

Vera Institute of Justice, Inc.

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

June 30, 2014

Vera Institute of Justice, Inc.

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Independent Auditor's Report

To the Board of Trustees
Vera Institute of Justice, Inc.

We have audited the accompanying financial statements of Vera Institute of Justice, Inc. Which comprise the statement of financial position as of June 30, 2014 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.

Auditor's 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 Vera Institute of Justice, Inc. as of June 30, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of financial position and supplemental schedule of activities on pages 21 and 22 respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CohnReznick LLP

New York, New York
December 10, 2014

Vera Institute of Justice, Inc.
Statement of Financial Position
June 30, 2014

Assets

Cash and cash equivalents	\$ 2,369,820
Grants receivable:	
Billed, net	5,493,667
Unbilled	761,910
Investments in marketable securities	5,241,323
Pledges receivable, net	9,670,705
Prepaid expenses	92,941
Deposits and sundry receivables	317,646
Leasehold improvements, furniture and equipment, net	<u>1,100,953</u>
Total	<u>\$ 25,048,965</u>

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	\$ 4,799,037
Note payable	67,482
Deferred rent	1,034,985
Deferred income and advances	93,911
Payroll taxes and employee benefits withheld	175,155
Miscellaneous payables	<u>21,671</u>
Total	<u>6,192,241</u>

Net assets:	
Unrestricted:	
Undesignated	1,641,396
Board-designated	<u>5,028,913</u>
Total unrestricted	6,670,309
Temporarily restricted	11,936,415
Permanent endowment	<u>250,000</u>
Total net assets	<u>18,856,724</u>
Total	<u>\$ 25,048,965</u>

Vera Institute of Justice, Inc.

Statement of Activities
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Grant income	\$ 31,077,440			\$ 31,077,440
Contributions	707,264	\$ 10,626,384		11,333,648
Interest and dividends	560			560
Miscellaneous	702,597			702,597
Endowment income allocation	324,330			324,330
Net assets released from restrictions - satisfaction of program restrictions	<u>6,490,464</u>	<u>(6,490,464)</u>		<u>-</u>
Total public support and revenue	<u>39,302,655</u>	<u>4,135,920</u>		<u>43,438,575</u>
Expenses:				
Program services	35,728,965			35,728,965
Administration	4,964,965			4,964,965
Fundraising	<u>417,618</u>			<u>417,618</u>
Total expenses	<u>41,111,548</u>			<u>41,111,548</u>
Excess (deficiency) of operating revenue over operating expenses	(1,808,893)	4,135,920		2,327,027
Investment gain in excess of endowment appropriations	<u>638,721</u>			<u>638,721</u>
Changes in net assets	(1,170,172)	4,135,920		2,965,748
Transfer of net assets to Esperanza NY, Inc.	(1,030,711)	(13,798)		(1,044,509)
Net assets, beginning of year	<u>8,871,192</u>	<u>7,814,293</u>	<u>\$ 250,000</u>	<u>16,935,485</u>
Net assets, end of year	<u>\$ 6,670,309</u>	<u>\$ 11,936,415</u>	<u>\$ 250,000</u>	<u>\$ 18,856,724</u>

Vera Institute of Justice, Inc.

Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services			Total	Administration	Fundraising	Total
	Demonstration Projects	Centers and Programs	Planning and Research				
Salaries and related expenses:							
Salaries	\$ 1,889,041	\$ 7,129,469	\$ 776,249	\$ 9,794,759	\$ 2,972,515	\$ 233,112	\$ 13,000,386
Fringe benefits	<u>426,003</u>	<u>1,542,898</u>	<u>138,058</u>	<u>2,106,959</u>	<u>672,933</u>	<u>16,083</u>	<u>2,795,975</u>
Totals	2,315,044	8,672,367	914,307	11,901,718	3,645,448	249,195	15,796,361
Consultants	70,169	19,872,157	345,812	20,288,138	244,334	52,250	20,584,722
Professional fees	76,350	56,607	-	132,957	271,803	18,936	423,696
Occupancy and central office charge recoveries	383,107	1,445,234	142,862	1,971,203	85,842	-	2,057,045
Equipment expense and rentals	11,312	36,335	4,525	52,172	102,708	-	154,880
Publications and printing	5,498	22,994	589	29,081	9,821	838	39,740
Office expenses	18,374	106,750	1,382	126,506	169,148	14,714	310,368
Interest	-	-	-	-	35,260	-	35,260
Telephone	19,930	63,769	5,768	89,467	99,841	780	190,088
Travel and subsistence	27,575	721,296	33,135	782,006	53,095	73,970	909,071
Sundry	20,957	70,755	1,577	93,289	71,732	1,895	166,916
Provision for bad debts	-	-	-	-	20,000	-	20,000
Insurance	26,494	12,266	-	38,760	91,657	-	130,417
Management fees	-	11,871	-	11,871	-	-	11,871
Total before depreciation and amortization	<u>2,974,810</u>	<u>31,092,401</u>	<u>1,449,957</u>	<u>35,517,168</u>	<u>4,900,689</u>	<u>412,578</u>	<u>40,830,435</u>
Depreciation and amortization	<u>40,848</u>	<u>154,164</u>	<u>16,785</u>	<u>211,797</u>	<u>64,276</u>	<u>5,040</u>	<u>281,113</u>
Totals	<u>\$ 3,015,658</u>	<u>\$ 31,246,565</u>	<u>\$ 1,466,742</u>	<u>\$ 35,728,965</u>	<u>\$ 4,964,965</u>	<u>\$ 417,618</u>	<u>\$ 41,111,548</u>

See Notes to Financial Statements.

Vera Institute of Justice, Inc.

Statements of Cash Flows
Year Ended June 30, 2014

Operating activities:	
Change in net assets	\$ 2,965,748
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	281,113
Provision for bad debts	20,000
Net realized and unrealized gains on investments	(702,855)
Amortization of discount on pledge receivable	85,728
Changes in operating assets and liabilities:	
Grants receivable, billed and unbilled	(1,053,498)
Pledges receivable	(4,723,606)
Prepaid expenses	38,119
Deposits and sundry receivables	(24,167)
Accounts payable and accrued expenses	1,542,690
Deferred rent	(36,508)
Deferred income and advances	(29,559)
Payroll taxes and employee benefits payable	71,448
Miscellaneous payables	(8,821)
Net cash used in operating activities	<u>(1,574,168)</u>
Investing activities:	
Purchase of marketable securities	(2,155,961)
Proceeds from sale of marketable securities	4,156,730
Purchase of leasehold improvements, furniture and equipment	<u>(179,542)</u>
Net cash provided by investing activities	<u>1,821,227</u>
Financing activities:	
Proceeds from note payable	125,000
Proceeds from line of credit	2,000,000
Payments of note payable	(57,518)
Payments of line of credit	<u>(2,000,000)</u>
Net cash provided by financing activities	<u>67,482</u>
Net increase in cash and cash equivalents	314,541
Less: Transfer of cash and cash equivalents to Esperanza NY, Inc.	(386,865)
Cash and cash equivalents, beginning of year	<u>2,442,144</u>
Cash and cash equivalents, end of year	<u>\$ 2,369,820</u>
Supplemental disclosure of cash flow data:	
Interest paid	<u>\$ 35,260</u>

See Notes to Financial Statements.

Vera Institute of Justice, Inc.

**Notes to Financial Statements
June 30, 2014**

Note 1 - Organization

Vera Institute of Justice, Inc. ("Vera" or "Institute") was organized under the Not-for-Profit Corporation Law of the State of New York and is qualified as a public charity exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is therefore exempt from Federal income taxation under Section 501(a) of the Code.

Vera is dedicated to making government policies fairer, more humane, and more effective for all people. Working in collaboration with government and local communities, the Institute designs and implements innovative programs that expand the practice of justice and improve the quality of urban life. Vera operates demonstration projects in partnership with government, conducts original research, and provides technical assistance to public officials in New York and throughout the world.

Note 2 - Summary of significant accounting policies

Basis of presentation

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

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 Institute and changes therein are classified and reported as follows:

Unrestricted – include expendable resources not subject to donor-imposed restrictions.

Temporarily restricted – include resources subject to donor-imposed stipulations that limit their use either through purpose or time *restrictions*. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions.

Permanently restricted – include *resources* subject to donor-imposed stipulations, requiring that the principal be maintained in perpetuity, but permit the Institute to expend part or all of the income and gains derived therefrom.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

The Institute considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Institute places its temporary cash investments with high credit quality financial institutions.

Vera Institute of Justice, Inc.

**Notes to Financial Statements
June 30, 2014**

Marketable securities

Investments in equity and fixed income securities with readily determinable fair values and all investments in debt securities, hedge funds, and managed futures are reported at fair value with gains and losses included in the statement of activities. Realized gains or losses are recognized on the specific identification method.

Pledges receivable

Contributions are recognized when the donor makes a pledge to the Institute that is unconditional. Contributions receivable due within one year are recorded at their net realizable value. Contributions receivable due in more than one year are recorded at the present value of their net realizable value using risk adjusted discount rates applicable to the years in which the contributions are received to discount the amounts.

Leasehold improvements, furniture and equipment

Leasehold improvements, furniture and equipment are carried at original cost, less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method based on the shorter of the estimated useful lives of the assets or for leasehold improvements, term of the lease, if shorter. All assets greater than \$1,500 with a useful life greater than one year are deemed capital expenditures.

Grant income

Cost recovery grants provide for reimbursement of budgeted expenditures within the grant period. The funds are received in either predetermined installments or in increments based on estimated expenditures for the period. Any excess or deficiency of cash receipts over expenditures incurred is reported as "Deferred income and advances." Upon termination, unexpended cash funds received and revertible equipment purchased are returnable to the grantor. Accordingly, grant income under these awards are recognized in amounts equal to actual expenditures incurred.

The Institute provides technical assistance and consulting services under contracts with various units of Federal, state and local governments. Income is recognized based upon services rendered and expensed in accordance with contract provisions.

Nonrefundable grants impose no limitation on the period to which the funds may be applied. Accordingly, revenue is recorded when the grant is awarded.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions are satisfied in the same reporting period. Pursuant to Vera's 5% spending rate policy (see Note 8); an endowment income allocation is made for general purposes (unrestricted).

Functional allocation of expenses

The cost of providing the various programs and other activities has been summarized on a

Vera Institute of Justice, Inc.

**Notes to Financial Statements
June 30, 2014**

functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated between program services and supporting services based on an analysis of personnel time and space utilized for the related activities.

Contributed services

No amounts have been reflected in the financial statements for donated services. The Institute pays for most services, which require specific expertise.

Income taxes

The Institute has no unrecognized tax benefits as of June 30, 2014. The Institute's Federal and state income tax returns prior to fiscal year 2011 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Institute will recognize interest and penalties associated with tax matters as administration expenses and include accrued interest and penalties with the related tax liability in the statement of financial position. There were no interest or penalties for the year ended June 30, 2014.

Deferred rent

The Institute occupies office space under two leases containing escalation clauses and a lease incentive that require normalization of the rental expense over the life of the lease. This results in deferred rent, which is reflected in the accompanying statement of financial position.

Subsequent events

The Institute has evaluated subsequent events through December 10, 2014, which is the date the financial statements were available to be issued.

Note 3 - Concentration of credit risk

Financial instruments that potentially subject the Institute to concentrations of credit risk consist principally of cash and cash equivalents, grants and pledges receivable, and investments. At times during the year, the Institute's cash balances may exceed the limits of Federal Deposit Insurance Corporation (FDIC) insurance coverage. At June 30, 2014, the Institute's uninsured cash and cash equivalent balances totaled approximately \$2,900,000. The Institute monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions.

Grants and pledges receivable credit risk is limited due to the nature of the grants and pledges. The Institute regularly monitors its grants and pledges receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. The Institute considers all pledges as collectible. There were no allowances for uncollectible billed grants receivable as of June 30, 2014.

Vera's investments are in high-quality marketable securities placed within institutions with a high-credit rating. This investment policy limits Vera's exposure to concentrations of credit risk.

Vera Institute of Justice, Inc.

Notes to Financial Statements
June 30, 2014

Note 4 - Investment in marketable securities

At June 30, 2014, the fair value of marketable securities consisted of the following:

Mutual Funds	\$5,035,053
Alternative Investments	<u>206,270</u>
Total	<u>\$5,241,323</u>

Investment gain in excess of spending rate for the year ended June 30, 2014 was:

Dividend income	\$ 300,105
Interest income	10,938
Investment expense	(50,848)
Realized and unrealized gains on investments	<u>702,856</u>
Total return on investments	963,051
Endowment appropriations	<u>(324,330)</u>
Investment gain in excess of endowment appropriations	<u>\$ 638,721</u>

For the year ended June 30, 2014, investment advisory fees amounted to \$50,848.

Note 5 - Fair value measurements

Vera 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 prioritizes observable and unobservable inputs 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.

Vera Institute of Justice, Inc.

Notes to Financial Statements
June 30, 2014

In determining fair value, Vera 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.

The following table sets forth by level, within the fair value hierarchy, the Institute's investments as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Large-cap blend	\$ 506,427			\$ 506,427
Mid-cap blend	202,712			202,712
Small-cap value	301,819			301,819
Natural resource	340,169			340,169
International equity	746,734			746,734
Emerging markets	607,098			607,098
Frontier markets	151,684			151,684
Real estate securities	165,644			165,644
Interest rate sensitive fixed income	755,536			755,536
Multi-sector bonds	253,202			253,202
Directional hedge-long/short equity	501,083			501,083
Multi-strategy hedge	170,151			170,151
Low-volatility hedge	165,827			165,827
Managed futures	166,967			166,967
Alternative investments:				
Fund of funds			\$ 206,270	<u>206,270</u>
Totals	<u>\$ 5,035,053</u>		<u>\$ 206,270</u>	<u>\$ 5,241,323</u>

The following table sets forth a summary of changes in the Institute's level 3 investments for the year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Purchases</u>	<u>Settlements</u>	<u>Total</u> <u>Gains/(Losses)</u>	<u>Balance</u> <u>June 30, 2014</u>
Alternative investments:					
Fund of funds	\$ 539,984		\$ (358,189)	\$ 24,475	\$ 206,270
Totals	<u>\$ 539,984</u>		<u>\$ (358,189)</u>	<u>\$ 24,475</u>	<u>\$ 206,270</u>

Vera Institute of Justice, Inc.

**Notes to Financial Statements
June 30, 2014**

The amount of total gains for the year ended June 30, 2014 included in unrestricted net assets attributable to the change in unrealized losses relating to assets still held at the reporting date was \$13,065.

The following is a description of the valuation methodologies used for investments at fair value. There have been no changes in the methodologies used at June 30, 2014.

Investments in mutual funds are valued using market prices on active markets (level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

The fair value of the fund of funds (level 3) are determined by net asset value which is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding. The net asset value was obtained from audited financial statements and other reports received from the investment advisor.

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 Vera 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.

Net asset value per share

Vera's disclosures include fair value, number of funds, unfunded commitments, redemption terms, redemption restrictions and if the restrictions were not in place at year end for those assets whose fair value is estimated using the net asset value ("NAV") per share as of June 30, 2014. The following table presents Vera's investments with a reported NAV at June 30, 2014:

<u>Fund Name</u>	<u>NAV in Fund</u>	<u># of Funds</u>	<u>Redemption Terms/Restrictions</u>	<u>Redemption Restrictions in Place at Year-End</u>
Hatteras Multi-Strategy TEI Fund, L.P.	\$ 206,270	1	1-year lock-up period quarterly withdrawal, with 65 days notice	Yes

There were no unfunded commitments at June 30, 2014.

The Hatteras Multi-Strategy TEI Fund, L.P. seeks to provide capital appreciation consistent with the return characteristic of larger endowments through investments in six asset classes: Opportunity Equity, Enhanced Fixed Income, Absolute Return, Real Estate, Private Equity, and Energy and Natural Resources.

Vera Institute of Justice, Inc.

Notes to Financial Statements
June 30, 2014

Note 6 - Pledges receivable

At June 30, 2014, pledges receivable consist of the following:

Receivable in less than one year	\$6,319,646
Receivable in one to five years	<u>3,469,666</u>
Total pledges	9,789,312
Less discount to net present value	<u>118,607</u>
Net pledges receivable	<u>\$9,670,705</u>

Pledge receivables due in one to five years are discounted at 1.50% for 2014. No allowance for uncollectible pledges has been recorded as all pledges are deemed collectible by management at June 30, 2014.

Note 7 - Leasehold improvements, furniture and equipment

Leasehold improvements, furniture and equipment consist of the following:

	<u>Estimated Useful Lives</u>	
Leasehold improvements	10 years	\$1,467,803
Computer equipment	3-5 years	473,087
Furniture and fixtures	3-7 years	60,982
Office equipment	3-5 years	<u>173,843</u>
Totals		2,175,715
Less accumulated depreciation and amortization		<u>1,074,762</u>
Total		<u>\$1,100,953</u>

Note 8 - Endowments

The Institute's endowment consists of equity and fixed income securities, alternative investments, and cash established for a variety of purposes. Its endowment includes both permanently donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Vera classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the

Vera Institute of Justice, Inc.

**Notes to Financial Statements
June 30, 2014**

fund. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by applicable laws and regulations. The Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the Institute and donor-restricted endowment funds, (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 Institute, (7) the Institute's investment policies, and (8) where appropriate, alternatives to spending from the donor-restricted endowment funds and the possible effects of those alternatives on the Institute.

Endowment investment and spending policies

The Endowment Fund (the "Fund") was established in fiscal year 1987 as an unrestricted Board designated fund to function as and to achieve the same general purposes as an endowment. The Fund was to be held in a "segregated restricted investment fund." Policy guidelines established by the Institute's Board of Trustees incorporate this requirement and provide that the Fund was to be known as the "Endowment Fund."

The Endowment Fund continues to be accounted for in a separate, segregated fund and the Finance and Investment Committee of the Institute's Board of Trustees continues to exercise investment decisions and establishes and maintains investment guidelines and strategies.

Vera's investment and spending policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Investment risk is measured in terms of the total Endowment Fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

In 2014, the Board of Trustees approved that Vera make an endowment appropriation to fund the unrestricted general Endowment Fund in the amount of \$324,330 according to the spending policy of 5%.

In addition, in June 2014, the Board of Trustees approved an additional appropriation from the Fund of approximately \$2,000,000 and resolved that Vera's unrestricted general fund would not be required to repay the Fund the then outstanding loan balance of approximately 1,300,000.

Vera Institute of Justice, Inc.

**Notes to Financial Statements
June 30, 2014**

Endowment net asset composition by type of fund as of June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds			\$ 250,000	\$ 250,000
Board-designated endowment funds	\$ 5,028,913			5,028,913
	<u>\$ 5,028,913</u>	<u>\$</u>	<u>\$ 250,000</u>	<u>\$ 5,278,913</u>

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>		<u>Permanently Restricted</u>	<u>Total</u>
	<u>General</u>	<u>Board Designated</u>		
Endowment net assets (deficiency), June 30, 2013	\$ (1,331,270)	\$ 7,725,862	\$ 250,000	\$ 6,644,592
Investment income		311,044		311,044
Net realized and unrealized gains		702,855		702,855
Fees		(50,848)		(50,848)
Appropriation		(324,330)		(324,330)
Transfers from board designated to undesignated net assets	<u>1,331,270</u>	<u>(3,335,670)</u>		<u>(2,004,400)</u>
Endowment net assets, June 30, 2014	<u>\$ -</u>	<u>\$ 5,028,913</u>	<u>\$ 250,000</u>	<u>\$ 5,278,913</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or New York Prudent Management of Institutional Funds Act requires the Institute to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2014.

Note 9 - Notes payable

In January 2013, Vera entered into a revolving line of credit agreement with Citibank, N.A., that provides for borrowings up to \$2,500,000. This line of credit is secured by a blanket first lien on substantially all the assets of Vera and is subject to restrictive covenants. Interest is charged at the greater of the bank's prime rate (3.25% as of June 30, 2014) less 0.75% or two

Vera Institute of Justice, Inc.

**Notes to Financial Statements
June 30, 2014**

hundred basis points in excess of a rate of interest determined by the bank in accordance with its customary procedures less 0.75%. Interest expense for the year ended June 30, 2014 was \$35,260. Vera had no outstanding balance due under the line of credit as of June 30, 2014.

In January 2014, Vera entered into a revolving note agreement with an anonymous donor for borrowings of up to \$250,000 which are secured by outstanding commission fees related to the Guardianship Project and is subject to restrictive covenants. The borrowings are interest free for up to eight years, after which they become subject to interest equal to the lesser of 18% or the maximum allowed by law. As of June 30, 2014, the outstanding balance was \$67,482.

Note 10 - Temporarily restricted net assets

At June 30, 2014, temporarily restricted net assets are available for the following purposes in future periods:

Demonstration projects	\$ 692,016
Centers and programs	9,881,180
Planning and research	287,337
Fundraising	<u>1,075,882</u>
Total	<u>\$11,936,415</u>

Net assets released from donor restrictions for the year ended June 30, 2014 were released by incurring expenses satisfying the program restrictions and the expiration of time restrictions specified by the donors.

Note 11 - Permanently restricted net assets

Permanently restricted net assets are restricted to an investment in perpetuity, the income from which is expendable for general purposes.

Note 12 - Employee benefit plans

Vera maintains a defined contribution group pension plan whereby contributions are made in an amount equal to 5% of annual compensation for all eligible employees. Employees are eligible to participate in the plan if they have completed one year of service and contribute at least 3% of their annual salary to the Vera Tax Sheltered Annuity Plan ("Annuity Plan"). Contributions to the Annuity Plan for the year ended June 30, 2014 amounted to \$435,493.

The Annuity Plan is a noncontributory tax sheltered annuity plan that allows employees to defer a portion of their salaries for tax purposes through payroll deductions.

Vera Institute of Justice, Inc.

**Notes to Financial Statements
June 30, 2014**

Note 13 - Commitments and contingencies

Operating leases

The Institute currently has various cancellable and non-cancellable property lease agreements in connection with its programs which expire through October 2017. The property leases are subject to real estate tax escalations. Rental expense for the Institute under all operating leases for the year ended June 30, 2014 was \$1,727,112.

The Institute has a lease at 233 Broadway, New York, NY which started on November 30, 2010 and expires on July 31, 2021. The minimum annual future rental commitments related to the renewal lease, along with all of the Institute's current non-cancellable leases, in the five years subsequent to June 30, 2014 and thereafter are as follows:

<u>Year Ending June 30, ____</u>	<u>Cancellable</u>	<u>Non-cancellable</u>	<u>Total</u>
2015	\$ 88,197	\$ 1,274,746	\$ 1,362,943
2016	7,532	1,304,908	1,312,440
2017		1,231,164	1,231,164
2018		1,029,942	1,029,942
2019		1,027,080	1,027,080
Thereafter		<u>2,274,707</u>	<u>2,274,707</u>
Total	<u>\$ 95,729</u>	<u>\$ 8,142,547</u>	<u>\$ 8,238,276</u>

Cost recovery grants

In most instances, grants are subject to audits by state, city and Federal auditors and costs charged grantors may be adjusted. In the opinion of the Institute's management, no provision is required for cost adjustments.

Note 14 - Donated facilities

Included in contributions and in occupancy expense for the year ended June 30, 2014 are donations representing the estimated in-kind rent and related expenses for the following programs:

The Guardianship Program:	
Supreme Court building in Brooklyn, NY	\$ 25,000
New Orleans Criminal Justice Reform:	
Stone Pigman LLC office space in New Orleans, LA	8,000
Willenken Wilson Loh & Delgado LLP:	
Office space in Los Angeles, CA	<u>44,500</u>
Total	<u>\$ 77,500</u>

Vera Institute of Justice, Inc.

**Notes to Financial Statements
June 30, 2014**

Note 15 - Funds held on behalf of others

Through The Guardianship Project, Vera acts as the court appointed guardian for designated individuals. As the guardian, the Institute is required to administer the individuals' assets. These amounts are not included in the accompanying financial statements.

The approximate value of the assets at June 30, 2014 is as follows:

Cash	\$10,000,000
Securities	8,000,000
Other	4,000,000
Real property	<u>44,000,000</u>
Total	<u>\$66,000,000</u>

At times during the year, cash balances for The Guardianship Project, which are in Vera's name, may exceed the limits of FDIC insurance coverage.

Note 16 - Esperanza NY, Inc.

Esperanza NY, Inc., ("Esperanza") is a not-for-profit entity whose purpose is to safely reduce the reliance on confinement or incarceration of youth involved in the justice system by developing safe, humane, and productive responses to the challenges of court involved youth. Prior to June 30, 2013, Vera was the sole member of Esperanza. On July 24, 2013, Esperanza amended its by-laws effective June 30, 2013, and with Vera's consent, modified its corporate structure by removing Vera as its sole member. As of July 1, 2013, Vera relinquished its rights in Esperanza and transferred its net assets to Esperanza that consisted of \$1,030,711 in unrestricted net assets and \$13,798 in temporarily restricted net assets.

Vera guarantees up to \$250,000 of a \$500,000 unsecured, revolving term note that Esperanza entered into with TD Bank, N.A. The line of credit agreement expires on April 5, 2015. Interest is charged at 0.5% above the prime rate, limited to 4%. No amounts were outstanding under this note as of June 30, 2014.

Supplementary Information

Vera Institute of Justice, Inc.

Schedule of Financial Position
June 30, 2014

	<u>Operations</u>	<u>Board Designated Endowment</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,332,230	\$ 37,590		\$ 2,369,820
Grants receivable:				
Billed, net	5,493,667			5,493,667
Unbilled	761,910			761,910
Investment in marketable securities		4,991,323	\$ 250,000	5,241,323
Pledges receivable, net	9,670,705			9,670,705
Prepaid expenses	92,941			92,941
Deposits and sundry receivables	317,646			317,646
Leasehold improvements, furniture and equipment, net	1,100,953			1,100,953
Totals	<u>\$ 19,770,052</u>	<u>\$ 5,028,913</u>	<u>\$ 250,000</u>	<u>\$ 25,048,965</u>
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 4,799,037			\$ 4,799,037
Note payable	67,482			67,482
Deferred rent	1,034,985			1,034,985
Deferred income and advances	93,911			93,911
Payroll taxes and employee benefits withheld	175,155			175,155
Miscellaneous payables	21,671			21,671
Totals	<u>6,192,241</u>			<u>6,192,241</u>
Net assets:				
Unrestricted:				
Undesignated	1,641,396			1,641,396
Board-designated	<u>1,641,396</u>	<u>\$ 5,028,913</u>		<u>5,028,913</u>
Total unrestricted	1,641,396	5,028,913		6,670,309
Temporarily restricted	11,936,415			11,936,415
Permanent endowment			\$ 250,000	250,000
Total net assets	<u>13,577,811</u>	<u>5,028,913</u>	<u>250,000</u>	<u>18,856,724</u>
Totals	<u>\$ 19,770,052</u>	<u>\$ 5,028,913</u>	<u>\$ 250,000</u>	<u>\$ 25,048,965</u>

See Independent Auditor's Report.

Vera Institute of Justice, Inc.

Schedule of Activities
Year Ended June 30, 2014

	Operations	Board Designated Endowment	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:					
Public support:					
Grant income	\$31,077,440				\$31,077,440
Contributions	707,264		\$10,626,384		11,333,648
Interest and dividends	560				560
Miscellaneous	702,597				702,597
Endowment income allocation	324,330				324,330
Net assets released from restrictions - satisfaction of program restrictions	6,490,464		(6,490,464)		-
Total public support and revenue	<u>39,302,655</u>		<u>4,135,920</u>		<u>43,438,575</u>
Expenses:					
Program services	35,728,965				35,728,965
Administration	4,964,965				4,964,965
Fundraising	417,618				417,618
Total expenses	<u>41,111,548</u>				<u>41,111,548</u>
Excess (deficiency) of operating revenue over operating expenses	(1,808,893)		4,135,920		2,327,027
Investment gain in excess of spending rate		\$ 638,721			638,721
Transfer of net assets	<u>3,335,670</u>	<u>(3,335,670)</u>			
Changes in net assets	1,526,777	(2,696,949)	4,135,920		2,965,748
Transfer of net assets to Esperanza NY, Inc.	(1,030,711)		(13,798)		(1,044,509)
Net assets, beginning of year	<u>1,145,330</u>	<u>7,725,862</u>	<u>7,814,293</u>	<u>\$ 250,000</u>	<u>16,935,485</u>
Net assets, end of year	<u>\$ 1,641,396</u>	<u>\$ 5,028,913</u>	<u>\$11,936,415</u>	<u>\$ 250,000</u>	<u>\$18,856,724</u>

See Independent Auditor's Report.