

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.**

**December 31, 2017**

**BKC, CPAs, PC  
CERTIFIED PUBLIC ACCOUNTANTS**

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.**

**For the Year Ended December 31, 2017**

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Certified Public Accountants, PC  
www.bkc-cpa.com

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## Independent Auditors' Report

To the Board of Directors  
Jewish Federation of Somerset,  
Hunterdon and Warren Counties, Inc.  
Bridgewater, New Jersey

We have audited the accompanying financial statements of Jewish Federation of Somerset, Hunterdon and Warren Counties, Inc. (a non-profit organization), which comprise of the Statement of Financial Position as of December 31, 2017 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 preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material error.

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 the 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 not 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 qualified audit opinion.

Basis for Qualified Opinion

As explained in Note 2 of the financial statements, certain pledges are not being recognized as revenue in the year of the pledge. Accounting principles generally accepted in the United States of America require unconditional promises to give to be recorded in the year the pledge is made. The effects on the accompanying financial statements of the failure to record the pledges when made have not been determined.

Opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Jewish Federation of Somerset, Hunterdon and Warren Counties, Inc. as of December 31, 2017 and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BKC, CPAs, PC  
BKC, CPAs, PC

July 19, 2018  
Flemington, New Jersey

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.**  
**Statement of Financial Position**  
**December 31, 2017**

**ASSETS**

Current assets			
Cash and cash equivalents	\$	299,013	
Investments - available for sale at fair market value		339,170	
Pledges receivable, less allowance for doubtful pledges of \$15,000		18,818	
Prepaid expenses		869	
Total current assets		<u>657,870</u>	\$ 657,870
Assets held for sale, net of accumulated depreciation of \$3,106,693			2,664,682
Property and equipment, net of accumulated depreciation of \$2,375			<u>29,167</u>
Total assets			<u>\$ 3,351,719</u>

**LIABILITIES AND NET ASSETS**

Current liabilities			
Prepayment on sale of building	\$	1,260,561	
Accounts payable and accrued expenses		27,750	
Deferred revenue		114,625	
Total current liabilities - all current		<u>1,402,936</u>	\$ 1,402,936
Net assets			
Unrestricted		1,676,506	
Temporarily restricted		183,277	
Permanently restricted		89,000	
Total net assets		<u>1,948,783</u>	
Total liabilities and net assets			<u>\$ 3,351,719</u>

See accompanying notes to the financial statements.

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.**  
**Statement of Activities**  
**For the Year Ended December 31, 2017**

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
<b>Revenue</b>				
Contributions	\$ 603,297	\$ 36,059	\$ -	\$ 639,356
Program revenue	4,880	-	-	4,880
Rental income	335,044	-	-	335,044
Interest income	887	3,384	-	4,271
Net assets released from restrictions	64,655	(64,655)	-	-
<b>Total revenue</b>	<u>1,008,763</u>	<u>(25,212)</u>	<u>-</u>	<u>983,551</u>
<b>Expenses</b>				
Program services	675,448	-	-	675,448
Management and general expenses	56,861	-	-	56,861
Fundraising	101,447	-	-	101,447
<b>Total expenses</b>	<u>833,756</u>	<u>-</u>	<u>-</u>	<u>833,756</u>
<b>Non-operating gains</b>				
Unrealized gains on investments	22,457	-	-	22,457
Realized gains on sale of investments	3,610	16,661	-	20,271
Change in value of interest rate swap	43,498	-	-	43,498
<b>Change in non-operating gains</b>	<u>69,565</u>	<u>16,661</u>	<u>-</u>	<u>86,226</u>
<b>Increase (decrease) in net assets</b>	<u>244,572</u>	<u>(8,551)</u>	<u>-</u>	<u>236,021</u>
<b>Net assets - beginning of year</b>	<u>1,431,934</u>	<u>191,828</u>	<u>89,000</u>	<u>1,712,762</u>
<b>Net assets - end of year</b>	<u>\$ 1,676,506</u>	<u>\$ 183,277</u>	<u>\$ 89,000</u>	<u>\$ 1,948,783</u>

See accompanying notes to the financial statements.

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.**

**Statement of Functional Expenses  
For the Year Ended December 31, 2017**

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and temporary staff	\$ 146,233	\$ 35,699	\$ 67,633	\$ 249,565
Payroll taxes	7,182	1,437	5,746	14,365
Professional fees/outside services	-	9,753	-	9,753
Awards and assistance	263,124	-	-	263,124
Employee benefits	17,872	1,430	16,443	35,745
Insurance	2,144	386	1,326	3,856
Conferences and meetings	1,645	-	396	2,041
Materials and supplies	3,931	1,604	2,656	8,191
Dues and membership fees	697	4,542	704	5,943
Other operating expenses	16,702	-	3,011	19,713
Postage and shipping	1,366	124	994	2,484
Printing and publications	4,330	-	1,082	5,412
Interest	82,762	-	-	82,762
Telephone	1,346	269	1,077	2,692
Transportation and travel	2,150	-	379	2,529
Depreciation and amortization	123,964	1,617	-	125,581
<b>Total</b>	<b>\$ 675,448</b>	<b>\$ 56,861</b>	<b>\$ 101,447</b>	<b>\$ 833,756</b>

See accompanying notes to the financial statements.

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.**

**Statement of Cash Flows  
For the Year Ended December 31, 2017**

<b>Cash flows from operating activities</b>		
Increase in net assets		\$ 236,021
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	\$ 125,581	
Interest expense	21,498	
Reinvested earnings	(4,118)	
Realized gains on investments	(20,271)	
Unrealized gains on investments	(22,457)	
Change in value of interest rate swap	(43,498)	
Decrease in assets		
Pledges receivable	10,312	
Prepaid expenses	2,431	
Increase in liabilities		
Accounts payable and accrued expenses	7,579	
Deferred revenue	7,401	
Total adjustments	<u>84,458</u>	
Net cash provided by operating activities		<u>320,479</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(30,702)	
Proceeds from sale of investment	13,684	
Net cash used in investing activities		<u>(17,018)</u>
<b>Cash flows from financing activities</b>		
Principal payments on long-term debt	(267,654)	
Net cash used in financing activities		<u>(267,654)</u>
Increase in cash and cash equivalents		35,807
Cash and cash equivalents - beginning of year		<u>263,206</u>
Cash and cash equivalents - end of year		<u><u>\$ 299,013</u></u>
 <b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for		
Interest		<u><u>\$ 67,391</u></u>

See accompanying notes to the financial statements.



**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies

Nature of activities

Jewish Federation of Somerset, Hunterdon and Warren Counties, Inc. (the Federation) is the umbrella organization of the area's Jewish community. The Federation brings together agencies, organizations and communities to support the Jewish people and fulfill their needs. The Federation raises funds through its annual campaign and allocates the contributions it receives to improve the quality of life of Jewish people locally, in Israel, and in many other countries around the world. The Federation is a United Way agency.

Basis of presentation

The financial statements of the Federation have been prepared on the accrual basis of accounting.

Federation status

The Federation is a non-profit organization exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and similar provisions for New Jersey. Therefore, no provision for income taxes has been made. The Federation's information returns before 2014 are no longer subject to examination by either Federal or New Jersey authorities.

Use of estimates

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

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, the Federation considers all investments instruments with a maturity date of three months or less to be cash equivalents.

Pledges receivable

Pledges receivable are recorded as revenue when the donor makes a pledge with the exception that pledges made for use in a future period are deferred until the Organization can use the pledge. Bad debts for uncollectible pledges are provided for on the allowance method, based on historical experience and management's evaluation of outstanding pledges receivable.

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.  
Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost and depreciated over the estimated useful life of each asset. Depreciation is provided by use of the straight-line method over the following estimated useful lives:

	Estimated Useful Life
Building and improvements	10 - 40 years
Furniture and equipment	5 - 10 years

Additions and improvements, which extend the useful lives of the respective assets, are charged to asset accounts and are depreciated accordingly, while general repairs and maintenance are expensed as incurred. There is no formal capitalization policy. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gains or losses are included in the changes in net assets.

Net asset classification

Net assets are classified based on the existence or absence or donor-imposed restrictions. Net assets are defined as follows:

Unrestricted net assets are not subject to donor-imposed stipulations or the donor-imposed restrictions have expired.

Temporarily restricted net assets include assets for which donor-imposed restrictions have not been met.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Federation.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and services benefited. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Federation. Indirect expenses have been allocated based on salary expenditures and specific identification.

Financing costs

Financing costs include costs to obtain a state economic development bond. The costs are being amortized on a straight-line basis over twenty years. The loan was repaid in 2017 and the remaining costs of \$20,815 were expensed in 2017 and is included with interest expense.

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies (continued)

Donated materials and equipment

Donated materials and equipment, when received, are reflected as contributions in the accompanying statements at their estimated fair market values at date of receipt.

Donated services

Volunteers have contributed significant amounts of time to the activities of the Federation without compensation. The financial statements do not reflect the value of those contributed services.

Financial instruments

The Federation uses derivatives to manage risks related to interest rate movements. The interest rate swap contract is designated and qualifies as a cash flow hedge. The liability of the interest rate swap is reported at settlement value. The gain or loss on the effective portion of the hedge initially is included as a component of income and subsequent changes in fair market value are recorded as a component of earnings when interest on the related debt is paid. The Federation monitors its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Federation's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contract to convert variable-rate debt to a fixed rate. The swap was terminated in 2017.

Note 2 - Revenue recognition and deferred revenue

Contributions of cash and other assets, including unconditional promises to give, are considered to be available for unrestricted use unless specifically restricted by the donor and are recognized as support in the period the unconditional promise is given. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Gifts of cash and other noncapital assets are reported as temporarily restricted support if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. If a restriction is fulfilled in the same period in which the contribution is received, the support is reported as unrestricted.

Under generally accepted accounting principles, pledges made to be used in a future period should be recorded in the period the pledge is made.

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.  
Notes to the Financial Statements**

Note 2 - Revenue recognition and deferred revenue (continued)

The Federation has elected to defer revenue recognition on pledges made for a future period. This method of revenue recognition is not in accordance with generally accepted accounting principles; the auditor issued a qualified opinion for this matter.

Deferred revenue at December 31, 2017 consists of the following:

Future campaign income deferred	\$ 353,967
Future campaign pledge receivable	(239,342)
Cash received for future campaigns	<u>\$ 114,625</u>

Note 3 - Concentration of credit risk

The Company maintains its cash in bank accounts, which at times may exceed federally insured limits. At December 31, 2017, the Company exceeded the federally insured limit by approximately \$31,100.

One contributor accounted for approximately 31% of the total contributions pledged for the year ended December 31, 2017. The same contributor comprised 4% of the pledges receivable at December 31, 2017.

Note 4 - Investments

Investments are classified as available for sale securities and are reported at fair market value. Investment income on investments totaled \$24,389. Some interest, dividends, gains and losses are temporarily restricted.

Unrealized gains and losses are reported as a separate component of net operating income.

Investments at December 31, 2017 consist of the following:

	Fair Market Value	Unrealized Gains	Unrealized Losses
Pooled investments	<u>\$ 339,170</u>	<u>\$ 40,273</u>	<u>\$ -</u>

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.  
Notes to the Financial Statements**

Note 5 - Fair value measurement

The Federation applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Federation has the ability to access at the measurement date.
- Level 2 Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs are unobservable inputs for the asset or liability.

The valuation techniques and inputs used for valuing Level 3 investments are determined by the fund manager.

The assets fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Federation's assets at fair value at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pooled investments	\$ -	\$ -	\$ 339,170	\$ 339,170

A reconciliation of assets and liabilities measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) is as follows:

Fair value - beginning of year	\$ 306,008
Reinvested earnings	4,118
Realized gains reinvested	20,271
Unrealized gains	22,457
Redemptions	(13,684)
Fair value - end of year	<u>\$ 339,170</u>

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.  
Notes to the Financial Statements**

Note 6 - Pledges receivable

Pledges receivable at December 31, 2017 consist of the following:

	Gross	Uncollectible Allowance	Net
Campaign pledges - 2016	\$ 4,223	\$ 4,223	\$ -
Women's Philanthropy and other	1,938	-	1,938
Campaign pledges - 2017	27,657	10,777	16,880
	<u>\$ 33,818</u>	<u>\$ 15,000</u>	<u>\$ 18,818</u>

Note 7 - Property and equipment

Property and equipment at December 31, 2017 consists of the following:

Lease improvements	\$ 11,048
Furniture and equipment	20,494
Total property and equipment	<u>31,542</u>
Less: accumulated depreciation	2,375
	<u>\$ 29,167</u>
Land	\$ 20,000
Buildings and improvements	5,751,645
Total property and equipment	<u>5,771,645</u>
Less: accumulated depreciation	3,106,963
Property and equipment, net	<u>\$ 2,664,682</u>

Depreciation expense for the year ended December 31, 2017 was \$125,581.

Note 9 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following specific program services:

H&G Institute Fund	\$ 178,517
Women's Philanthropy Group	4,760
Temporarily restricted net assets	<u>\$ 183,277</u>

The Federation has further restricted the use of the H&G Institute Fund. They have established a committee to manage the funds. The use of the funds is limited to only using 10% of the value of the fund each calendar year. Additionally, interest earned on the principal can be used for expenses of operating the committee as determined by the committee. The Federation has also set forth investment restrictions.

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.**  
**Notes to the Financial Statements**

Note 10 - Permanently restricted net assets

Permanently restricted net assets totaling \$65,000 are restricted for the H&G Institute Fund.

Contributions made to the endowment fund are permanently restricted. The endowment fund has a balance of \$24,000 as of December 31, 2017.

Note 11 - Related party activity

The Federation shares certain administrative expenses with a related party, the Shimon and Sara Birnbaum Jewish Community Center (JCC). During the year ended December 31, 2017 \$8,029 was paid to the JCC for shared expenses. The Federation owed the JCC \$2,643 at December 31, 2017.

The Federation received rental income of \$335,044 from the JCC. The Federation gave them \$41,158 to be used for various programs during the year ended December 31, 2017.

In 2017 the mortgage was paid off with money raised jointly by the Federation and the JCC totaling \$1,188,378. In addition, the swap termination fees of \$71,500 and unpaid interest of \$683 were paid. Upon full payment of the mortgage, the JCC exercised its option to purchase the building. The title to the property was not transferred at December 31, 2017. The total payments made by the JCC of \$1,260,561 were recorded as a prepayment on the purchase of building at December 31, 2017. Upon transfer of the title an estimated loss of \$1,404,000 will be recorded.

Note 12 - Retirement plan

The Federation provides a 401(k) Plan for all eligible employees. Participants may make voluntary contributions to the Plan of up to \$18,000 of their compensation. Employees age 50 and over may contribute an additional \$5,500 catch-up contribution. The Federation's contributions to the Plan are an amount equal to 3% of the employees' salaries. The Federation's contribution for the year ended December 31, 2017 was \$6,049.

Note 13 - Supplemental disclosure of cash flow non-cash activities

With funds raised by the Federation and the JCC and held by the JCC, the loan balance on the mortgage totaling \$1,188,378 was paid off. In addition, they paid the swap termination fees of \$71,500 and interest of \$683. The total amount \$1,260,561 is reflected in Balance Sheet as prepayment on sale of building.

Note 14 - Change in accounting standards

ASU 2016-14: The FASB adopted ASU 2016-14, *Not for Profit Entities*. This update changes the format of the Organization's financial statement presentation and enhances the required disclosures to the financial statements. This ASU will be effective in the year ending December 31, 2018. This change is expected to impact the financial reporting of the Organization, however for amounts that are immaterial.

**JEWISH FEDERATION OF SOMERSET,  
HUNTERDON AND WARREN COUNTIES, INC.  
Notes to the Financial Statements**

Note 15 - Subsequent events

The Federation's management has determined that no other material events or transactions have occurred subsequent to December 31, 2017 and through July 19, 2018, the date of this report, which requires additional financial disclosure in the Federation's financial statements.