
Interest & dividend income	19,050	127,019	146,069	158,948	158,948	305,017	313,812
Gain on investment securities	-	777,572	777,572	928,156	928,156	1,705,728	708,871
Other income	287,774	-	287,774	57,754	57,754	345,528	381,027
	398,196	904,591	1,302,787	1,144,858	1,144,858	2,447,645	1,533,767
Net assets released from restrictions	1,427,388	(800,195)	627,193	(125,864)	(627,193)	-	-
Total support and revenue	4,793,186	1,235,846	6,029,032	(513)	721,441	6,750,609	5,204,756
Functional expenses							
Program services	3,996,225	-	3,996,225	-	-	3,996,225	4,048,002
Support services	880,453	-	880,453	-	-	880,453	983,429
	4,876,678	-	4,876,678	-	-	4,876,678	5,031,431
Increase (decrease) in net assets	(83,492)	1,235,846	1,152,354	(513)	721,441	1,873,931	173,325
Net assets, beginning of year	2,171,349	2,535,551	4,706,900	125,864	9,094,950	17,946,768	17,773,443
Net assets, end of year	\$ 2,087,857	\$ 3,771,397	\$ 5,859,254	\$ 125,351	\$ 9,816,391	\$ 19,820,699	\$ 17,946,768

See accompanying notes to financial statements.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016

	Unrestricted			Temporarily Restricted			Permanently Restricted	
	Operating	Endowment Fund	Total	Operating	Endowment Fund	Total	Endowment Fund	Total
Public support								
Annual campaign								
Gross campaign pledges	\$ 2,944,269	\$ -	\$ 2,944,269	\$ 125,864	\$ -	\$ 125,864	\$ -	\$ 3,070,133
Pledges from endowment	(91,684)	-	(91,684)	-	-	-	-	(91,684)
Provision for uncollectible pledges	(89,817)	-	(89,817)	-	-	-	-	(89,817)
Net annual campaign	2,762,768	-	2,762,768	125,864	-	125,864	-	2,888,632
Special campaigns	244,959	-	244,959	-	-	-	-	244,959
Foundations & grants	149,775	-	149,775	-	-	-	-	149,775
Contributions	6,354	345,232	351,586	-	34,785	34,785	252	386,623
Corporate sponsorships	1,000	-	1,000	-	-	-	-	1,000
Total public support	3,164,856	345,232	3,510,088	125,864	34,785	160,649	252	3,670,989
Revenue and other income								
Events	130,057	-	130,057	-	-	-	-	130,057
Interest & dividend income	19,743	134,850	154,593	-	159,219	159,219	-	313,812
Gain on investment securities	-	368,344	368,344	-	388,106	388,106	-	756,450
Other income	256,112	121,104	377,216	-	3,811	3,811	-	381,027
	405,912	624,298	1,030,210	-	551,136	551,136	-	1,581,346
Net assets released from restrictions	1,248,203	(688,734)	559,469	(162,002)	(397,467)	(559,469)	-	-
Total support and revenue	4,818,971	280,796	5,099,767	(36,138)	188,454	152,316	252	5,252,335
Functional expenses								
Program services	4,095,581	-	4,095,581	-	-	-	-	4,095,581
Support services	983,429	-	983,429	-	-	-	-	983,429
	5,079,010	-	5,079,010	-	-	-	-	5,079,010
Increase (decrease) in net assets	(260,039)	280,796	20,757	(36,138)	188,454	152,316	252	173,325
Net assets, beginning of year	2,431,388	2,254,755	4,686,143	162,002	8,780,632	8,942,634	4,144,666	17,773,443
Net assets, end of year	\$ 2,171,349	\$ 2,535,551	\$ 4,706,900	\$ 125,864	\$ 8,969,086	\$ 9,094,950	\$ 4,144,918	\$ 17,946,768

See accompanying notes to financial statements.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	2017						2016	
	Program Services			Supporting Services			Total	
	Outreach	Marketing Public Relations	Impact	Endowment	Total	Management	Raising	Total Expenses
Salaries	\$ 252,454	\$ 138,850	\$ 265,077	\$ 151,473	\$ 807,854	\$ 151,473	\$ 302,945	\$ 1,262,272
Fringe benefits	21,756	11,966	22,844	13,054	69,620	13,054	26,108	108,782
Payroll tax	3,875	5,813	19,375	12,594	41,657	18,406	37,007	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>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	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	18,424
Telephone	1,972	1,085	2,071	1,183	6,311	1,183	2,367	9,861
Insurance	971	1,457	4,857	3,157	10,442	6,756	9,228	26,426
Supplies, printing, & stationery	1,487	1,377	4,591	2,984	10,439	9,937	33,108	53,484
Occupancy	4,863	4,343	12,044	7,572	28,822	12,288	20,416	61,526
Professional & investment fees	10,591	3,594	13,822	63,463	91,470	26,512	47,620	165,602
Computer	2,209	1,973	5,471	3,439	13,092	5,581	9,273	27,946
Board expenses	380	121	402	261	1,164	6,138	1,096	8,398
Disposition of fixed assets	-	-	-	-	-	-	-	-
Total expenses before depreciation	<u>1,250,660</u>	<u>290,676</u>	<u>1,538,525</u>	<u>906,900</u>	<u>3,986,761</u>	<u>253,539</u>	<u>616,176</u>	<u>4,856,476</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>20,202</u>
Total expenses	<u>\$ 1,252,257</u>	<u>\$ 292,102</u>	<u>\$ 1,542,480</u>	<u>\$ 909,386</u>	<u>\$ 3,996,225</u>	<u>\$ 257,573</u>	<u>\$ 622,880</u>	<u>\$ 4,876,678</u>
								<u>\$ 5,031,431</u>

See accompanying notes to financial statements.

THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2016

	Program Services					Supporting Services				Total Expenses
	Outreach	Newspaper	Planning	Endowment	JCRC	Pastoral Care	Management	Raising	Total	
Salaries	\$ 262,536	\$ 148,701	\$ 244,491	\$ 164,646	\$ 39,199	\$ 16,346	\$ 161,996	\$ 333,003	\$ 494,999	\$ 1,370,918
Fringe benefits	22,807	12,918	21,239	14,303	3,405	1,420	14,073	28,928	43,001	119,093
Payroll tax	24,353	13,794	22,679	15,273	3,636	1,516	15,028	30,890	45,918	127,169
	<u>309,696</u>	<u>175,413</u>	<u>288,409</u>	<u>194,222</u>	<u>46,240</u>	<u>19,282</u>	<u>191,097</u>	<u>392,821</u>	<u>583,918</u>	<u>1,617,180</u>
Programmatic funding	1,571,474	-	-	438,653	-	-	-	-	-	2,010,127
Dues & memberships	137,284	-	-	-	-	-	-	-	-	137,284
Sponsorships	36,208	-	-	-	-	-	-	-	-	36,208
Scholarships	78,596	-	-	-	-	-	-	-	-	78,596
Targeted overseas grants	240,000	-	-	-	-	-	-	-	-	240,000
Programs	164,190	2,538	11,716	17,954	3,876	1,705	10,857	79,139	89,996	291,975
Publishing	-	132,981	-	-	-	-	-	-	-	132,981
Postage	786	1,146	3,248	2,484	573	-	3,809	9,068	12,877	21,114
Telephone	525	713	2,020	1,545	357	-	3,993	6,990	10,983	16,143
Insurance	1,061	1,592	4,509	3,448	796	-	5,040	10,080	15,120	26,526
Supplies, printing, & stationery	1,473	1,109	3,142	2,439	702	350	9,105	42,348	51,453	60,668
Occupancy	5,841	8,762	24,826	18,984	4,381	-	31,584	55,492	87,076	149,870
Professional & investment fees	15,268	4,455	14,448	60,370	3,674	790	36,802	51,201	88,003	187,008
Computer	1,254	1,880	5,331	4,574	941	160	6,335	17,079	23,414	37,554
Board expenses	294	441	1,250	955	220	-	2,474	2,886	5,360	8,520
Disposition of fixed assets	200	299	848	648	150	-	948	1,058	2,006	4,151
Total expenses before depreciation	2,564,150	331,329	359,747	746,276	61,910	22,287	302,044	668,162	970,206	5,055,905
Depreciation	919	2,011	3,103	2,585	1,264	-	5,582	7,641	13,223	23,105
Total expenses	\$ 2,565,069	\$ 333,340	\$ 362,850	\$ 748,861	\$ 63,174	\$ 22,287	\$ 307,626	\$ 675,803	\$ 983,429	\$ 5,079,010

See accompanying notes to financial statements.



**THE JEWISH FEDERATION IN THE HEARTH OF NEW JERSEY**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 1,873,931	\$ 173,325
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	20,202	23,105
Loss on disposal of fixed assets	-	4,151
Provision for uncollectible pledges	95,988	89,817
Allocation liabilities recovered	(270,023)	(184,344)
Gains on investment securities	(1,705,728)	(708,871)
(Increase) decrease in:		
Pledges receivable, regular campaign	(3,316)	(182,170)
Pledges receivable, other	(18,679)	(2,810)
Grants receivable	(15,526)	-
Prepaid expenses	(57,229)	(5,075)
Loans receivable	99,809	87,148
Cash surrender value - life insurance	(57,753)	(56,995)
Security deposits	-	4,497
Increase (decrease) in:		
Accounts payable, accrued expenses, & allocations payable	(263,279)	(67,869)
Custodial funds - Jewish Cemetery Management Corp.	157,000	-
Cash used in operating activities	<u>(144,603)</u>	<u>(826,091)</u>
<b>Cash flows from investing activities</b>		
Acquisition of property & equipment	(9,950)	-
Acquisition of investment securities	(3,614,674)	(1,307,799)
Proceeds from sales & maturities of investment securities	<u>3,841,974</u>	<u>1,440,897</u>
Cash provided by investing activities	217,350	133,098
<b>Cash flows from financing activities</b>		
Present value of future annuity obligations	<u>(27,581)</u>	<u>(36,827)</u>
Cash used in financing activities	(27,581)	(36,827)
Net increase (decrease) in cash & cash equivalents	45,166	(729,820)
Cash & cash equivalents		
Beginning of year	<u>798,437</u>	<u>1,528,257</u>
End of year	<u>\$ 843,603</u>	<u>\$ 798,437</u>

See accompanying notes to financial statements.

**THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**(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:

Unrestricted - Net assets that are not subject to donor imposed restrictions or law.

Temporarily Restricted - Net assets subject to donor imposed restrictions or law that will be met by actions of the Federation and/or the passage of time.

Permanently Restricted - Net assets subject to donor-imposed restrictions or law that the principal be maintained in perpetuity. Generally, the donors of these assets permit the Federation to use all or part of the income earned on related investments for unrestricted purposes.

Revenues are reported as increases in unrestricted net assets 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 judgment.

**THE JEWISH FEDERATION IN THE HEART OF NEW JERSEY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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 investment 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 or liability to liability. 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, 2017 AND 2016

*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 unrestricted net assets unless their use is temporarily 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 unrestricted net assets unless the income or loss is restricted by donor or law.

*Custodial funds*

Under a custodial arrangement, the Federation holds funds of the Greater Middlesex Jewish Cemetery Management Corporation which are included in the Federation's investment portfolio. Investment earnings are credited to the liability due to the Cemetery Management Corporation.

*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 as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor-imposed restrictions. Pledges received for campaign years subsequent to the current fiscal year are recorded as temporarily restricted due to the associated donor-imposed time restriction. Upon the expiration of donor stipulations, temporarily restricted net assets are reclassified to unrestricted net assets 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.

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*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, formerly known as "allocations," are recorded as expenses 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, 2017, 2016 and 2015, and the six-month period ended December 31, 2014 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*

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 Financial Accounting Standards Board (FASB) issued Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), in August 2016. Under this guidance, not-for-profit entities will report *net assets with donor restrictions* and *net assets without donor restrictions* instead of the currently-required three classes. Not-for-profit entities will also provide enhanced disclosures regarding board designations, composition of net assets with donor restrictions, management of liquid resources available to meet cash needs, cost allocation among program and support functions, and underwater endowment funds. Further, the guidance requires reporting of investment returns net of investment expenses and clarifies accounting and disclosure for gifts restricted to the acquisition or construction of long-lived assets. The amendments in this Update are effective for years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. Management is evaluating the impact of this updated guidance on its financial statements.

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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.

*Reclassifications*

Certain items in the 2016 financial statements have been reclassified to conform with current year presentation.

**(2) Investment Securities**

As of December 31, 2017 and 2016 investment securities consist of the following:

	<u>Cost</u>	<u>Fair Value</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>
<u>December 31, 2016</u>		
Operating		
Government of Israel bonds	\$ 783,500	\$ 783,500
Endowments		
Government of Israel bonds	220,000	220,000
Mutual funds		
Fixed income	4,351,412	4,500,610
Domestic equity	3,241,741	4,770,805
International equity	2,004,819	1,945,926
Exchange-traded funds		
Fixed income	103,941	105,096
Equity	108,024	150,026
	<u>10,029,937</u>	<u>11,692,463</u>
	<u>\$10,813,437</u>	<u>\$12,475,963</u>

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**(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, 2017 and 2016:

	<u>Cost</u>	<u>Fair Value</u>
December 31, 2017	\$6,201,805	\$7,416,864
December 31, 2016	\$3,579,914	\$3,888,074

**(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, 2017 and 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</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>
<u>December 31, 2016</u>				
Cash equivalents	\$ 569,180	\$ -	\$ -	\$ 569,180
Government of Israel bonds	-	1,003,500	-	1,003,500
Mutual funds	11,217,341	-	-	11,217,341
Exchange-traded funds	255,122	-	-	255,122
Pooled investments	-	3,888,074	-	3,888,074
	<u>\$12,041,643</u>	<u>\$4,891,574</u>	<u>\$ -</u>	<u>\$16,933,217</u>

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

	<u>2017</u>	<u>2016</u>
Cash & cash equivalents	\$ 843,603	\$ 798,437
Investment securities	10,425,601	12,475,963
Pooled investments	7,416,864	3,888,074
	<u>\$18,686,068</u>	<u>\$17,162,474</u>

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(5) **Campaign Pledges Receivable**

As of December 31, 2017 and 2016, campaign pledges receivable consist of the following:

	<u>2017</u>	<u>2016</u>
Pledges receivable	\$1,815,249	\$2,053,826
Allowance for uncollectible pledges	( 392,154)	( 538,059)
Net pledges receivable	<u>\$1,423,095</u>	<u>\$1,515,767</u>

(6) **Property and Equipment**

As of December 31, 2017 and 2016, property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$105,300	\$ 105,300
Building	479,700	479,700
Building improvements	180,263	180,263
Furniture and equipment	<u>48,317</u>	<u>38,367</u>
	813,580	803,630
Less accumulated depreciation	<u>(412,082)</u>	<u>(391,880)</u>
	<u>\$401,498</u>	<u>\$411,750</u>

(7) **Loans Receivable**

As of December 31, 2017 and 2016, loans receivable consist of the following:

	<u>2017</u>	<u>2016</u>
<u>Nonprofit Organizations</u>		
Jewish Community Center of Middlesex County	\$ 84,000	\$ 84,000
Jewish Family Service	130,183	143,183
Rabbi Pesach Raymon Yeshiva	83,333	166,667
Jewish Community Center Jersey Shore	<u>5,000</u>	<u>5,000</u>
	302,516	398,850
Allowance for uncollectible loans	<u>( 84,000)</u>	<u>( 84,000)</u>
	218,516	314,850
<u>Hebrew Free Loan Federation Fund</u>		
Loans to individuals	<u>6,055</u>	<u>9,530</u>
	<u>\$224,571</u>	<u>\$354,380</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. The loan is being repaid, without interest, in 3 installments of \$83,333 on December 31, 2016, 2017 and 2018.



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**(8) Contingencies and Commitments**

*Cash Surrender Value - Life Insurance*

The Federation is the owner and beneficiary of 18 life insurance policies which insure the lives of various donors. The policies' face amounts total approximately \$3.5 million. As of December 31, 2017 and 2016, the cash surrender values of the policies totals \$677,517 and \$619,764, 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 classified as a temporarily-restricted (time-imposed) net asset.

*Leases*

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

2018	\$ 7,806
2019	6,936
2020	6,936
2021	<u>1,156</u>
	<u>\$22,834</u>

For the years ended December 31, 2017 and 2016, rent expense totaled \$8,676 and \$66,628, respectively. The 2016 expense included rent and an early termination fee of \$45,883 for previously leased space in Holmdel, New Jersey.

**(9) Profit Sharing Plan**

The Federation sponsors a profits sharing plan covering all employees who are employed 21 or more hours per week. Federation contributions for the years ended December 31, 2017 and 2016 were \$47,211 and \$61,110, respectively.

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**(10) Net Assets**

As of December 31, 2017 and 2016, temporarily and permanently restricted net assets, by fund, are as follows:

	<u>Operating</u>	<u>Endowment</u>	<u>Total</u>
<u>December 31, 2017</u>			
Temporarily restricted net assets			
Pledges for future periods	\$125,351	\$ -	\$ 125,351
Donor-imposed program restrictions	-	8,868,435	8,868,435
Cash surrender value of life insurance	-	677,517	677,517
Split-interest agreements	-	145,088	145,088
	<u>\$125,351</u>	<u>\$9,691,040</u>	<u>\$9,816,391</u>
Permanently restricted net assets			
Services to children & the elderly	\$ -	\$3,368,308	\$3,368,308
Hadassah Hospital & Operation Exodus	-	394,601	394,601
Educational programs & activities	-	345,577	345,577
PJ Library	-	36,568	36,568
	<u>\$ -</u>	<u>\$4,145,054</u>	<u>\$4,145,054</u>
<u>December 31, 2016</u>			
Temporarily restricted net assets			
Pledges for future periods	\$125,864	\$ -	\$ 125,864
Donor-imposed program restrictions	-	8,204,234	8,204,234
Cash surrender value of life insurance	-	619,764	619,764
Split-interest agreements	-	145,088	145,088
	<u>\$125,864</u>	<u>\$8,969,086</u>	<u>\$9,094,950</u>
Permanently restricted net assets			
Services to children & the elderly	\$ -	\$3,368,308	\$3,368,308
Hadassah Hospital & Operation Exodus	-	394,601	394,601
Educational programs & activities	-	345,577	345,577
PJ Library	-	36,432	36,432
	<u>\$ -</u>	<u>\$4,144,918</u>	<u>\$4,144,918</u>

**(11) Endowment Funds**

The Federation's endowment consists of 89 individual funds established for a variety of purposes. These funds include unrestricted donor-restricted funds, temporarily restricted funds with donor-imposed use restrictions, and permanently restricted funds on which the investment income derived is either unrestricted or use-restricted. 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.

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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 classifies as permanently restricted net assets (1) the original value of gifts donated with permanent restrictions, (2) the original value of subsequent gifts donated with permanent restrictions, 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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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.

Endowment net asset composition by type of fund as of December 31, 2017 and 2016 and activity for the year then ended is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets,				
December 31, 2015	\$2,254,755	\$8,780,632	\$4,144,666	\$15,180,053
Contributions	345,232	34,785	252	380,269
Interest & dividend income	134,850	159,219	-	294,069
Realized & unrealized investment gains	320,765	388,106	-	708,871
Other income	121,104	3,811	-	124,915
Endowment disbursements	( 641,155)	( 397,467)	-	( 1,038,622)
Endowment net assets,				
December 31, 2016	2,535,551	8,969,086	4,144,918	15,649,555
Contributions	1,131,450	78,425	136	1,210,011
Interest & dividend income	127,019	158,948	-	285,967
Realized & unrealized investment gains	777,572	928,156	-	1,705,728
Other income	-	57,754	-	57,754
Endowment disbursements	( 800,195)	( 501,329)	-	( 1,301,524)
Endowment net assets,				
December 31, 2017	<u>\$3,771,397</u>	<u>\$9,691,040</u>	<u>\$4,145,054</u>	<u>\$17,607,491</u>

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**(12) Subsequent Events**

Management has evaluated subsequent events through November 9, 2018 the date which the financial statements were available to be issued.