

NJ LEEP, INC.

*FINANCIAL STATEMENTS
AUGUST 31, 2014*



Magone & Company, P.C.
Certified Public Accountants
& Business Consultants

Numbers are just the beginningSM

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NJ LEEP, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
NJ LEEP, Inc.

We have audited the accompanying financial statements of NJ LEEP, Inc. (A New Jersey Non-Profit Organization), which comprise the statement of financial position as of August 31, 2014, and the related statements of activities 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 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 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 auditor considers 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 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.

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Auditors' Responsibility (cont'd.)

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 NJ LEEP, Inc. as of August 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Magone & Company, P.C." The signature is written in a cursive, flowing style.

MAGONE & COMPANY, P.C.

Florham Park, New Jersey
March 12, 2015

NJ LEEP, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2014

ASSETS

ASSETS:

Cash and cash equivalents	\$ 672,674
Contributions, grants and accounts receivable	133,687
Prepaid insurance	4,745
Security deposit	<u>14,875</u>
	<u>\$ 825,981</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable	\$ 3,690
Accrued expenses	17,582
Deferred rent	<u>14,491</u>
	<u>35,763</u>

NET ASSETS:

Unrestricted	580,493
Temporarily restricted	209,725
Permanently restricted	<u>-</u>
	<u>790,218</u>
	<u>\$ 825,981</u>

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

NJ LEEP, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2014</u>
REVENUES:				
Special events	\$ 1,007,381	\$ -	\$ -	\$ 1,007,381
Less cost of direct benefits to donors	<u>123,916</u>	<u>-</u>	<u>-</u>	<u>123,916</u>
	883,465	-	-	883,465
Contributions and grants	123,571	208,751	-	332,322
Program income	81,355	-	-	81,355
In-kind donations	96,404	-	-	96,404
Other income	9,690	-	-	9,690
Interest income	446	-	-	446
Net assets released from restrictions	<u>237,617</u>	<u>(237,617)</u>	<u>-</u>	<u>-</u>
	<u>1,432,548</u>	<u>(28,866)</u>	<u>-</u>	<u>1,403,682</u>
EXPENDITURES:				
Program services	643,889	-	-	643,889
Management and general	97,349	-	-	97,349
Fundraising and development	<u>141,475</u>	<u>-</u>	<u>-</u>	<u>141,475</u>
	<u>882,713</u>	<u>-</u>	<u>-</u>	<u>882,713</u>
CHANGE IN NET ASSETS	<u>549,835</u>	<u>(28,866)</u>	<u>-</u>	<u>520,969</u>
NET ASSETS, BEGINNING OF YEAR	<u>30,658</u>	<u>238,591</u>	<u>-</u>	<u>269,249</u>
NET ASSETS, END OF YEAR	<u>\$ 580,493</u>	<u>\$ 209,725</u>	<u>\$ -</u>	<u>\$ 790,218</u>

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

NJ LEEP, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
PERSONNEL EXPENSES:				
Salaries and wages	\$ 299,532	\$ 54,296	\$ 85,148	\$ 438,976
Fringe benefits and payroll taxes	<u>56,029</u>	<u>10,157</u>	<u>15,930</u>	<u>82,116</u>
	<u>355,561</u>	<u>64,453</u>	<u>101,078</u>	<u>521,092</u>
OTHER EXPENSES:				
Occupancy costs	97,645	15,073	23,638	136,356
Program costs	84,603	-	-	84,603
Education materials license	36,400	-	-	36,400
Contract personnel	21,880	-	-	21,880
Office supplies and expenses	10,101	4,170	3,433	17,704
Professional and consulting fees	-	9,000	-	9,000
Insurance	5,702	1,034	1,621	8,357
Telephone and Communication	7,269	401	630	8,300
Equipment rental	4,011	818	1,283	6,112
Bad debt	-	-	6,029	6,029
Conferences and conventions	3,819	-	-	3,819
Marketing	2,783	-	-	2,783
Travel and communication	878	-	-	878
Miscellaneous	<u>13,237</u>	<u>2,400</u>	<u>3,763</u>	<u>19,400</u>
	<u>288,328</u>	<u>32,896</u>	<u>40,397</u>	<u>361,621</u>
	<u>\$ 643,889</u>	<u>\$ 97,349</u>	<u>\$ 141,475</u>	<u>\$ 882,713</u>

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

NJ LEEP, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 520,969
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Deferred rent	14,491
Bad debt	6,029
NET CHANGES IN OPERATING ASSETS AND LIABILITIES:	
Decrease (increase) in operating assets:	
Contributions, grants and accounts receivable	10,908
Other receivable	9,141
Prepaid insurance	(4,745)
Security deposit	(10,077)
Increase (decrease) in operating liabilities:	
Accounts payable	3,690
Accrued expenses	(573)
Deferred revenue	<u>(30,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	519,833
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>152,841</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u><u>\$ 672,674</u></u>

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

NJ LEEP, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and Nature of Operations

NJ LEEP, Inc. (the "Organization") empowers youth in grades eight to twelve from underserved neighborhoods in northern New Jersey to perform at high academic levels by building skills through law-related, mathematics, and other educational programs, developing the habits necessary for lasting success and community leadership, and offering exposure to role models who have achieved academic and professional success. The Organization is a non-profit organization incorporated in July 2006 in the State of New Jersey and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting. A summary of the major accounting policies followed in the preparation of the accompanying financial statements, which conform to accounting principles accepted in the United States of America is presented below.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash equivalents include time deposit and all highly liquid investments with original maturities of three months or less.

Contributions, Grants and Accounts Receivable

Contributions, grants and accounts receivable are stated at net realizable value. On a periodic basis, the Organization evaluates its accounts receivable, and establishes an allowance for doubtful accounts when deemed necessary, based upon its historical write offs and collections. Uncollectible amounts are written off periodically. As of August 31, 2014, the Organization considers its contributions, grants and accounts receivable to be fully collectible, accordingly, no allowance for doubtful accounts has been established.

Property and Equipment

Property and equipment are stated at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated lives of the assets. The Organization capitalizes property and equipment with a useful life of two years or more and a cost of \$2,000 or more, unless such property and equipment is funded by a grantor and the grantor retains title to the property and equipment. Expenditures for maintenance, repairs and improvements, which do not materially extend the useful life of an asset, are charged to expenses.

NJ LEEP, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Property and Equipment (cont'd.)

The Organization periodically evaluates the carrying value of long lived assets to be held and used, and long lived assets to be disposed of when events and circumstances warrant such review. These evaluations and reviews are generally done in conjunction with the annual business planning cycle. If the carrying value of a long lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long lived assets to be held or used, or the amount by which the carrying value exceeds the fair market value less cost to dispose, for assets to be disposed. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Net Asset Classifications

Net assets, 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 are not subject to donor-imposed restrictions.

Temporarily restricted net assets: Net assets whose use by the Organization is limited by donor imposed stipulations that can be fulfilled or removed by action of the Organization and/or the passage of time. When restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Items whose restrictions are met in the same reporting period in which the net assets are received will be presented as an unrestricted net asset on the accompanying financial statements.

Permanently restricted net assets: Net assets subject to donor imposed stipulations that must be maintained permanently by the Organization. Income from the assets held is available for either general operations or specific purpose, in accordance with donor stipulations.

Revenue Recognition

Grants and contracts received from the government or private funding sources in exchange for specified benefits are deemed to be earned and reported as revenue when the Organization has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet expended are reported as unearned revenue. Amounts spent but not yet received are reported as grants receivable.

NJ LEEP, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Contributions

Contributions are recognized as revenue when received or unconditionally pledged. Contributions are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets depending on the nature of the donor restrictions. All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When the 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 as net assets released from restrictions.

Contributions that are subject to condition are not included as support until the conditions are substantially met.

In-Kind donations

Contributed services and materials are recorded at the estimated fair value. In addition, a substantial number of volunteers contribute their time to the Organization's programs. The value of this contributed time is not reflected in the financial statements because it is not susceptible to objective measurement or valuation.

Advertising expenses

The Organization expenses advertising costs as they are incurred. There were no advertising expenses for the year ended August 31, 2014.

Functional expenses

Direct expenditures are charged to their respective program. Indirect expenditures are allocated based on direct labor costs or number of employees depending on the nature of the expenditures.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NJ LEEP, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash, grants and contracts receivable, accounts payable and accrued expenses approximate their fair values because of the relatively short maturity of these instruments.

Income Taxes

The Organization is a non-profit organization exempt from federal income taxes under Code Section 501 (c)(3) of the Internal Revenue Code and, therefore, is not subject to income tax.

In accordance with the accounting standards, the Organization applies the accounting requirements for uncertain income tax positions recognized in financial statements. Under these requirements, the Organization may recognize the tax benefit from an uncertain income tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position would be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The related standards provide guidance on measurement, classification, interest and penalties associated with the income tax positions and income tax disclosures. Through the year ended August 31, 2014, the Organization is of the opinion that there are no uncertain tax positions. Accordingly, the Organization has recognized no adjustment for any uncertain tax positions as a result of applying the standard.

The Organization files tax returns and required reports in the United States of America and the State of New Jersey. The Organization's filings are subject to audit by various taxing authorities. There are no open tax years prior to 2012.

Subsequent Events

The Organization has evaluated subsequent events occurring after the statement of financial position date through the audit report date, which is the date the financial statements were available to be issued. Based on this evaluation, the Organization has determined that no subsequent events have occurred which require disclosure in or adjustment to the financial statements.

Note 3 - Concentration of Risk

For the year ended August 31, 2014, 63% of the Organization's revenues was from special events.

NJ LEEP, INC.
NOTES TO FINANCIAL STATEMENTS

Note 3 - Concentration of Risk (cont'd.)

The Organization maintains its cash balances at federally insured institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times throughout the year the cash balances may be in excess of this limit. As of August 31, 2014, the cash balances exceeded this limit by about \$427,000.

Note 4 - Contributions, Grants and Accounts Receivable

Contributions, grants and accounts receivable consist of the following as of August 31, 2014:

Receivable due in less than one year	\$ 73,687
Receivable due in one to five years	<u>60,000</u>
	<u>\$ 133,687</u>

Note 5 - Temporarily Restricted Net Assets

For the year ended August 31, 2014, temporarily restricted net assets consisted of the following:

Time restriction	\$ 105,000
College bound	53,942
Leadership	20,000
Scholarships	13,783
Purchase of equipment	10,000
Naming rights	6,000
NJ LEEP parent council	<u>1,000</u>
	<u>\$ 209,725</u>

For the year ended August 31, 2014, net assets release from restrictions consisted of the following:

Law related educational programs	\$ 85,000
College bound	75,597
Time restrictions	31,500
Jersey city debate program	15,000
Scholarships	12,900
Leadership	10,000
Internship program	<u>7,620</u>
	<u>\$ 237,617</u>

NJ LEEP, INC.
NOTES TO FINANCIAL STATEMENTS

Note 6 - Commitments

The Organization leases real property in Newark, New Jersey for program and administrative purposes. The monthly lease expense including utilities was \$6,300. The lease expires on July 31, 2014.

In March 2014, the Organization entered into a non-cancelable 10-year and 4 months lease agreement for office space to be used for program and administrative purposes. The terms of the lease agreement provide for monthly rental payments of \$14,875, commenced on August 1, 2014, and expires on November 31, 2024. The terms of the lease agreement also provides for 2 months free rent and a rent concession in the amount of \$25,000 that will reduce the monthly rental payments by \$5,000 from October 2014 to February 2015.

For the year ended August 31, 2014, rental expense is \$136,356. Rent expense includes in-kind rent from Seton Hall University Law School of \$50,004. Please see note 7 to the financial statements.

Future minimum rental payments over the next 5 years under these lease agreements are as follows for the years ending August 31:

2015	\$ 138,625
2016	178,500
2017	178,500
2018	178,500
2019	178,500
2020 and thereafter	<u>937,125</u>
	<u>\$ 1,789,750</u>

Note 7 - In-kind donations:

For the year ended August 31, 2014, in-kind donations consisted of the following:

Office space	\$ 50,004
Educational materials	36,400
Various goods	<u>10,000</u>
	<u>\$ 96,404</u>