

NEW JERSEY SEEDS, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2014 AND 2013

NEW JERSEY SEEDS, INC.

AUGUST 31, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
New Jersey SEEDS, Inc.
Newark, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of New Jersey SEEDS, Inc. ("Organization"), a New Jersey nonprofit organization, which comprise the statements of financial position as of August 31, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 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 financial statements referred to above present fairly, in all material respects, the financial position of New Jersey SEEDS, Inc. as of August 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Certified Public Accountants

Livingston, New Jersey
December 10, 2014

NEW JERSEY SEEDS, INC.
STATEMENTS OF FINANCIAL POSITION

| ASSETS | August 31, | |
|-----------------------------------|---------------------|---------------------|
| | 2014 | 2013 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 346,675 | \$ 333,597 |
| Contributions receivable, net | 18,472 | 24,324 |
| Prepaid expenses and other assets | 3,575 | 16,317 |
| Total Current Assets | <u>368,722</u> | <u>374,238</u> |
| NONCURRENT ASSETS: | | |
| Investments | 8,817,264 | 8,695,115 |
| Fixed assets, net | 152,534 | 201,930 |
| Cash surrender value | 69,738 | 66,742 |
| Security deposits | 22,500 | 22,500 |
| Total Noncurrent Assets | <u>9,062,036</u> | <u>8,986,287</u> |
| Total Assets | <u>\$ 9,430,758</u> | <u>\$ 9,360,525</u> |

LIABILITIES AND NET ASSETS

LIABILITIES:

| | | |
|---------------------------------------|----------------|----------------|
| Accounts payable and accrued expenses | \$ 250,860 | \$ 414,066 |
| Conditional transfers | 15,000 | 15,000 |
| Deferred rent | 48,759 | 57,981 |
| Total Liabilities | <u>314,619</u> | <u>487,047</u> |

COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Unrestricted:

| | | |
|--|------------------|------------------|
| Available for operations | 50,500 | 50,500 |
| Board-designated for long-term investments | 1,202,685 | 974,696 |
| Major gift campaign | 4,335,743 | 4,335,743 |
| Total Unrestricted Net Assets | <u>5,588,928</u> | <u>5,360,939</u> |

Temporarily restricted

Permanently restricted endowment

Total Net Assets

Total Liabilities and Net Assets

| | | |
|--|---------------------|---------------------|
| | 189,843 | 190,171 |
| | 3,337,368 | 3,322,368 |
| | <u>9,116,139</u> | <u>8,873,478</u> |
| | <u>\$ 9,430,758</u> | <u>\$ 9,360,525</u> |

NEW JERSEY SEEDS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

| | Year Ended August 31, 2014 | | | Year Ended August 31, 2013 | | |
|---|----------------------------|-------------|--------------|----------------------------|-------------|--------------|
| | Unrestricted | Temporarily | Permanently | Unrestricted | Temporarily | Permanently |
| | | Restricted | Restricted | | Restricted | Restricted |
| | Total | Total | Total | Total | Total | Total |
| SUPPORT AND REVENUE: | | | | | | |
| Contributions: | | | | | | |
| Major gifts | \$ - | \$ 337,500 | \$ - | \$ 250,000 | \$ - | \$ 250,000 |
| Annual campaign | 1,167,915 | 895,874 | 15,000 | 839,077 | 15,000 | 2,117,716 |
| | 1,167,915 | 1,233,374 | 15,000 | 1,089,077 | 15,000 | 2,367,716 |
| Special events | 1,207,421 | - | - | 995,669 | - | 995,669 |
| Less: Cost of events | (222,559) | - | - | (204,069) | - | (204,069) |
| Fundraising Events, Net | 984,862 | - | - | 791,600 | - | 791,600 |
| Interest and dividends, net | 92,755 | 56,920 | - | 86,797 | 52,823 | 139,620 |
| Unrealized gain on investment securities | 352,792 | 216,491 | - | 396,034 | 241,019 | 637,053 |
| Realized gain on investment securities, net | 219,787 | 134,872 | - | 60,979 | 37,175 | 98,154 |
| | 665,334 | 408,283 | - | 543,810 | 331,017 | 874,827 |
| Total Support and Revenue | 2,818,111 | 1,641,657 | 15,000 | 2,599,049 | 1,420,094 | 4,034,143 |
| before Satisfaction of Restrictions | 1,641,985 | (1,641,985) | - | 1,588,935 | (1,588,935) | - |
| Satisfaction of time and expense restrictions | | | | | | |
| Total Support and Revenue | 4,460,096 | (328) | 15,000 | 4,187,984 | (168,841) | 4,034,143 |
| EXPENSES: | | | | | | |
| Program services | 3,406,703 | - | - | 3,305,309 | - | 3,305,309 |
| Management and general | 425,402 | - | - | 405,587 | - | 405,587 |
| Development | 400,002 | - | - | 367,616 | - | 367,616 |
| Total Expenses | 4,232,107 | - | - | 4,078,512 | - | 4,078,512 |
| CHANGES IN NET ASSETS | 227,989 | (328) | 15,000 | 109,472 | (168,841) | (44,369) |
| NET ASSETS, Beginning of year | 5,360,939 | 190,171 | 3,322,368 | 5,251,467 | 359,012 | 3,307,368 |
| NET ASSETS, End of year | \$ 5,588,928 | \$ 189,843 | \$ 3,337,368 | \$ 5,360,939 | \$ 190,171 | \$ 3,322,368 |
| | | | | | | \$ 8,873,478 |

The accompanying notes are an integral part of these financial statements.

NEW JERSEY SEEDS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES

| | Year Ended August 31, 2014 | | | Year Ended August 31, 2013 | | | | |
|------------------------------------|----------------------------|------------------------|-------------|----------------------------|------------------|------------------------|-------------|----------------|
| | Program Services | Management and General | Development | Total Expenses | Program Services | Management and General | Development | Total Expenses |
| Salaries and related taxes | \$ 2,080,353 | \$ 317,513 | \$ 276,979 | \$ 2,674,845 | \$ 1,943,515 | \$ 296,701 | \$ 254,315 | \$ 2,494,531 |
| Employee benefits | 138,256 | 26,487 | 23,105 | 187,848 | 141,824 | 26,832 | 22,998 | 191,654 |
| Educational books and supplies | 36,420 | - | - | 36,420 | 29,098 | - | - | 29,098 |
| Student educational expenses | 444,560 | 4,043 | 10,462 | 459,065 | 477,721 | 4,667 | 1,556 | 483,944 |
| Student transportation and trips | 123,173 | - | - | 123,173 | 115,955 | - | - | 115,955 |
| Facility expenses | 158,672 | 20,572 | 20,572 | 199,816 | 154,732 | 20,070 | 20,070 | 194,872 |
| Travel and auto expenses | 58,386 | 5,681 | 4,872 | 68,939 | 54,462 | 5,409 | 4,622 | 64,493 |
| Office supplies and expenses | 115,766 | 24,176 | 24,176 | 164,118 | 109,370 | 22,936 | 22,936 | 155,242 |
| Telephone | 22,849 | 3,608 | 3,608 | 30,065 | 23,840 | 3,764 | 3,764 | 31,368 |
| Printing and publications | 16,976 | 534 | 2,668 | 20,178 | 11,232 | 303 | 1,514 | 13,049 |
| Professional fees | 67,862 | 8,130 | 7,590 | 83,582 | 64,486 | 9,362 | 7,392 | 81,240 |
| Insurance | 26,580 | 4,197 | 4,197 | 34,974 | 47,823 | 8,220 | 7,642 | 63,685 |
| Postage | 14,354 | 1,025 | 5,126 | 20,505 | 11,803 | 843 | 4,216 | 16,862 |
| Bad debt expenses (recoveries) | 1,582 | 198 | 198 | 1,978 | (8,258) | (1,032) | (1,032) | (10,322) |
| Marketing/public relations | 26,853 | - | 7,385 | 34,238 | 65,228 | - | 10,805 | 76,033 |
| Miscellaneous | (163) | (26) | (26) | (215) | 2,108 | 104 | 104 | 2,316 |
| Total Expenses before Depreciation | 3,332,479 | 416,138 | 390,912 | 4,139,529 | 3,244,939 | 398,179 | 360,902 | 4,004,020 |
| Depreciation | 74,224 | 9,264 | 9,090 | 92,578 | 60,370 | 7,408 | 6,714 | 74,492 |
| Total Expenses | \$ 3,406,703 | \$ 425,402 | \$ 400,002 | \$ 4,232,107 | \$ 3,305,309 | \$ 405,587 | \$ 367,616 | \$ 4,078,512 |

The accompanying notes are an integral part of these financial statements.

NEW JERSEY SEEDS, INC.
STATEMENTS OF CASH FLOWS

| | Year Ended August 31, | |
|---|------------------------------|-------------------|
| | 2014 | 2013 |
| CASH FLOWS PROVIDED BY (USED FOR): | | |
| <u>OPERATING ACTIVITIES:</u> | | |
| Changes in net assets | \$ 242,661 | \$ (44,369) |
| Adjustments to reconcile changes in net assets to net cash used for operating activities: | | |
| Depreciation | 92,578 | 74,492 |
| Noncash stock contribution | 35,470 | 365,134 |
| Unrealized gain on investments | (569,283) | (637,053) |
| Realized gain on investments | (354,659) | (98,154) |
| Bad debt expenses (recoveries) | 1,978 | (10,322) |
| Contributions restricted for long-term investment | (15,000) | (15,000) |
| Changes in certain assets and liabilities: | | |
| Contributions receivable | 3,874 | 33,051 |
| Cash surrender value | (2,996) | (5,231) |
| Prepaid expenses and other assets | 12,742 | (9,175) |
| Accounts payable and accrued expenses | (163,206) | 48,692 |
| Deferred rent | (9,222) | (3,020) |
| Net Cash Used for Operating Activities | <u>(725,063)</u> | <u>(300,955)</u> |
| <u>INVESTING ACTIVITIES:</u> | | |
| Purchase of fixed assets | (43,181) | (86,843) |
| Proceeds from sale of investments | 35,094 | 492,755 |
| Purchases of investments | (224,709) | (996,647) |
| Distributions from investments | 955,937 | 1,007,245 |
| Net Cash Provided by Investing Activities | <u>723,141</u> | <u>416,510</u> |
| <u>FINANCING ACTIVITIES:</u> | | |
| Contributions restricted for long-term investment | <u>15,000</u> | <u>15,000</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 13,078 | 130,555 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of year | <u>333,597</u> | <u>203,042</u> |
| End of year | <u>\$ 346,675</u> | <u>\$ 333,597</u> |

The accompanying notes are an integral part of these financial statements.

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

NOTE 1 - NATURE OF ORGANIZATION:

Founded in 1992, New Jersey SEEDS, Inc. (“NJ SEEDS” or “Organization”) is a privately funded, statewide, nonprofit organization committed to developing future leaders from the state’s least privileged communities. By providing access to exceptional educational opportunities, NJ SEEDS programs create a viable path for students in underperforming schools to achieve their full potential. NJ SEEDS delivers an extremely rigorous academic curriculum, inspiring cultural experiences and critical training in leadership skills followed by placement in some of the nation’s most competitive independent schools and colleges. The Organization continues to guide its graduates throughout their school careers and beyond, and encourages its alumni to be ethical, engaged, responsible citizens who lead lives of contribution and give back to their communities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

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

Financial Statement Presentation:

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations and currently available for use by the Organization's Board of Trustees.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Cash and Cash Equivalents:

Cash and cash equivalents represent cash and short-term investments purchased with an original maturity of three months or less.

Investments:

Investment income is presented net of investment advisory/management fees and is reflected as realized gain (loss) on investment securities in the statements of activities and changes in net assets. All investment income is credited directly to unrestricted net assets unless otherwise restricted by the donor. All capital appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor. All investments are carried at fair value with the related gains and losses recognized in the statements of activities and changes in net assets.

The investments with the Community Foundation of New Jersey are considered level 3 inputs since the fair value is based upon underlying investments and funds of the Community Foundation of New Jersey which are comprised of domestic and international equity funds, fixed income and money markets funds, and alternative investment funds. Fair value is provided by the Community Foundation of New Jersey based upon the underlying valuation of each fund within the portfolio and the value is based on net asset value per share.

The Organization has investments in limited partnerships which are invested in diversified portfolios with no specific industry concentration or risk focus. Because of this inherent uncertainty of valuation for the Organization's investments in limited partnerships and for certain underlying investments held by them, which are not readily marketable, values for those investments may differ significantly from values that would have been used had a ready market value for them existed. Such limited partnerships are valued utilizing level 3 inputs.

Fair Value:

Fair value measurements are defined as the amount 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. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The fair value hierarchy defines the three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market 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: Valuations based on 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 by observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market is available. The fair value hierarchy gives lowest priority to level 3 inputs.

Fixed Assets:

Fixed assets are recorded at cost or fair value at date of gift for donated assets. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets:

| | <u>Estimated Useful Lives</u> |
|-------------------|--|
| Office equipment | 5 years |
| Automobiles | 5 years |
| Computer software | 3 years |

Replacements, betterments and additions to property and equipment are capitalized if they increase the useful life of such assets. Costs incurred for maintenance and repairs are charged to expenses as incurred. Upon the retirement of these assets, the cost and accumulated depreciation are removed from the respective accounts and any gain or loss is reflected in revenues or expenses for the period.

Contributions:

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions with restrictions that are met in the same reporting period as they are received are reported as unrestricted support.

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Taxes:

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the years ended 2014 and 2013. The tax years subject to audit by federal and state jurisdictions are the years ended August 31, 2011, and forward. At August 31, 2014 and 2013, there are no significant income tax uncertainties.

Use of Estimates:

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. Actual results could differ from those estimates.

Functional Allocation of Expenses:

Costs of providing NJ SEEDS' program services, management and general, and development activities are separately summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program services, management and general, and development using reasonable ratios determined by management. Management and general costs include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Contributions Receivable:

The Organization charges uncollectible contributions receivable to operations when determined to be uncollectible. The allowance for uncollectible contributions is based on historical experience and management's evaluation of contributions receivable at the end of such year. The allowance has been reviewed by management and it has been determined to be adequate at August 31, 2014 and 2013, respectfully.

Deferred Rent:

The Organization accounts for rent expense on a straight-line basis for financial reporting purposes. The difference between cash payments and rent expense is included in deferred rent. Deferred rent as of August 31, 2014 and 2013, was \$48,759 and \$57,981, respectively.

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Marketing and Public Relations:

Marketing and public relations costs are expensed as incurred. Marketing and public relations expense for the years ended August 31, 2014 and 2013, was \$34,238 and \$76,033, respectively. The 2013 marketing cost includes a \$48,000 temporary restricted gift for the Organization's college preparatory program and was expended during the year ended August 31, 2013.

Subsequent Events:

The Organization has evaluated events subsequent to the statement of financial position date as of August 31, 2014 through December 10, 2014, the date that the financial statements were available to be issued.

NOTE 3 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable are due as follows:

| | 2014 | | | Total | 2013 Total |
|---|------------------|---------------------------|---------------------------|------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Receivables due in less than one year | \$ 23,090 | \$ - | \$ - | \$ 23,090 | \$ 37,905 |
| Less: Allowance for uncollectable contributions | (4,618) | - | - | (4,618) | (13,581) |
| | <u>\$ 18,472</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 18,472</u> | <u>\$ 24,324</u> |

NOTE 4 - FIXED ASSETS:

Fixed assets are summarized as follows:

| | August 31, | |
|--------------------------------|-------------------|-------------------|
| | 2014 | 2013 |
| Office equipment | \$ 321,890 | \$ 392,813 |
| Automobiles | 21,503 | 21,503 |
| Computer software | 280,124 | 346,269 |
| | <u>623,517</u> | <u>760,585</u> |
| Less: Accumulated depreciation | (470,983) | (558,655) |
| Fixed Assets, Net | <u>\$ 152,534</u> | <u>\$ 201,930</u> |

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

NOTE 5 - RESTRICTIONS ON NET ASSETS:

Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of cash donations available for the following purposes:

| | August 31, | |
|-----------------------------|-------------------|-------------------|
| | 2014 | 2013 |
| College Preparatory Program | <u>\$ 189,843</u> | <u>\$ 190,171</u> |

Permanently Restricted Net Assets:

Permanently restricted net assets consist of donor-restricted cash donations to be held in perpetuity, the income from which is expendable.

NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the years ended August 31, 2014 and 2013, as follows:

| | August 31, | |
|--------------------------------------|---------------------|---------------------|
| | 2014 | 2013 |
| Computers and equipment | \$ 27,500 | \$ 27,500 |
| Alumni programs | 80,074 | 83,624 |
| Investment income | 408,283 | 331,017 |
| Scholars and Young Scholars programs | 329,300 | 243,903 |
| College preparatory program | 796,828 | 902,891 |
| | <u>\$ 1,641,985</u> | <u>\$ 1,588,935</u> |

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

NOTE 7 - RESTRICTED CASH AND LONG-TERM INVESTMENTS:

Long-term Investments:

Long-term investments consist of both permanently restricted net assets and assets designated by the Board of Trustees for long-term purposes. They are invested as follows:

| | August 31, | |
|---|---------------------|---------------------|
| | 2014 | 2013 |
| Equity and debt securities held through a family limited partnership interest | \$ 27,167 | \$ 356,037 |
| Investment through the New Providence Balanced Portfolio Fund | 5,079,322 | 4,451,101 |
| Investments through the Community Foundation of New Jersey | 3,710,775 | 3,887,977 |
| | <u>\$ 8,817,264</u> | <u>\$ 8,695,115</u> |

The Organization has categorized its investments based on the priority of inputs to the valuation technique, into a three-level, fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). If the inputs used to measure the investments fall within the different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

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.

FAIR VALUE MEASUREMENTS

AS OF AUGUST 31, 2014

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|-------------------|----------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 175,544 | \$ - | \$ - | \$ 175,544 |
| Pooled fund in Community Foundation of New Jersey | - | - | 3,535,231 | 3,535,231 |
| Partnership interests | - | - | 5,106,489 | 5,106,489 |
| Investments at Fair Value | <u>\$ 175,544</u> | <u>\$ -</u> | <u>\$ 8,641,720</u> | <u>\$ 8,817,264</u> |

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

NOTE 7 - RESTRICTED CASH AND LONG-TERM INVESTMENTS: (Continued)

| FAIR VALUE MEASUREMENTS | | | | |
|--------------------------------|-------------------|----------------|---------------------|---------------------|
| AS OF AUGUST 31, 2013 | | | | |
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| Cash and cash equivalents | \$ 143,370 | \$ - | \$ - | \$ 143,370 |
| Pooled fund in | | | | |
| Community Foundation | | | | |
| of New Jersey | - | - | 3,744,607 | 3,744,607 |
| Partnership interests | - | - | 4,807,138 | 4,807,138 |
| Investments at Fair Value | <u>\$ 143,370</u> | <u>\$ -</u> | <u>\$ 8,551,745</u> | <u>\$ 8,695,115</u> |

The redemption and liquidity provision for the investment in the Community Foundation of New Jersey includes a quarterly redemption frequency feature with a sixty-day notice period. The investment in the partnership interest includes a monthly redemption frequency feature with a ten-day notice period.

The following table provides further details of level 3 fair value measurements:

| | Year Ended August 31, 2014 | |
|-------------------------------|-----------------------------------|---------------------|
| | Community Foundation | Partnership |
| | of New Jersey | Interests |
| Balance, Beginning of year | \$ 3,744,607 | \$ 4,807,138 |
| Cash converted to investments | (32,175) | - |
| Interest and dividend income | 101,631 | 47,155 |
| Unrealized gains | 162,357 | 410,373 |
| Realized gains | 187,785 | 251,064 |
| Investment fees | (28,974) | (53,304) |
| Distributions | (600,000) | (355,937) |
| Balance, End of year | <u>\$ 3,535,231</u> | <u>\$ 5,106,489</u> |

| | Year Ended August 31, 2013 | |
|-------------------------------|-----------------------------------|---------------------|
| | Community Foundation | Partnership |
| | of New Jersey | Interests |
| Balance, Beginning of year | \$ 4,209,463 | \$ 4,274,675 |
| Cash converted to investments | 200,889 | - |
| Interest and dividend income | 90,763 | 47,972 |
| Unrealized gains | 112,622 | 524,430 |
| Realized gains | 162,232 | 13,158 |
| Investment fees | (31,362) | (45,852) |
| Distributions | (1,000,000) | (7,245) |
| Balance, End of year | <u>\$ 3,744,607</u> | <u>\$ 4,807,138</u> |

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

NOTE 7 - RESTRICTED CASH AND LONG-TERM INVESTMENTS: (Continued)

The following schedule summarizes the pooled fund in the Community Foundation of New Jersey by strategy as of August 31:

| | <u>2014</u> | <u>2013</u> |
|----------------------------|-------------|-------------|
| Small and Large Value | 30% | 27% |
| Small and Large Growth | 23% | 23% |
| Fixed Income | 27% | 27% |
| Investment in Real Estates | 0% | 9% |
| Hedge Funds | 20% | 14% |
| Total Mutual Funds | <u>100%</u> | <u>100%</u> |

Not included in the amounts shown above, is a special fund held by the Community Foundation of New Jersey under which NJ SEEDS is the exclusive beneficiary and under which NJ SEEDS receives 4.9% of the fair market value of the fund as of the previous December 31, in the early part of each calendar year. As of August 31, 2014 and 2013, approximately \$16,304 and \$6,000, respectively, were recorded in the statements of activities and changes in net assets.

NOTE 8 - MAJOR GIFT CAMPAIGN FUNDS:

Unrestricted net assets identified as the Major Gift Campaign Fund consists of funds received through the NJ SEEDS Major Gift Campaign. In accordance with the mission of this campaign, these assets are intended to be expended on the initiatives outlined in the respective campaigns' statements.

NOTE 9 - RETIREMENT PLAN:

The Organization instituted an employee retirement plan under Section 401(k) of the Internal Revenue Code. The Plan covers substantially all full-time employees. Under the Plan, employees may voluntarily contribute a percentage of their pretax compensation to the Plan subject to IRS limits, with NJ SEEDS matching employee contributions approximately 50% of the first 6% of employee eligible compensation. Employer matching contributions to the Plan amounted to \$51,040 and \$46,202 for the years ended August 31, 2014 and 2013, respectively.

NOTE 10 - CONDITIONAL TRANSFERS:

Conditional transfers consist of \$15,000 received from the Community Foundation of New Jersey, which is forfeit if the Organization's assets do not remain invested with the Community Foundation of New Jersey.

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 - CONCENTRATION OF CREDIT RISK:

NJ SEEDS maintains cash and cash equivalent balances at several financial institutions which, in some instances, may exceed insured limits. A considerable balance of the Organization's investments is concentrated in pooled funds in Community Foundation of New Jersey and limited partnerships. The Organization's exposure to concentrations of credit risk is limited by its policy of investing in diverse investments.

NOTE 12 - TAXES:

At August 31, 2014, all required tax returns have been filed.

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

The Organization has entered into a ten-year lease agreement to lease office space located at 494 Broad Street, Newark, New Jersey. The lease provides for minimum monthly rent of \$11,250 in the first two years plus the Organization's proportionate share of operating costs and real estate taxes. Rent is subject to a step-up in basis of 5% every second year.

The Organization also leases equipment under terms of noncancellable operating leases.

At August 31, 2014, future minimum aggregate payments on all leases are as follows:

| Year Ending | |
|--------------------------|-------------------|
| <u>August 31:</u> | |
| 2015 | \$ 168,765 |
| 2016 | 170,965 |
| 2017 | 170,831 |
| 2018 | 28,145 |
| | <u>\$ 538,706</u> |

Lease expense under all leases was \$167,488 and \$164,817 for 2014 and 2013, respectively; such amounts are included in facility expenses on the statements of functional expenses.

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 14 - ENDOWMENT FUND:

The Organization follows accounting standards that provide clarification on accounting for donor-restricted endowment funds. The guidance prescribes that the portion of donor-restricted endowment funds that are classified as permanently restricted should not be reduced by losses on the investment of the fund or an Organization's appropriations from the fund.

The Board of Trustees' interpretation requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this, the Organization classifies as permanently restricted net assets, the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the principal of contributions
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

The Board of Trustees' primary objective, in this regard, is to add value and minimize risk in managing the assets of the fund while providing a hedge against inflation into the future. It is the intent of the Board of Trustees to grow the endowment and utilize the total return (income plus capital change) to further the mission of the Organization. In recognition of the prudence required of fiduciaries, reasonable diversification of quality investment securities will be sought where possible, knowing that fluctuating rates of return are a characteristic of the investment market and performance cycles cannot be accurately predicted. The funds may be held in individual securities or mutual funds, may be comprised of domestic and international securities, and will be further diversified into asset classes by their market capitalization.

The Organization may distribute the calendar-year income (without regard to unrealized gains or losses) generated from the endowment fund. Income is defined as dividends, interest, and net realized gains.

NEW JERSEY SEEDS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

NOTE 14 - ENDOWMENT FUND: (Continued)

Change in Endowment Net Assets:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|-------------------------------|-------------------------------|--------------|
| Endowment Net Assets, Beginning of year 9/1/13 | \$ 502,050 | \$ - | \$ 3,322,368 | \$ 3,824,418 |
| Investment return: | | | | |
| Investment income | - | 56,920 | - | 56,920 |
| Net appreciation (realized and unrealized) | - | 351,363 | - | 351,363 |
| Total Investment Return | - | 408,283 | - | 408,283 |
| Contributions | - | - | 15,000 | 15,000 |
| Appropriated for expenditure | 408,283 | (408,283) | - | - |
| Endowment Net Assets, End of year 8/31/14 | \$ 910,333 | \$ - | \$ 3,337,368 | \$ 4,247,701 |
| | | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment Net Assets, Beginning of year 9/1/12 | \$ 171,033 | \$ - | \$ 3,307,368 | \$ 3,478,401 |
| Investment return: | | | | |
| Investment income | - | 52,823 | - | 52,823 |
| Net appreciation (realized and unrealized) | - | 278,194 | - | 278,194 |
| Total Investment Return | - | 331,017 | - | 331,017 |
| Contributions | - | - | 15,000 | 15,000 |
| Appropriated for expenditure | 331,017 | (331,017) | - | - |
| Endowment Net Assets, End of year 8/31/13 | \$ 502,050 | \$ - | \$ 3,322,368 | \$ 3,824,418 |

Contributions include donor-restricted contributions, the change in the allowance for uncollectible pledges and amortization of present value of pledges made for more than one year. Endowment funds are invested with operating funds and all investment income is available for operating expenses at the Board's discretion.