

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

December 31, 2019



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

For the Year Ended December 31, 2019

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Certified Public Accountants, PC
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Independent Auditors' Report

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

Report on the Financial Statements

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, 2019 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.

The financial statements do not reflect the value of free use of facilities. Accounting principles generally accepted in the United States of America require recording the donation of the use of the facilities and a related expense. The effects on the accompanying financial statements of the failure to record the revenue and expense have not been determined.

Opinion

In our opinion, except for the effects of the matters 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, 2019 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

May 11, 2020
Flemington, New Jersey

**JEWISH FEDERATION OF SOMERSET,
HUNTERDON AND WARREN COUNTIES, INC.
Statement of Financial Position
December 31, 2019**

ASSETS

Current assets		
Cash and cash equivalents	\$ 159,909	
Investments - available for sale at fair market value	342,568	
Pledges receivable, less allowance for doubtful pledges of \$26,000	153,796	
Prepaid expenses	4,191	
Total current assets	<u>660,464</u>	\$ 660,464
Property and equipment, net of accumulated depreciation of \$9,381		<u>25,195</u>
Total assets		<u><u>\$ 685,659</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 56,010	
Deferred revenue	58,920	
Total current liabilities - all current	<u>114,930</u>	\$ 114,930
Net assets		
Without donor restrictions	291,660	
With donor restrictions	279,069	
Total net assets	<u>570,729</u>	<u>570,729</u>
Total liabilities and net assets		<u><u>\$ 685,659</u></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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Contributions	\$ 541,438	\$ 115,321	\$ 656,759
Program revenue	11,118	-	11,118
Interest income	1,533	-	1,533
Net assets released from restrictions	103,063	(103,063)	-
Total revenue	<u>657,152</u>	<u>12,258</u>	<u>669,410</u>
Expenses			
Program services	534,124	-	534,124
Management and general expenses	61,702	-	61,702
Fundraising	81,848	-	81,848
Total expenses	<u>677,674</u>	<u>-</u>	<u>677,674</u>
Non-operating gains (losses)			
Unrealized gains on investments	7,696	32,693	40,389
Realized loss on sale of building	(1,404,122)	-	(1,404,122)
Investment income, net	597	4,948	5,545
Change in non-operating (losses) gains	<u>(1,395,829)</u>	<u>37,641</u>	<u>(1,358,188)</u>
(Decrease) increase in net assets	(1,416,351)	49,899	(1,366,452)
Net assets - beginning of year	<u>1,708,011</u>	<u>229,170</u>	<u>1,937,181</u>
Net assets - end of year	<u>\$ 291,660</u>	<u>\$ 279,069</u>	<u>\$ 570,729</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, 2019

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and temporary staff	\$ 155,392	\$ 37,595	\$ 57,646	\$ 250,633
Payroll taxes	11,653	2,819	4,323	18,795
Professional fees/outside services	-	11,357	-	11,357
Awards and assistance	303,684	-	-	303,684
Employee benefits	23,858	5,772	8,851	38,481
Insurance	2,077	965	367	3,409
Conferences and meetings	2,030	214	3,032	5,276
Materials and supplies	9,367	1,016	1,282	11,665
Dues and membership fees	669	82	607	1,358
Other operating expenses	10,979	-	1,607	12,586
Postage and shipping	1,737	123	621	2,481
Printing and publications	7,711	453	907	9,071
Telephone	1,274	128	1,147	2,549
Transportation and travel	2,514	-	279	2,793
Depreciation and amortization	1,179	1,178	1,179	3,536
Total	<u>\$ 534,124</u>	<u>\$ 61,702</u>	<u>\$ 81,848</u>	<u>\$ 677,674</u>

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, 2019

Cash flows from operating activities		
Decrease in net assets		\$ (1,366,452)
Adjustments to reconcile decrease in net assets to net cash used in operating activities		
Depreciation	\$ 3,536	
Reinvested earnings, net	(6,116)	
Unrealized gain on investments	(40,389)	
Loss on sale of building	1,404,122	
Decrease in assets		
Pledges receivable	(119,893)	
Prepaid expenses	(3,842)	
Increase in liabilities		
Accounts payable and accrued expenses	39,934	
Deferred revenue	(6,737)	
Total adjustments	<u>1,270,615</u>	
Net cash used in operating activities		<u>(95,837)</u>
Cash flows from investing activities		
Proceeds from sale of investments	<u>27,885</u>	
Net cash provided by investing activities		<u>27,885</u>
Decrease in cash and cash equivalents		(67,952)
Cash and cash equivalents - beginning of year		<u>227,861</u>
Cash and cash equivalents - end of year		<u><u>\$ 159,909</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 Federation of the area's Jewish community. The Federation brings together agencies, Federations 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 has been notified by the Internal Revenue Service that they are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Federation is further classified as a federation that is not a private federation under Section 509(a)(3) of the Code. The most significant tax positions of the Federation are its assertions that it is exempt from income taxes and its determination that no amounts are subject to unrelated business income tax (UBIT). Income generated by activities that would be considered unrelated to the Federation's mission would be subject to income tax. The Federation follows the guidance of Accounting Standards Codification (ASC) Topic 740, *Accounting for Income Taxes*, related to uncertain income tax provisions, which prescribes a threshold of more likely than not, for recognition and derecognition of tax positions taken or expected to be taken in a tax return. Management has determined that it is more likely than not, that all tax positions would be sustained upon examination by taxing authorities. Accordingly, no provision for income taxes has been recorded. The Federation files a Form 990 Return of Organization Exempt Form Tax, annually with the Internal Revenue Service, as well as a State equivalent filing. Both filings are subject to audit by the appropriate authority. The Federation's returns before the year ended December 31, 2016 are no longer subject to examination by Federal or State authorities due to the statute of limitations.

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.

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

Note 1 - Summary of significant accounting policies (continued)

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 Federation 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.

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
Lease improvements	10 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 of donor-imposed restrictions. Net assets are defined as follows:

Net assets without donor restrictions are net assets not subject to donor-imposed stipulations or the donor-imposed restrictions have expired.

Net assets with donor restrictions include assets for which donor-imposed restrictions have not been met.

Change in accounting standard

ASU 2014-09: On January 1, 2019 the Federation adopted Accounting Standards Update, (ASU) 2014-09 *Revenue from Contracts with Customers* issued by the Financial Accounting Standards Board (FASB). This standard and all subsequent amendments to the ASU, create a single framework for recognizing revenue from contracts with customers. As a result of this adoption, management has determined that the Federation's method of recording revenue did not require a material change in order to be compliant with this standard

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

Note 1 - Summary of significant accounting policies (continued)

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.

Donated facility use, 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.

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 donor 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, donor restricted net assets are reclassified to net assets without donor restrictions 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 without restrictions.

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

The Federation has elected to defer revenue recognition on pledges made for future periods. 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, 2019 consists of the following:

Future campaign income deferred	\$ 245,711
Future campaign pledge receivable	(186,791)
Cash received for future campaigns	<u>\$ 58,920</u>

**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 not to report the value of rent-free facilities used in 2019. This election is not in accordance with generally accepted accounting principles. The amount of this misstatement was not readily determinable.

Note 3 - Concentration of credit risk

The Federation maintains its cash in bank accounts, which at times may exceed federally insured limits. At December 31, 2019, the Federation did not have cash that exceeded the federally insured limit.

Two contributors accounted for approximately 23% and 14% of the total contributions pledged for the year ended December 31, 2019. One contributor represented 83% of the pledge receivable at December 31, 2019.

Note 4 - Investments

Investments are reported at fair market value. Net investment income on investments totaled \$8,847. Some interest, dividends, gains and losses are temporarily restricted. Investment expenses of \$3,302 are netted with investment income.

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

Investments at December 31, 2019 consist of the following:

	Fair Market Value	Unrealized Gains	Unrealized Losses
Pooled investments	\$ 342,390	\$ 35,343	\$ -
Stocks	178	-	-
	<u>\$ 342,568</u>	<u>\$ 35,343</u>	<u>\$ -</u>

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.

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

Note 5 - Fair value measurement (continued)

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stocks	\$ 178	\$ -	\$ -	\$ 178
Pooled investments	-	-	342,390	342,390
	<u>\$ 178</u>	<u>\$ -</u>	<u>\$ 342,390</u>	<u>\$ 342,568</u>

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	\$ 306,652
Reinvested earnings	5,946
Realized gains reinvested	3,470
Unrealized gains	40,389
Redemptions	(14,067)
Fair value - end of year	<u>\$ 342,390</u>

Note 6 - Pledges receivable

Pledges receivable at December 31, 2019 consist of the following:

	<u>Gross</u>	<u>Uncollectible Allowance</u>	<u>Net</u>
Campaign pledges – 2018	\$ 12,100	\$ 12,100	\$ -
Women's Philanthropy	6,022	-	6,022
Campaign pledges - 2019	161,674	13,900	147,774
	<u>\$ 179,796</u>	<u>\$ 26,000</u>	<u>\$ 153,796</u>

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

Note 7 - Property and equipment

Property and equipment at December 31, 2019 consists of the following:

Lease improvements	\$ 12,458
Furniture and equipment	22,118
Total property and equipment	34,576
Less: accumulated depreciation	9,381
Property and equipment, net	\$ 25,195

Depreciation expense for the year ended December 31, 2019 was \$3,536.

Note 8 - Net assets with donor restrictions

Subject to expenditure for a specific purpose:

Holocaust and Genocide	\$ 186,324
Blank leadership	32,746
Women's Philanthropy group	14,999
Temporarily restricted net assets	234,069

Subject to restriction in perpetuity:

Holocaust and Genocide	45,000
Total net assets with restrictions	\$ 279,069

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.

Note 9 - 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, 2019 \$4,152 was paid to the JCC for shared expenses.

The Federation gave them \$60,848 to be used for various programs during the year ended December 31, 2019.

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

Note 9 - Related party activity (continued)

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 transferred at December 31, 2019. Upon transfer of the title a loss of \$1,404,122 was recorded.

The Federation entered into ten-year lease agreement with the JCC that is renewable for ten-year terms. The space is provided and the Federation only needs to maintain the space.

Note 10 - Retirement plan

The Federation provides a 401(k) Plan for all eligible employees. Participants may make voluntary contributions to the Plan of up to \$19,000 of their compensation. Employees age 50 and over may contribute an additional \$6,000 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, 2019 was \$7,512.

Note 11 - Liquidity and availability of financial assets

The Federation's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts from pledges which result in a concentration of receipts near the calendar year end. To manage liquidity, the Federation addresses same via two procedures. Firstly, the Federation maintains a "reserve account" - which is accessible for operating expenses as necessary, but the aim of which is to have adequate funds set aside so as to cover any cash flow shortcomings caused by normal fluctuations. The account is not restricted, but the intention is, if possible, to not make use of it. The other procedure is that a significant portion of the Federation's expenditures are to organizations which it supports. Pledges of contribution and support to these organizations are generally based on an annual amount, with no specific payment terms or timeframes mandated. Thus, if necessary, the payment of the Federation's pledges can be delayed so as to time same with the Federations' receipt of fund.

The following reflects the Federation's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations. Not available includes amounts set aside for operating and other reserves that could be drawn upon if the Board of Directors approves such action.

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

Note 11 - Liquidity and availability of financial assets (continued)

The following reflects the financial assets for December 31, 2019.

Cash	\$ 159,909
Investments	342,568
Pledge receivables	153,796
Total financial assets	656,273
Donor assets restricted in perpetuity	(45,000)
Donor asset restricted for specific purpose	(234,069)
	(279,069)
Financial assets available to meet cash needs for general expenditures for the next year	\$ 377,204

Note 12 - Subsequent events

On January 23 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Federation's financial condition, liquidity, and future operations. Management is actively monitoring the impact of the global situation on its financial position, liquidity, operations, industry and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Federation is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition or liquidity for the year ending December 31, 2020.

The Federation's operations are dependent on donations from individuals, foundations, and corporations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation is expected to depress our contributions during fiscal year 2020. In addition, as of the date of this report, our investment values have experienced a decline of approximately \$49,250. As such, this may hinder our ability to advance our mission. As such, our financial condition and liquidity may be negatively impacted for the fiscal year 2020.

The Federation's management has determined that no other material events or transactions have occurred subsequent to December 31, 2019 and through May 11, 2020, the date of this report, which requires additional financial disclosure in the Federation's financial statements.