

NJ LEEP, INC.

Financial Statements as of and for the
Year Ended August 31, 2015 (with Comparative
Totals for the Year Ended August 31, 2014)
Independent Auditor's Report

NJ LEEP, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
NJ LEEP, Inc.

We have audited the accompanying financial statements of NJ LEEP, Inc., which comprise the statement of financial position as of August 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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.

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, 2015, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from NJ LEEP, Inc.'s August 31, 2014 financial statements which were audited by other auditors and whose report dated March 12, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Quillari Caruso LLC

Fairfield, New Jersey
January 12, 2016

NJ LEEP, INC.

STATEMENT OF FINANCIAL POSITION

AS OF AUGUST 31, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2014)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total	
			2015	2014
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 835,714	\$ 153,054	\$ 988,768	\$ 672,674
Accounts receivable	78,912	-	78,912	77,991
Unconditional promises to give, net	-	52,218	52,218	53,971
Prepaid expenses	6,778	-	6,778	6,470
Total current assets	921,404	205,272	1,126,676	811,106
LONG TERM UNCONDITIONAL PROMISES TO GIVE, NET				
	-	60,000	60,000	-
OTHER ASSETS - security deposits				
	14,875	-	14,875	14,875
TOTAL ASSETS	\$ 936,279	\$ 265,272	\$ 1,201,551	\$ 825,981
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accrued expenses	\$ 23,936	\$ -	\$ 23,936	\$ 21,272
Deferred rent	49,062	-	49,062	14,491
TOTAL LIABILITIES	72,998	-	72,998	35,763
COMMITMENTS				
NET ASSETS:				
Unrestricted net assets	863,281	-	863,281	580,493
Temporarily restricted net assets	-	265,272	265,272	209,725
Total net assets	863,281	265,272	1,128,553	790,218
TOTAL LIABILITIES AND NET ASSETS	\$ 936,279	\$ 265,272	\$ 1,201,551	\$ 825,981

NJ LEEP, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2014)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total	
			2015	2014
PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS:				
Special events	\$ 961,241	\$ -	\$ 961,241	\$ 1,000,289
Contributions	227,637	205,500	433,137	349,103
Non-cash contributions	81,750	-	81,750	96,404
State funded programs	29,575	-	29,575	-
Fee for service	67,500	-	67,500	81,355
Net assets released from restrictions				
Satisfaction of purpose restrictions	149,953	(149,953)	-	-
Total public support, revenues, and reclassifications	1,517,656	55,547	1,573,203	1,527,151
EXPENSES AND LOSSES:				
Program services:				
Law related education for urban youth	778,227	-	778,227	643,889
Total program services	778,227	-	778,227	643,889
Supporting services:				
Management and general	144,399	-	144,399	97,349
Fundraising	307,428	-	307,428	259,362
Total supporting services	451,827	-	451,827	356,711
Total expenses and losses	1,230,054	-	1,230,054	1,000,600
NON-OPERATING INCOME (EXPENSE):				
Bad debt	(4,915)	-	(4,915)	(6,029)
Interest income	101	-	101	446
Total non-operating income (expense)	(4,814)	-	(4,814)	(5,583)
CHANGE IN NET ASSETS	282,788	55,547	338,335	520,968
NET ASSETS, BEGINNING OF YEAR	580,493	209,725	790,218	269,250
NET ASSETS, END OF YEAR	\$ 863,281	\$ 265,272	\$ 1,128,553	\$ 790,218

NJ LEEP, INC.

STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED AUGUST 31, 2015
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2014)

	Program Services	Supporting Services		Total	
	Law-related education for urban youth	Management and General	Fundraising	2015	2014
Personnel costs:					
Salaries and wages	\$ 332,958	\$ 64,192	\$ 121,623	\$ 518,773	\$ 438,976
Fringe benefits	26,223	5,055	9,578	40,856	32,219
Payroll taxes	37,162	7,165	13,575	57,902	49,897
Total personnel costs	396,343	76,412	144,776	617,531	521,092
Meetings and conferences	-	-	-	-	3,819
Contract personnel	-	18,174	-	18,174	21,880
Educational materials license	33,500	-	-	33,500	36,400
Equipment rental	2,036	393	744	3,173	6,112
Insurance	9,244	1,782	3,377	14,403	8,357
Marketing	-	-	-	-	2,783
Miscellaneous	4,018	442	838	5,298	19,400
Occupancy costs	238,514	6,592	12,490	257,596	136,356
Event space for fundraising activities	-	-	105,464	105,464	117,887
Supplies	83,105	3,210	11,414	97,729	102,307
Printing	2,626	506	8,459	11,591	-
Professional and consulting fees	-	35,743	-	35,743	9,000
Discount on pledges	-	-	12,782	12,782	-
Bad debt	-	-	4,915	4,915	6,029
Telephone and communication	5,939	1,145	2,169	9,253	8,300
Travel and transportation	2,902	-	-	2,902	878
Total expenses	\$ 778,227	\$ 144,399	\$ 307,428	\$ 1,230,054	\$ 1,000,600

NJ LEEP, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 338,335	\$ 520,968
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debt	4,915	6,029
(Increase) decrease in operating assets:		
Accounts receivable	(5,836)	80,050
Unconditional promises to give, net	(58,247)	(60,000)
Prepaid expenses	(308)	(4,745)
Security deposits	-	(10,077)
Increase (decrease) in operating liabilities:		
Accrued expenses	2,664	3,117
Deferred revenue	34,571	(15,509)
Net cash provided by operating activities	<u>316,094</u>	<u>519,833</u>
INCREASE IN CASH AND CASH EQUIVALENTS	316,094	519,833
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>672,674</u>	<u>152,841</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 988,768</u>	<u>\$ 672,674</u>

NJ LEEP, INC.

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

1. NATURE OF ACTIVITIES

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting --- The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation --- The Organization presents its financial statements using guidance provided by the American Institute of Certified Public Accountants' Audit & Accounting Guide for *Not-for-Profit Entities*. The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) in preparing and presenting their financial statements. ASC Paragraphs 958-205-45-2(a) through (d) establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Paragraphs 958-605-45-3 through 7, *Contributions Received*, requires that unconditional promises to give be recorded as receivables and revenue and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. Accordingly, net assets of the Organization and changes therein would be classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. This represents the portion of expendable funds available to support the Organization's programs and activities.

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 statement of activities as net assets released from restrictions. The Organization had \$265,272 and \$209,725 of temporarily restricted net assets for the years ended August 31, 2015 and 2014, respectively.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions stipulate 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. There were no permanently restricted net assets in 2015 and 2014.

NJ LEEP, INC.

NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Fair Value (hierarchy) of financial instruments --- The Organization measures fair value of its assets and liabilities as defined by FASB ASC Topic 820, *Fair Value Measurement and Disclosure*. This ASC Topic defines fair value, establishes a framework for measuring fair value, establishes a three-level fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The three fair value hierarchy levels are defined as follows:

Level 1 – Financial assets and liabilities that use inputs which are quoted prices (unadjusted) in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 – Financial assets and liabilities that use inputs to the valuation methodology which include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset or liability, and are based on the best available information, some of which is internally developed. Unless otherwise noted, the fair values of financial instruments approximate their carrying values. The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, although the Organization 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.

Cash and cash equivalents ---The Organization considers all restricted and unrestricted cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

NJ LEEP, INC.

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Accounts receivable --- Accounts receivable are stated at the amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to accounts receivable and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts and historical trends. Balances still outstanding after management has used reasonable collection efforts are written off as bad debt expense. In 2015 and 2014, no allowance has been set up as management's assessment of trends and historical analysis assures that all balances will be received.

Property and equipment --- Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of minor items are charged to earnings as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the statement of activities.

The Organization's policy is to capitalize fixed assets with a purchase price of \$5,000 or more and a useful life of one year or more based on the following schedule:

Asset Class	Years
Equipment	5
Leasehold Improvements	15
Furniture and fixtures	15

Impairment of long-lived assets --- The Organization continually evaluates whether current events or circumstances warrant adjustments to the carrying value or estimated useful lives of fixed assets in accordance with the provisions of ASC 360-10-05, *Impairment or Disposals of Long-Lived Assets*.

Revenue and support recognition --- Contributions, including unconditional promises to give, are recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using interest rates consistent with unsecured individual credit rates applicable to the years in which the promises to give are to be received. The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

The Organization accounts for fundraising in the statement of activities to the extent that expenses have been incurred for the purpose specified by the customer during the period.

Funds received in advance of their proper usage are accounted for as deferred revenue in the statement of financial position.

NJ LEEP, INC.

NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Donated services --- Individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Donated goods --- Donated goods with a fair value of \$81,750 and \$96,404 for the years ended August 31, 2015 and 2014, aided the Organization in accomplishing its fundraising activities, of which \$50,000 is the fair market value of donated space, annually.

Income taxes --- The Organization is a not-for-profit organization described under Section 501(c)(3) of the Internal Revenue Code ("I.R.C.") and is therefore exempt from federal income taxes under Section 501(a) of the I.R.C. The Organization is also exempt under Title 15 of the State of New Jersey *Corporations and Associations Not for Profit Act*. Accordingly, no provision for Federal or State income taxes has been presented in the accompanying financial statements.

The Organization adheres to FASB ASC Topic 740, *Income Taxes*, which provides guidance and 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 de-recognition, classification, interest and penalties, disclosure and transition. For the years ended August 31, 2015 and 2014, the Organization has no material uncertain tax positions to be accounted for in the financial statements.

Annually, the Organization files an informational return with the United States Internal Revenue Service. The Organization also files an annual charitable registration in the State of New Jersey, Division of Consumer Affairs. All required tax returns have been filed and all taxes have been paid. The Organization is no longer subject to tax examinations for tax years ended August 31, 2010 and prior.

Functional allocation of expenses --- Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to programs based on units of service and support costs are allocated to programs based on time spent. Program expenses are those related to the Organization's profits that are donated to related parties. Management and general and fundraising include direct costs of the operation of the program and special events based on allocation methods considered by management to be reasonable.

Total columns --- The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2014, from which the summarized information was derived.

NJ LEEP, INC.

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Reclassification --- Certain amounts from prior year financial statements have been reclassified to conform to current year presentation.

Management evaluation --- Management has evaluated subsequent events through January 12, 2016, the date on which the financial statements were available to be issued, and have determined that there are no subsequent events that require disclosure.

3. CONCENTRATIONS OF CREDIT RISK

Arising from cash deposits in excess of insured limits --- The Organization maintains the majority of its cash accounts in two financial institution located in northern New Jersey. During the year, cash balances can exceed federally insured limits of \$250,000. Management believes that the Organization has no significant risk of loss on these amounts due to the failure of the institution.

Funding dependence --- All of the funding for the Organization comes from donor assistance. This funding is dependent upon monies from individuals and other nonprofits or foundations, accordingly there is no guarantee that such funding will continue.

4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consisted of the following at August 31, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
<i>Amounts due:</i>		
Less than one year	\$ 65,000	\$ 15,000
One to five years	60,000	45,000
Total unconditional promises to give	<u>125,000</u>	<u>60,000</u>
Less: Present value discount	<u>12,782</u>	<u>6,029</u>
Unconditional promises to give, net	<u>\$ 112,218</u>	<u>\$ 53,971</u>

Promises to give due in more than one year are recognized at fair value, using present value techniques and discount rates of approximately 13% - 17% based on risk adjusted credit ratings. These rates are adjusted annually based on the market.

NJ LEEP, INC.

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014 (CONTINUED)

5. COMMITMENTS

The Organization entered into an agreement commencing August 1, 2014 for the lease of facilities in Northern New Jersey for programmatic educational meetings. The lease terminates on November 30, 2024 and includes a onetime five year extension option. Future minimum payments due under all operating leases in effect at August 31, 2015 are as follows:

2016	\$	178,500
2017		178,500
2018		178,500
2019		178,500
2020		178,500
Thereafter		758,625
		1,651,125
	\$	1,651,125

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2015	2014
College bound	\$ 64,588	\$ 53,942
Family engagement	90,000	-
Leadership	-	20,000
Science and math enrichment	-	6,000
Parent council	1,000	1,000
Equipment	10,000	10,000
Scholarships	14,684	13,783
Passage of time	85,000	105,000
Total temporarily restricted net assets	\$ 265,272	\$ 209,725

Net assets released from donor imposed restrictions by satisfying the purpose for which they were donated as follows:

	2015	2014
College bound	\$ 62,853	\$ 75,597
Leadership	-	10,000
Equipment	10,000	-
Scholarships	7,100	12,900
Passage of time	70,000	31,500
Law related educational programs	-	85,000
Jersey City debate program	-	15,000
Internship program	-	7,620
Total restrictions satisfied	\$ 149,953	\$ 237,617

NJ LEEP, INC.

NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014 (CONTINUED)

7. FRINGE BENEFITS

The Organization's fringe benefit package is offered to all full-time employees who are regularly scheduled to work at least thirty five hours per week. Benefits become effective immediately following the employee's date of hire. These benefits include medical and dental insurance, paid vacation, sick and/ or personal days. For the years ended August 31, 2015 and 2014, the Organization expended \$40,856 and \$32,219, respectfully on fringe benefits.

8. RETIREMENT PLAN

The Organization has established a 403(b) defined contribution retirement plan (the "Plan"). The Organization's retirement plan is in conformity with the Employee Retirement Income Security Act of 1974 and its successor legislation. For tax purposes, management believes that the plan is operating as a qualified plan, however at this time the Internal Revenue Service has not issued formal opinions on 403(b) plans. The Plan runs from September 1st through August 31st. Full time employees become eligible to participate in the plan after one year of continuous service. Management may make discretionary contributions to the Plan. Employees are eligible for discretionary contributions after three years of continuous service. For the years ended August 31, 2015 and 2014 no discretionary contributions were made by the Organization.

9. RELATED PARTY TRANSACTIONS

Seton Hall Law School --- Seton Hall Law School provides space for NJ LEEP, Inc.'s operations. The fair market value of the space provided is approximately \$50,000, which is included in non-cash contributions on the Statement of Activities. Additionally, Seton Hall Law School provides NJ LEEP, Inc., the shared use of copy machines, technical support and space for fundraising events and conferences. In exchange for the aforementioned non-cash donations, NJ LEEP, Inc. reserves a seat on the Board of Trustees for both a faculty member and the Dean of Seton Hall Law School amongst other acknowledgements.