

**Community Foundation of New Jersey  
and Affiliate**

**Consolidated Financial Statements  
and Independent Auditor's Report**

**December 31, 2018**

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# Community Foundation of New Jersey and Affiliate

## Index

	<u>Page</u>
Independent Auditor's Report	2
Consolidated Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities and Changes in Net Assets	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7

Independent Auditor's Report

To the Board of Trustees  
Community Foundation of New Jersey

We have audited the accompanying consolidated financial statements of Community Foundation of New Jersey and Affiliate, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated 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 that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of New Jersey and Affiliate as of December 31, 2018 and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

*Restatement*

As discussed in Note 19, the net assets of Community Foundation of New Jersey as of January 1, 2018 have been restated to correct the classification of net assets. Our opinion is not modified with respect to this matter.

*Emphasis-of-Matter*

As discussed in Note 2, Community Foundation of New Jersey adopted the Financial Accounting Standards Board's Accounting Standard Update ("ASU") 2016-14, *Not-for-Profit (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of January 1, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

*CohnReznick LLP*

Holmdel, New Jersey  
December 18, 2019

Community Foundation of New Jersey and Affiliate

Consolidated Statement of Financial Position  
December 31, 2018

Assets

Cash and cash equivalents	\$ 2,623,797
Securities and investments, at fair value	407,736,706
Grants and other receivables	13,062,285
Prepaid expenses and other assets	<u>77,532</u>
Total	<u>\$ 423,500,320</u>

Liabilities and Net Assets

Liabilities	
Accounts payable and accrued expenses	\$ 270,876
Grants and pledges payable	6,492,992
Deferred revenue	7,500
Charitable gift annuities	1,549,797
Funds held on behalf of others	<u>13,626,080</u>
Total liabilities	<u>21,947,245</u>
Commitments and contingencies	
Net assets	
Without donor restrictions	340,431,774
With donor restrictions	<u>61,121,301</u>
Total net assets	<u>401,553,075</u>
Total	<u>\$ 423,500,320</u>

See Notes to Consolidated Financial Statements.

**Community Foundation of New Jersey and Affiliate**

**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended December 31, 2018**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and support			
Contributions	\$ 86,296,770	\$ 20,958,217	\$ 107,254,987
Loss on return of contribution	-	(56,008,079)	(56,008,079)
Program revenue	549,793	-	549,793
Net investment return	(12,383,472)	(1,184,009)	(13,567,481)
Net assets released from restrictions			
Satisfaction of program restrictions	25,502,712	(25,502,712)	-
Management fees and program expenses	1,016,293	(1,016,293)	-
	<u>100,982,096</u>	<u>(62,752,876)</u>	<u>38,229,220</u>
Total revenues and support			
Expenses			
Grants	65,521,839	-	65,521,839
Program related expenses	10,913,165	-	10,913,165
Management and general	1,117,145	-	1,117,145
Fundraising and development	581,440	-	581,440
	<u>78,133,589</u>	<u>-</u>	<u>78,133,589</u>
Total expenses			
Change in net assets	22,848,507	(62,752,876)	(39,904,369)
Beginning net assets, as previously reported	361,380,863	80,076,581	441,457,444
Restatement of beginning net assets	<u>(43,797,596)</u>	<u>43,797,596</u>	<u>-</u>
Beginning net assets, restated	<u>317,583,267</u>	<u>123,874,177</u>	<u>441,457,444</u>
Net assets, end	<u>\$ 340,431,774</u>	<u>\$ 61,121,301</u>	<u>\$ 401,553,075</u>

See Notes to Consolidated Financial Statements.

**Community Foundation of New Jersey and Affiliate**

**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2018**

Cash flows from operating activities	
Change in net assets	\$ (39,904,369)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Unrealized loss on change in fair value of investments	29,980,671
Realized gain on change on sale of investments	(5,174,651)
Noncash stock contribution	(29,891,090)
Restricted contributions to endowment	(2,303,799)
Change in value of charitable gift annuities	213,302
Changes in operating assets and liabilities	
Grants and other receivables	36,420
Prepaid expenses and other assets	41,752
Accounts payable and accrued expenses	(258,983)
Deferred revenue	2,500
Grants and pledges payable	<u>(2,584,874)</u>
Net cash used in operating activities	<u>(49,843,121)</u>
Cash flows from investing activities	
Purchase of investments	(69,447,788)
Proceeds on sale of investments	<u>120,609,704</u>
Net cash provided by investing activities	<u>51,161,916</u>
Cash flows from financing activities	
Payments of charitable gift annuities, net	(287,237)
Change in funds held on behalf of others	(1,302,776)
Restricted contributions to endowment	<u>2,303,799</u>
Net cash used in financing activities	<u>713,786</u>
Net increase in cash and cash equivalents	2,032,581
Cash and cash equivalents, beginning	<u>591,216</u>
Cash and cash equivalents, end	<u><u>\$ 2,623,797</u></u>

See Notes to Consolidated Financial Statements.

## **Community Foundation of New Jersey and Affiliate**

### **Notes to Consolidated Financial Statements December 31, 2018**

#### **Note 1 - Nature of organization and activities**

Community Foundation of New Jersey ("CFNJ") was established in November 1979 under the provisions of Title 15 of the New Jersey Revised Statutes of 1937. CFNJ is an alliance of families, businesses and foundations that work together providing services in New Jersey that use charitable giving to create lasting differences in lives and communities. It is organized for consistent, responsive and timely giving. On an ongoing basis, community needs are assessed and projects are selected based upon where resources can deliver the best outcomes.

In December 2009, CFNJ was the recipient of a grant to establish a civic journalism website. In 2010, to limit the liability and exposure, and to conduct all activities associated with the requirements of the grant, CFNJ established NJSpotlight.com, LLC ("NJSpotlight.com"), a single member limited liability company.

CFNJ and NJSpotlight.com are collectively known as the "Foundation."

#### **Note 2 - Summary of significant accounting policies**

##### **Basis of accounting and principles of consolidation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The consolidated financial statements include the accounts of CFNJ and its affiliate, NJSpotlight.com. All intercompany accounts and transactions have been eliminated in consolidation.

The Foundation presents information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Without donor restrictions - Net assets over which the governing board has discretionary control. The governing board of the Foundation may elect to designate such resources for specific purposes. This designation may be removed at the Board of Trustees' discretion.

With donor restrictions - Net assets with donor restrictions consist of assets that are restricted by a donor to be used for a specific purpose or in a future period. Some donor imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions, or when the stipulated time has passed. Other donor imposed restrictions on net assets are permanent in nature. These net assets have been restricted by donors to be maintained in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restrictions is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.



## **Community Foundation of New Jersey and Affiliate**

### **Notes to Consolidated Financial Statements December 31, 2018**

#### **Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Foundation makes significant estimates regarding the value of investments. Accordingly, actual results could differ from those estimates.

#### **Cash and cash equivalents**

The Foundation considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents. Cash and money market funds held by investment managers are classified as investments.

#### **Concentrations of credit risk**

The Foundation maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

#### **Investment valuation and net investment return**

The Foundation's investments are stated at fair value, which has been determined based on the fair value of the underlying investments. Fair value is 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. See Note 5 for discussion of fair value measurements.

Purchases and sales are recorded on a trade date basis. The Foundation's gains and losses on investments sold or held during the year are included on the consolidated statements of activities and changes in net assets. Dividend income is recorded when received and interest income is recorded on the accrual basis.

Net investment return includes dividends, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. External investment related expenses are netted against investment returns.

#### **Fair value of financial instruments**

The Foundation's material financial instruments at December 31, 2018 for which disclosure of estimated fair value is required by certain accounting standards consisted of cash and cash equivalents, grants and other receivables, accounts payable and accrued expenses, grants and pledges payable and annuities. The fair values of cash and cash equivalents, grants receivable and accounts payable and accrued expenses are equal to their carrying value because of their liquidity and short-term maturity. Management believes that the fair values of other receivables from and grants and pledges payable to unrelated parties do not differ materially from their aggregate carrying values in that substantially all the obligations bear risk-free interest rates, if material, that are based on market rates or interest rates that are periodically adjustable to rates that are based on market rates (see Note 13 for discussion on annuities).

#### **Functional allocation of expenses**

Costs are allocated between activities and program services, fundraising and general and administrative based on an evaluation of the related benefits. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable

## **Community Foundation of New Jersey and Affiliate**

### **Notes to Consolidated Financial Statements December 31, 2018**

basis that is consistently applied. The expenses that are allocated include compensation, payroll taxes and employee benefits, which are allocated on the basis of estimates of time and effort. Other expenses are allocated by direct costs incurred.

#### **Grants and pledges payable**

Grants are recorded as an expense and accrued as a liability when approved by the President and Executive Committee, and ratified by the Board of Trustees. Pledges payable are recorded at fair value at the date the promise is made to the non-profit organization as established by the Foundation. Pledges that are expected to be paid after one year are discounted at a risk-free interest rate when material and amortization of the discount is included in grant expense. Conditional pledges are reported at fair value at the date the condition is met.

#### **Contributions**

Contributions received are recorded as donor restricted or non-donor restricted depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as non donor restricted contributions. Grant revenue is recognized to the extent of expenditures.

It is the Foundation's policy that contributions to donor advised funds are reported as an increase in net assets without donor restrictions. Although the donor relinquishes control over those assets, the donor can advise the Foundation as to the use of those assets. However, the Foundation can exercise its variance power to modify any restriction if such restriction becomes unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community.

#### **Funds held on behalf of others**

The Foundation receives and distributes assets under certain agency and intermediary arrangements. When the Foundation accepts a contribution from a not-for-profit organization to establish a fund that specifies itself as the beneficiary of that fund, the Foundation will account for the transfer of such assets as a liability. The liability is established at the fair value of the funds received, adjusted for investment earnings, fees, gains and losses and net of any funds returned to the not-for-profit organization which is generally equivalent to the present value of future payments expected to be made to the not-for-profit organization.

#### **Non-monetary transactions/donated services**

Non-monetary transactions are recorded in a similar manner as monetary transactions. That is, they should be based on fair values of the donated services involved. Certain donated services require recognition as contribution revenue in the period received at fair value. In many instances the contribution revenue would be offset by additional expenses based on the nature of the donated services. The Foundation received \$20,520 of program related services for the year ended December 31, 2018.

#### **Income taxes**

CFNJ is qualified under Section 501(c)(3) of the Internal Revenue Code (the "IRC") and is therefore not subject to federal income taxes. CFNJ is required to operate in conformity with the IRC to maintain its tax-exempt status. CFNJ is also not subject to state tax under present tax law. Management is not aware of any course of action or series of events that have occurred that might adversely affect CFNJ's qualified status.

## Community Foundation of New Jersey and Affiliate

### Notes to Consolidated Financial Statements December 31, 2018

NJSpotlight.com is a single member limited liability company, and therefore any taxes associated with it are the responsibility of the individual member.

The Foundation has no unrecognized tax benefits at December 31, 2018. The Foundation's federal and state income tax returns prior to 2015 and 2014, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Foundation recognizes interest and penalties associated with tax matters as expenses and includes accrued interest and penalties under accrued expenses in the consolidated statements of financial position. There were no interest or penalties accrued or paid for the year ended December 31, 2018.

The Foundation is subject to corporate tax rates on net income earned from unrelated business activities. The Foundation's investments produce minimal amounts of unrelated business income. The Foundation reviews unrelated business income transactions and related tax returns have been filed on a timely basis with the Internal Revenue Service.

#### Adoption of new accounting pronouncement

For the year ended December 31, 2018, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is related to the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions. The chart below illustrates the impact of adopting ASU 2016-14 on the classifications of opening net asset balances, as restated (see Note 19), as follows:

Net asset classifications	Opening net asset reclassification for ASU No. 2016-14		Total net assets
	Without donor restrictions	With donor restrictions	
As previously presented			
Unrestricted	\$ 317,583,267	\$ -	\$ 317,583,267
Temporarily restricted	-	58,564,385	58,564,385
Permanently restricted	-	65,309,792	65,309,792
Net assets, as reclassified	<u>\$ 317,583,267</u>	<u>\$ 123,874,177</u>	<u>\$ 441,457,444</u>

#### Subsequent events

Subsequent events have been evaluated through December 18, 2019, which is the date the consolidated financial statements were available to be issued.

## Community Foundation of New Jersey and Affiliate

### Notes to Consolidated Financial Statements December 31, 2018

#### Note 3 - Grants and other receivables

During 2018, the Foundation established an arts loan fund. The purpose of the fund is to provide short term cash flow loans to arts organizations. Six loans totaling \$320,000 were issued and repayments of \$220,000 were received in 2018. At December 31, 2018, outstanding loans totaled \$100,000.

During 2017, the Foundation increased a line of credit with a New Jersey non-profit from \$9.3 million to \$12.9 million. As of December 31, 2018, the non-profit had drawn down the entire line of credit. Interest is charged at 1% of the outstanding balance and payable quarterly to the Foundation. The line of credit is to be repaid in full within 60 months from the date of each drawdown.

During 2012, the Foundation sold its interest in a private corporation and is receiving a portion of the proceeds over a ten-year period. The note is non-interest bearing and due in quarterly installments. The balance outstanding was \$95,588 at December 31, 2018.

#### Note 4 - Line of credit

During 2017, the Foundation opened a \$500,000 line of credit with a local financial institution. The terms of the line of credit are Prime Rate minus 125 basis points and is secured by one of the investment accounts held at the financial institution. As of December 31, 2018, the line of credit had not been drawn down on.

#### Note 5 - Liquidity and availability

The Organization's cash flows have seasonal variations during the year, with 45% of contributions received in the 4th quarter in 2018. Available financial assets are more than adequate to seasonal variations.

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of donor or other restrictions within one year of the balance sheet date.

Cash and cash equivalents	\$ 2,623,797
Pledge receivable, collectible in less than one year	22,200
Loan receivable, collectible in less than one year	131,863
Other receivables, collectible in less than one year	61,243
Investments	<u>407,736,706</u>
Total financial assets, excluding noncurrent receivables	410,575,809
Less:	
Investments in non-liquid securities	31,165,090
Donor-imposed restrictions unavailable within one year due to purpose restrictions	<u>61,121,301</u>
Financial assets available to meet cash needs for expenditures within one year	<u><u>\$ 318,289,418</u></u>

## Community Foundation of New Jersey and Affiliate

### Notes to Consolidated Financial Statements December 31, 2018

#### Note 6 - Investments

The Foundation's investments are stated at fair market value in the consolidated statement of financial position and consist of the following:

	<u>Fair value</u>
Money market funds	\$ 64,495,217
Common stocks	56,337,301
Federal and corporate bonds and notes	72,927,618
Mutual funds	182,811,480
Hedge funds	12,066,143
Private equity	12,358,209
Investment in real estate	550,031
Cash surrender value of life insurance policies	1,090,972
Limited partnerships	<u>5,099,735</u>
Total	<u><u>\$ 407,736,706</u></u>

#### Note 7 - Fair value measurements

The Foundation values its financial assets and liabilities based on 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 order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

## Community Foundation of New Jersey and Affiliate

### Notes to Consolidated Financial Statements December 31, 2018

Financial assets and liabilities carried at fair value at December 31, 2018 are classified in the tables below in one of the three categories described above:

	Total	Level 1	Level 2	Level 3
Money market funds	\$ 64,495,217	\$ -	\$ 64,495,217	\$ -
Common stocks	56,337,301	56,337,301	-	-
Federal and corporate bonds and notes	72,927,618	-	72,927,618	-
Mutual funds	182,811,480	182,811,480	-	-
Hedge funds	12,066,143	-	12,045,522	20,621
Private equity	12,358,209	-	-	12,358,209
Investment in real estate	550,031	-	-	550,031
Limited partnerships	5,099,735	-	-	5,099,735
Cash surrender of life insurance policies	1,090,972	-	1,090,972	-
<b>Total</b>	<b>\$ 407,736,706</b>	<b>\$ 239,148,781</b>	<b>\$ 150,559,329</b>	<b>\$ 18,028,596</b>
<b>Liabilities</b>				
Charitable gift annuities	\$ 1,549,797	\$ -	\$ -	\$ 1,549,797

The following is a summary of activity for the year ended December 31, 2018 for assets (liabilities) measured at fair value based on Level 3 criteria:

	Real estate	Hedge funds	Private equity	Limited partnerships	Charitable gift annuities
Balance, beginning of year	\$ 528,855	\$ 21,326	\$ 1,098,554	\$ 2,226,133	\$ (1,623,732)
Realized and unrealized gains (losses) included in earnings	23,076	(705)	(22,376)	(59,398)	(213,302)
Purchases/contributions	633,100	-	-	2,933,000	(16,781)
Sales	(635,000)	-	11,282,031	-	304,018
<b>Total</b>	<b>\$ 550,031</b>	<b>\$ 20,621</b>	<b>\$ 12,358,209</b>	<b>\$ 5,099,735</b>	<b>\$ (1,549,797)</b>
	Real estate	Hedge funds	Private equity	Limited partnerships	Charitable gift annuities
Change in unrealized gains or losses for the year included in the change in unrestricted net assets for assets held at the end of the year	\$ 23,076	\$ (705)	\$ (22,376)	\$ (59,398)	\$ (213,302)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

Common stocks and mutual funds are broadly diversified according to economic sector, industry, number of holdings and other investment characteristics. These are designated as Level 1. Level 1 instrument valuations are obtained from real time quotes for transactions in active exchange markets involving identical assets.

Federal and corporate bonds and notes consist of broadly diversified bonds (which term is meant to include notes, debentures, appropriate mortgage-backed securities and other debt instruments which are not publicly traded but for which a limited trading market is likely to be available). Equity and convertible securities are excluded. These are designated as Level 2. They are based on a modeled bid evaluation pricing estimate for comparable instruments.

## **Community Foundation of New Jersey and Affiliate**

### **Notes to Consolidated Financial Statements December 31, 2018**

Money market funds are valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit worthiness of the issuer. These are designated as Level 2.

Cash surrender value of life insurance policies is valued to reflect the return on a portfolio of securities and periodically adjusted. These are designated as Level 2.

The Foundation invests in alternative investment strategies (other than traditional long-only purchases of stocks or bonds) for the purposes of diversifying the market exposure of the investment portfolios, reducing volatility and/or enhancing the overall return. Alternative investments may include investment managers, partnerships or other similar vehicles investing (long and/or short) in domestic and international securities, venture capital investments, hedge funds, private equity, high yield and distressed securities and loans, commodities, gold, oil and gas interests, real estate and derivative instruments. Certain alternative investments are classified within Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Other alternative investments can be redeemed or traded frequently and therefore are classified within Level 2 of the fair value hierarchy. Hedge funds and private equity are valued utilizing the net asset value ("NAV") provided by the underlying investment companies or fund managers. NAV is utilized as a practical expedient. Investments in real estate and limited partnerships are stated at estimated fair value. The value of the investments, which includes investment in marketable and nonmarketable securities, is provided by the general partner and is based on historical cost, appraisals and market values discounted for concentration of ownership and other estimates. The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Transfers are measured at fair value on the date the transfer takes place. The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

The Investment Committee periodically monitors the investment portfolios for consistency in each investment manager's investment philosophy, return relative to objectives and investment risk measured by asset concentration, exposure to extreme economic conditions and volatility.

## Community Foundation of New Jersey and Affiliate

### Notes to Consolidated Financial Statements December 31, 2018

The following table presents the Foundation's investments with a reported NAV at December 31, 2018:

		Unfunded commitment	Redemption frequency	Redemption notice
Archipelago Holdings, Ltd.	\$ 587,797	\$ -	Quarterly	45 days
Davidson Kempner Institutional Partners, L.P.	1,504,733	-	Quarterly	65 days
Garnet Absolute Return Fund	2,633,486	-	Quarterly	45 days
Fairmont Partners	20,621	-	Annually	N/A
Goldman Sachs Hedge Fund Managers Ltd.	5,603,801	-	Quarterly	91 days
Marathon European Credit Opportunity Fund II, Ltd.	1,715,705	527,379	N/A	N/A
	<u>12,066,143</u>	<u>527,379</u>		
Total hedge funds				
Goldman Sachs PrivateCredit Managers II Offshore	2,689	2,600,000	N/A	N/A
Goldman Sachs Private Equity Managers 2016	536,492	485,008	N/A	N/A
Goldman Sachs Private Equity Managers 2017	342,095	1,008,766	N/A	N/A
Goldman Sachs Private Equity Managers 2018	41,962	857,250	N/A	N/A
Goldman Sachs Vintage VII LP	603,855	510,745	N/A	N/A
Amplify (Magnify Networks)	1,294	-	N/A	N/A
Genscript Corporation	2,000,800	-	N/A	N/A
Gunsight Partners LLC	140,992	-	N/A	N/A
Huber Company	8,622,766	-	N/A	N/A
Red Leaf	7,324	-	N/A	N/A
Ridgewood Energy Funds	57,940	-	N/A	N/A
	<u>12,358,209</u>	<u>5,461,769</u>		
Total private equity				
Total	<u>\$ 24,424,352</u>	<u>\$ 5,989,148</u>		

Archipelago Holdings, Ltd. - The Company's investment objective is to seek capital appreciation through investing in certain private investment funds that have been sponsored by, or may in the future be sponsored by, the Manager (Wellington Global Holdings, Ltd) or its affiliates.

Davidson Kempner Institutional Partners, L.P. - The partnership's investment objective is to achieve capital appreciation through an event-driven focus, seeking to exploit situations in which announced or anticipated events create opportunities to invest in securities and other financial instruments at a discount to their exit values.

Garnet Absolute Return Fund (formerly EACM Absolute Return Fund, Ltd. Class M) - The fund's investment objective is to generate consistent long-term capital appreciation with moderate volatility and moderate correlation to global markets.

Fairmont Partners - Amounts held at December 31, 2018 represent the remaining portion not yet returned from this liquidating hedge fund.

Goldman Sachs Hedge Fund Managers Ltd. - The objective of this fund is to invest in hedge fund managers diversified across sectors, strategies and geographies, focused on identifying managers who may be positioned to take advantage of current market dislocations.

Marathon European Credit Opportunity Fund II, Ltd. - The objective of the fund is to generate alpha and attractive absolute returns for investors by opportunistically deploying and managing capital in special situations and stressed and distressed debt stemming from the European credit crisis, including non-performing loans, restructurings, bank asset sales, mispriced debt, structured products, capital structure trades and other event-driven opportunities.



## **Community Foundation of New Jersey and Affiliate**

### **Notes to Consolidated Financial Statements December 31, 2018**

Goldman Sachs Private Equity Managers - The objective of this fund is to invest in pooled investment vehicles via capital commitments to the issuers of such investments, pooled investment vehicles purchase from the existing owners of such pooled investments and not from the issuers of such investment transaction structured to share many of the characteristics and economics of such purchase, and privately negotiated transactions, generally sourced on co-investment basis with certain other co-investment partnerships.

Goldman Sachs Vintage VII Fund - The objective of this fund is to invest in LP Secondaries, Direct Secondaries/Special Situations and other opportunistic investments.

Genscript Corporation - The Company is an investment holding company. The Company's subsidiaries are principally engaged in the manufacture and sale of life sciences research products and services.

Gunsight Partners LLC - The current objective of this fund is to acquire and hold shares of Series A Preferred Stock in Red Leaf Resources, Inc., a Delaware corporation. Transfers and sales are restricted and no redemptions are permitted. Quarterly distributions of available cash are made to members within 30 days of quarter end.

Huber Company - The Company, in the normal course of business, enters into derivative financial instruments with high-quality counterparties as part of its risk management strategy. These financial instruments are used principally to reduce the Company's exposure to fluctuations in foreign currency and interest rates.

Ridgewood Energy Funds - The Foundation holds investments in the Capital Venture Fund. The objective of the Capital Venture Fund is to invest in private growth companies at differing stages of development with a view toward creating long-term capital appreciation.

Spectrum Holdings - The objective of this company is to hold shares as a membership interest in Elauwit LLC, a privately held telecommunications company, headquartered in Charleston, South Carolina. The position was liquidated in 2018.

As of December 31, 2018, the Foundation had commitments of \$5,989,148, respectively, under subscription agreements to fund capital calls of hedge fund and private equity limited partnerships.

**Community Foundation of New Jersey and Affiliate**

**Notes to Consolidated Financial Statements  
December 31, 2018**

**Note 8 - Functional expenses**

Expenses incurred by the Foundation classified by functional categories for the year ended December 31, 2018, were as follows:

	<u>Program</u>	<u>Management &amp; general</u>	<u>Fundraising</u>	<u>Total</u>
Grants	\$ 65,521,838	\$ -	\$ -	\$ 65,521,838
Program related expense	7,900,493	-	519,814	8,420,307
Salaries/wages	2,097,409	219,956	55,448	2,372,813
Payroll taxes	164,007	14,418	1,802	180,227
Employee benefits	398,221	35,008	4,376	437,605
Conferences, meetings, travel	5,552	106,300	-	111,852
Office expense	3,950	169,384	-	173,334
Professional fees	-	167,512	-	167,512
Occupancy costs	1,290	72,317	-	73,607
Computer services	-	130,746	-	130,746
Insurance	4,834	32,608	-	37,442
Communications, marketing	124,108	145,933	-	270,041
Dues, subscriptions	-	22,963	-	22,963
Change in value of charitable gift annuities	213,302	-	-	213,302
	<u>213,302</u>	<u>-</u>	<u>-</u>	<u>213,302</u>
Total functional expenses	<u>\$ 76,435,004</u>	<u>\$ 1,117,145</u>	<u>\$ 581,440</u>	<u>\$ 78,133,589</u>

	Program	Management & General	Fundraising
Percentage of total expenses for year ended December 31, 2018:	98%	1%	1%

**Note 9 - Risks and uncertainties**

The Foundation invests in various securities and investments. These investments are exposed to various risks such as interest rate, market volatility and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

**Note 10 - Grants and pledges payable**

Grants and pledges payable are recorded at their estimated fair values and are as follows:

Grants/pledges payable expected to be paid in	
Less than one year	\$ 5,225,875
One to five years	<u>1,267,117</u>
	6,492,992
Less current portion	<u>5,225,875</u>
Long-term portion	<u>\$ 1,267,117</u>

**Note 11 - Retirement plan**

The Foundation sponsors a 403(b) plan. Employees who elect to participate may make voluntary contributions not to exceed the amount specified by law. The plan allows for discretionary employer

## Community Foundation of New Jersey and Affiliate

### Notes to Consolidated Financial Statements December 31, 2018

matching contributions. The Foundation matched employee contributions up to 8% for 2018 of an eligible employee's salary. The Foundation's contributions amounted to \$139,703 for the year ended December 31, 2018.

#### Note 12 - Lease commitments

The Foundation leases office space in Morristown, New Jersey under a noncancelable operating lease that expires on December 31, 2022. In 2015, the Foundation relocated its Haddonfield, New Jersey office to a different facility under an annual lease arrangement, which was converted to a month to month agreement in 2017. In September 2011, the Foundation rented additional office space in Trenton, New Jersey under an operating lease that expired in September 2012 and was renewed under a month to month agreement. In September 2014, the Foundation rented a larger space in Newark, New Jersey for a term ending in December 2015 and renewed on a month to month basis. The space was vacated in May 2017. Rent expense amounted to \$36,932 in 2018.

The future minimum lease payments under the Foundation's noncancelable operating leases in the years subsequent to December 31, 2018 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 18,445
2020	18,780
2021	19,125
2022	19,171
2023	895
	<u>\$ 76,416</u>

#### Note 13 - Charitable gift annuities

The Foundation has several charitable gift annuity contracts funded by gifts of securities and other assets, with specified distributions to be made to a designated charitable beneficiary or beneficiaries over the contracts' terms. Upon termination of the contract, the residuum less a 5% administrative fee will be paid to the charity of the annuitant's choice. The assets are recorded at fair market value when received, and the liability to the donor's charitable beneficiary is recorded at the present value of the estimated future payments to be distributed over the beneficiary's expected life based upon relevant mortality tables. The difference is recorded as an unrestricted or restricted contribution. The discount rate used at December 31, 2018 was 3.6%. Contributions from gift annuities amounted to \$30,000 for the year ended December 31, 2018. In 2014, the Foundation has become licensed in the State of Florida to issue charitable gift annuities.

**Community Foundation of New Jersey and Affiliate**

**Notes to Consolidated Financial Statements  
December 31, 2018**

**Note 14 - Net assets with donor restrictions**

As of December 31, 2018, net assets with donor restrictions are restricted for the following purposes or periods.

Subject to expenditures for specific purposes or passage of time	
Agency restricted funds	\$ 6,461,420
Field of interest funds	6,817,035
Gift annuities - net	1,111,437
Scholarship funds	11,343,399
Community action funds	237,450
Special projects	7,234,120
	<u>33,204,861</u>
Endowments:	
Agency restricted funds	\$ 17,801,451
Field of interest funds	4,174,890
Scholarship funds	3,358,729
Community action funds	1,274,139
Special projects	1,307,231
	<u>27,916,440</u>
Total	<u><u>\$ 61,121,301</u></u>

**Note 15 - Endowment net assets**

The Foundation adopted authoritative guidance intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations as of the year ended December 31, 2009. This guidance provides clarity on classifying the net assets associated with donor-restricted endowment funds held by an organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which serves as a model act for states to modernize their laws governing donor-restricted endowment funds.

The guidance also requires additional disclosures about endowments (both donor-restricted funds and board designated funds) for all organizations, including those that are not subject to an enacted version of UPMIFA.

**Endowment funds**

The Foundation's net assets with donor restrictions consist of endowment funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

**Underwater endowments**

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of \$14,293,189, fair values of \$13,516,736 and deficiencies of \$776,453 were reported in net assets with donor

## **Community Foundation of New Jersey and Affiliate**

### **Notes to Consolidated Financial Statements December 31, 2018**

restrictions. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

#### **Interpretation of relevant law**

The Board of Trustees of the Foundation have interpreted state law as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of the interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the endowment and (b) any accumulations to the endowment made in accordance with the direct of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund.
2. The purposes of the Foundation and the donor-restricted fund.
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 Foundation.
7. The investment policies of the Foundation.

#### **Return objectives and risk parameters**

The Foundation has adopted investment and spending policies for endowment assets. The primary objective of the Investment Committee is to provide for adequate, total investment return without undue exposure to market risk to enable the Foundation to accomplish its charitable purpose and to make grants on a continuing and reasonably consistent basis.

#### **Strategies employed for achieving objectives**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### **Spending policy and how the investment objectives relate to spending policy**

The Foundation has a policy of appropriating for distribution each year between 4.75% and 5.75% of its endowment fund's average fair value over the prior 16 calendar quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Board of Trustees considers market conditions and the long-term expected return on its investments. This is consistent with the Foundation's objective to provide for adequate total investment return without undue exposure to market risk.

**Community Foundation of New Jersey and Affiliate**

**Notes to Consolidated Financial Statements  
December 31, 2018**

The following table provides information regarding the change in endowment net assets:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning, as originally reported	\$ 30,666,244	\$ 49,224,604	\$ 79,890,848
Restatement (see Note 19)	<u>(30,666,244)</u>	<u>16,085,188</u>	<u>(14,581,056)</u>
Endowment net assets, beginning, as restated	-	65,309,792	65,309,792
Contributions	-	2,303,799	2,303,799
Loss on return of contribution	-	(37,641,313)	(37,641,313)
Investment return			
Investment income	-	1,518,194	1,518,194
Realized gains	-	343,280	343,280
Unrealized loss	-	(2,399,274)	(2,399,274)
Satisfaction of program restrictions	-	(1,119,903)	(1,119,903)
Management fees and program expenses	-	<u>(398,135)</u>	<u>(398,135)</u>
Endowment net assets, ending	<u>\$ -</u>	<u>\$ 27,916,440</u>	<u>\$ 27,916,440</u>

**Note 16 - Related party transactions**

Effective September 1, 2009, CFNJ entered into an affiliation agreement with Southern New Jersey Regional Community Foundation, Inc., a New Jersey non-profit corporation founded in 2007 to provide community foundation services to the southernmost eight counties of the State of New Jersey under the name of Community Foundation of South Jersey ("CFSJ"). Both CFNJ and CFSJ are tax-exempt organizations under IRC Section 501(c)(3) and designated as public charities under IRC Section 509(a)(1). CFNJ will provide staff, expertise and financial oversight to CFSJ. The original agreement was for a term of one year through August 31, 2010; subsequently, the agreement was extended to December 31, 2012. Currently, the agreement is in effect on a month-to-month basis. If the agreement is terminated by either party, all funds established by CFSJ during the agreement period will be transferred to CFSJ.

**Note 17 - Funds held on behalf of others**

The following table summarizes the activity in funds held on behalf of others:

Funds held on behalf of others, beginning	<u>\$ 14,928,856</u>
Contributions	401,833
Interest and dividend income	408,390
Realized and unrealized gains on investments	(856,021)
Distributions (decrease)	<u>(1,256,978)</u>
Net increase	<u>(1,302,776)</u>
Funds held on behalf of others, end	<u>\$ 13,626,080</u>

**Community Foundation of New Jersey and Affiliate**

**Notes to Consolidated Financial Statements  
December 31, 2018**

**Note 18 - Return of contribution**

During 2014, a donor contributed \$52,614,017 to the Foundation for the formation of a fund to support, assist and develop the health and wellness of the residents of a county in New Jersey. During 2018, to better meet the donor's restrictions it was determined that the fund assets should be returned to the donor. The balance of the fund's investments as of December 31, 2017 totaled \$56,037,728, all of which was classified as net assets with donor restrictions.

During 2018, approval was received and a Board resolution was made to return the funds to the donor. In March 2018, all assets of the fund were transferred back to a donor for a total amount of \$56,008,079 consisting of all fund assets less administrative expenses and liabilities. As this transaction involves returning a contribution from the prior years, the Foundation recognized this as a loss on return of contributions in 2018. Of the \$56,008,079 of contributions returned, \$37,641,313 was endowed by the Board.

**Note 19 - Restatement**

Subsequent to the issuance of the Foundation's financial statements for the year ended December 31, 2017, management of the Foundation discovered an error in the classification of net assets. Accordingly, a correction has been made to correct the net assets classification resulting in \$43,797,596 of net assets being reclassified from unrestricted to restricted as noted in the table below.

Net asset classifications	Net asset balance, as originally issued	Adjustment	Net asset balance, as restated
Unrestricted	\$ 361,380,863	\$ (43,797,596)	\$ 317,583,267
Temporarily restricted	31,537,084	27,027,301	58,564,385
Permanently restricted	<u>48,539,497</u>	<u>16,770,295</u>	<u>65,309,792</u>
Total	<u>\$ 441,457,444</u>	<u>\$ -</u>	<u>\$ 441,457,444</u>

**Note 20 - Subsequent events**

On March 4, 2019, the Foundation entered into an asset purchase agreement with WNET, to sell its wholly owned limited liability company, NJSpotlight.com LLC. The Foundation would delegate to WNET by assignment all acquired assets, contracts and grants. WNET would assume all of the Foundation's obligations under contracts and grant agreements.



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