

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

December 31, 2016

**BEDARD, KUROWICKI & CO., CPA'S, PC
CERTIFIED PUBLIC ACCOUNTANTS**

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

For the Year Ended December 31, 2016

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Certified Public Accountants, PC

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, 2016 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, 2016 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.

Bedard, Kurowicki & Co.
BEDARD, KUROWICKI & CO., CPA'S, PC

October 4, 2017
Flemington, New Jersey

**JEWISH FEDERATION OF SOMERSET,
HUNTERDON AND WARREN COUNTIES, INC.**
Statement of Financial Position
December 31, 2016

ASSETS

Current assets		
Cash and cash equivalents	\$ 263,206	
Investments - available for sale at fair market value	306,008	
Pledges receivable, less allowance for doubtful pledges of \$27,000	29,130	
Prepaid expenses	3,300	
Total current assets	<u>601,644</u>	\$ 601,644
Property and equipment, net of accumulated depreciation of \$2,990,038		<u>2,788,727</u>
Total assets		<u>\$ 3,390,371</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Current maturities of long-term debt	\$ 267,653	
Accounts payable and accrued expenses	20,171	
Deferred revenue	107,224	
Total current liabilities	<u>395,048</u>	\$ 395,048
Long-term liabilities		
Long-term debt, net of current maturities	1,167,564	
Swap liability	114,998	
Total long-term liabilities	<u>1,282,562</u>	1,282,562
Total liabilities		<u>1,677,610</u>
Net assets		
Unrestricted	1,431,933	
Temporarily restricted	191,828	
Permanently restricted	89,000	
Total net assets	<u>1,712,761</u>	1,712,761
Total liabilities and net assets		<u>\$ 3,390,371</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, 2016

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Revenue				
Contributions	\$ 676,387	\$ 34,581	\$ -	\$ 710,968
Program revenue	1,518	-	-	1,518
Rental income	335,044	-	-	335,044
Interest income	768	3,206	-	3,974
Net assets released from restrictions	66,140	(66,140)	-	-
Total revenue	1,079,857	(28,353)	-	1,051,504
Expenses				
Program services	735,995	-	-	735,995
Management and general expenses	61,458	-	-	61,458
Fundraising	97,569	-	-	97,569
Total expenses	895,022	-	-	895,022
Non-operating gains				
Unrealized gains on investments	5,984	-	-	5,984
Realized gains on sale of investments	1,018	4,895	-	5,913
Change in value of interest rate swap	53,350	-	-	53,350
Change in non-operating gains	60,352	4,895	-	65,247
Increase (decrease) in net assets	245,187	(23,458)	-	221,729
Net assets - beginning of year	1,186,746	215,286	89,000	1,491,032
Net assets - end of year	\$ 1,431,933	\$ 191,828	\$ 89,000	\$ 1,712,761

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, 2016

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and temporary staff	\$ 142,951	\$ 35,637	\$ 69,338	\$ 247,926
Payroll taxes	8,879	2,709	3,461	15,049
Professional fees/outside services	-	9,148	1,016	10,164
Awards and assistance	313,678	-	-	313,678
Employee benefits	18,120	4,985	7,347	30,452
Insurance	1,898	362	1,366	3,626
Conferences and meetings	3,571	546	2,551	6,668
Materials and supplies	12,246	2,755	4,732	19,733
Dues and membership fees	175	4,497	568	5,240
Other operating expenses	17,938	147	1,650	19,735
Postage and shipping	1,495	299	1,196	2,990
Printing and publications	4,813	-	2,063	6,876
Interest	83,782	-	-	83,782
Telephone	1,026	205	821	2,052
Transportation and travel	1,460	-	1,460	2,920
Depreciation	123,963	168	-	124,131
Total	<u>\$ 735,995</u>	<u>\$ 61,458</u>	<u>\$ 97,569</u>	<u>\$ 895,022</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, 2016**

Cash flows from operating activities		\$ 221,729
Increase in net assets		221,729
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	\$ 128,440	
Reinvested earnings	(3,876)	
Realized gains on investments	(5,913)	
Unrealized gains on investments	(5,984)	
Change in value of interest rate swap	(53,350)	
Decrease in assets		
Pledges receivable	18,487	
Prepaid expenses	11,041	
Increase in liabilities		
Accounts payable and accrued expenses	(478)	
Deferred revenue	(51,427)	
Total adjustments		<u>36,940</u>
Net cash provided by operating activities		<u>258,669</u>
 Cash flows from investing activities		
Proceeds from sale of investment	<u>13,431</u>	
Net cash provided by investing activities		13,431
 Cash flows from financing activities		
Principal payments on long-term debt	<u>(254,499)</u>	
Net cash used in financing activities		<u>(254,499)</u>
 Increase in cash and cash equivalents		17,601
 Cash and cash equivalents - beginning of year		<u>245,605</u>
Cash and cash equivalents - end of year		<u><u>\$ 263,206</u></u>
 Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest		<u><u>\$ 80,544</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 2013 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:

	<u>Estimated Useful Life</u>
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.

**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.

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, 2016 consists of the following:

Future campaign income deferred	\$ 431,574
Future campaign pledge receivable	(352,270)
Cash received for future campaigns	79,304
Advance rental income received	27,920
Deferred revenue	\$ 107,224

Note 3 - Concentration of credit risk

One contributor accounted for approximately 29% of the total contributions pledged for the year ended December 31, 2016. The same contributor comprised 14% of the pledges receivable at December 31, 2016.

Note 4 - Investments

Investments are classified as available for sale securities and are reported at fair market value. Gains on investments totaled \$5,913. 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, 2016 consist of the following:

	Fair Market Value	Unrealized Gains	Unrealized Losses
Pooled investments	\$ 306,008	\$ 23,730	\$ -

**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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pooled investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 306,008</u>	<u>\$ 306,008</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	\$ 303,666
Reinvested earnings	3,876
Realized gains reinvested	5,913
Unrealized gains	5,984
Redemptions	(13,431)
Fair value - end of year	<u>\$ 306,008</u>

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

Note 6 - Pledges receivable

Pledges receivable at December 31, 2016 consist of the following:

	Gross	Uncollectible Allowance	Net
Campaign pledges - 2015	\$ 6,655	\$ 6,655	\$ -
Women's Philanthropy and other	3,568	-	3,568
Campaign pledges - 2016	45,907	20,345	25,562
	\$ 56,130	\$ 27,000	\$ 29,130

Note 7 - Property and equipment

Property and equipment at December 31, 2016 consists of the following:

Land	\$ 20,000
Buildings and improvements	5,751,645
Furniture and equipment	7,120
Total property and equipment	5,778,765
Less: accumulated depreciation	2,990,038
Property and equipment, net	\$ 2,788,727

Depreciation expense for the year ended December 31, 2016 was \$124,131.

Note 8 - Long-term debt

During the year ended December 31, 2001, the Federation obtained a New Jersey Economic Development bond in the amount of \$4,200,000. The loan is to be paid in monthly installments of \$27,920 including interest through November 2021. The loan is collateralized by real property in Somerset County, New Jersey, and guaranteed by the Shimon and Sara Birnbaum Jewish Community Center (JCC) (a non-profit organization).

The interest rate is adjusted monthly to 65% of the current LIBOR, plus 119 basis points. The Federation has entered into an interest rate swap agreement to reduce the impact of changes on its floating rate long-term debt. At December 31, 2016, the Federation had an interest rate swap agreement with a bank, having a total notional principal amount of \$1,456,032. The agreement changes the Federation's interest rate to a fixed rate of 5.05%. The LIBOR rate was .77% at December 31, 2016.

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

Note 8 - Long-term debt (continued)

The balance of the long-term debt at December 31, 2016 is as follows:

Total long-term debt	\$ 1,456,032
Less: unamortized debt issuance costs	20,815
Subtotal	1,435,217
Less: current maturities of long-term debt	267,653
Long-term debt, net of current maturities	\$ 1,167,564

The amounts of long-term debt maturing during the next five years ending at December 31, and in the aggregate, are as follows:

2017	\$ 267,653
2018	281,488
2019	296,036
2020	311,337
2021	299,518

Interest expense for the year ended December 31, 2016 was \$83,782.

Amortization expense on the unamortized debt issuance costs for the year ended December 31, 2016 was \$4,309.

Note 9 - Derivative instruments and hedging activities

The interest rate swap was issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to its settlement value at the end of the year, which because of changes in forecasted levels of LIBOR resulted in reporting a liability for the settlement value of the future interest payments forecasted under the swap. The liability is classified as noncurrent since management does not intend to settle it during 2015.

Note 10 - Temporarily restricted net assets

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

H&G Institute Fund	\$ 171,572
Women's Philanthropy Group	20,256
Temporarily restricted net assets	\$ 191,828

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

Note 10 - Temporarily restricted net assets (continued)

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 11 - 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, 2016.

Note 12 - 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, 2016, \$6,863 was paid to the related party for shared expenses. The Federation owed the JCC \$1,347 at December 31, 2016.

Effective January 1, 2009, the Federation entered into a lease agreement with the JCC where the JCC will rent the Federation's facility through the later of November 2021 or 90 days following the satisfaction of the mortgage on the facility. The JCC uses a substantial portion of the building. The JCC pays rent equal to the amount of the monthly mortgage payment. In conjunction with the lease, the Federation had agreed to pay an allocation to the JCC equal to one-half of the monthly mortgage payment. Effective for the calendar year 2016, this allocation has been adjusted to \$25,000 and none for the years after 2016. The change was made because a joint campaign effort with the Federation and the JCC to raise money equal to the remaining loan balance was held. The Campaign has raised enough money to pay off loan. The funds are currently held by the JCC.

The Federation received rental income of \$335,044 from the JCC. The Federation paid the JCC an allocation of \$25,000 and gave them \$26,000 to be used for various programs during the year ended December 31, 2016.

The carrying amount of the building is \$2,788,625. The rental income and related allocation payment payable over the next five years ending December 31 are as follows:

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

Note 12 - Related party activity (continued)

	Rental Income
2017	\$ 335,045
2018	335,045
2019	335,045
2020	335,045
2021	307,122

The Federation also signed an agreement in which the JCC can purchase the facility for a bargain purchase price. The option period began January 1, 2009 and runs through November 1, 2023. The option cannot be exercised until the mortgage is paid in full. At December 31, 2016, the JCC prepaid a portion of the January 2016 rent in the amount of \$27,920.

Note 13 - 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, 2016 was \$5,603.

Note 14 - Subsequent events

The Federation's management has determined that no material events or transactions have occurred subsequent to December 31, 2016 and through October 4, 2017, the date of this report, which requires additional financial disclosure in the Federation's financial statements.