

VERA INSTITUTE OF JUSTICE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017

VERA INSTITUTE OF JUSTICE, INC.

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INDEPENDENT AUDITORS' REPORT

To The Board of Trustees
Vera Institute of Justice, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Vera Institute of Justice, Inc., which comprise the statement of financial position at June 30, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Vera Institute of Justice, Inc. at June 30, 2017, 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.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
December 27, 2017

VERA INSTITUTE OF JUSTICE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Cash and cash equivalents	\$ 19,840,824
Investments	5,822,043
Grants and contracts receivable, net	16,218,540
Contributions receivable, net	8,173,826
Other assets	482,193
Leasehold improvements and furniture and equipment, net	<u>549,458</u>
 TOTAL ASSETS	 <u><u>\$ 51,086,884</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES:	
Accounts payable and accrued expenses	\$ 10,675,685
Accrued salaries and related benefits payable	887,927
Deferred rent	815,001
Advances from government agencies	<u>1,991,940</u>
 TOTAL LIABILITIES	 <u>14,370,553</u>
 COMMITMENTS AND CONTINGENCIES	
NET ASSETS:	
Operating - unrestricted	15,952,691
Board-designated - unrestricted	<u>5,639,195</u>
Total unrestricted	<u>21,591,886</u>
 Temporarily restricted	 14,874,445
Permanently restricted - endowment	<u>250,000</u>
	<u>15,124,445</u>
 TOTAL NET ASSETS	 <u>36,716,331</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 51,086,884</u></u>

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

VERA INSTITUTE OF JUSTICE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and other support:				
Government grants, contracts and fees	\$ 86,901,728	\$ -	\$ -	\$ 86,901,728
Contributions	4,345,254	17,127,771	-	21,473,025
Special events	915,417	-	-	915,417
Direct cost of special events	(128,626)	-	-	(128,626)
Miscellaneous revenue	105,706	-	-	105,706
Net assets released from restrictions	12,163,028	(12,163,028)	-	-
Total operating revenue and other support	<u>104,302,507</u>	<u>4,964,743</u>	<u>-</u>	<u>109,267,250</u>
Operating expenses:				
Program services	85,219,808	-	-	85,219,808
Supporting services:				
Management and general	6,549,541	-	-	6,549,541
Fundraising	572,811	-	-	572,811
Total operating expenses	<u>92,342,160</u>	<u>-</u>	<u>-</u>	<u>92,342,160</u>
Excess of operating revenue and other support over operating expenses	11,960,347	4,964,743	-	16,925,090
Investment income	<u>490,656</u>	<u>-</u>	<u>-</u>	<u>490,656</u>
Change in net assets	12,451,003	4,964,743	-	17,415,746
Net assets, beginning of year	<u>9,140,883</u>	<u>9,909,702</u>	<u>250,000</u>	<u>19,300,585</u>
Net assets, end of year	<u>\$ 21,591,886</u>	<u>\$ 14,874,445</u>	<u>\$ 250,000</u>	<u>\$ 36,716,331</u>

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

VERA INSTITUTE OF JUSTICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services			Supporting Services				Total
	Demonstration Projects	Centers and Programs	Total	Management and General	Fundraising	Direct Cost of Special Events	Total	
Salaries and related expenses:								
Salaries	\$ 2,395,572	\$ 8,946,794	\$ 11,342,366	\$ 3,479,213	\$ 229,030	\$ -	\$ 3,708,243	\$ 15,050,609
Fringe benefits	628,838	2,163,327	2,792,165	739,237	57,566	-	796,803	3,588,968
Total	<u>3,024,410</u>	<u>11,110,121</u>	<u>14,134,531</u>	<u>4,218,450</u>	<u>286,596</u>	<u>-</u>	<u>4,505,046</u>	<u>18,639,577</u>
Subcontractors and pass-through funding	127,623	65,110,971	65,238,594	-	-	-	-	65,238,594
Consultants	135,972	2,247,301	2,383,273	625,364	152,770	-	778,134	3,161,407
Professional fees	78,452	72,443	150,895	209,454	7,166	-	216,620	367,515
Occupancy	218,871	804,020	1,022,891	305,282	20,740	-	326,022	1,348,913
Equipment expense and rentals	31,666	7,667	39,333	307,408	499	-	307,907	347,240
Publications and printing	6,013	28,545	34,558	11,942	7,086	-	19,028	53,586
Office expenses	30,676	82,607	113,283	342,227	60,112	-	402,339	515,622
Telephone	26,610	66,247	92,857	83,017	2,206	-	85,223	178,080
Travel and subsistence	95,674	1,451,297	1,546,971	170,200	19,040	128,626	317,866	1,864,837
Insurance	28,708	6,139	34,847	113,024	-	-	113,024	147,871
Depreciation and amortization	40,661	149,369	190,030	56,714	3,853	-	60,567	250,597
Miscellaneous expense	22,415	215,330	237,745	106,459	12,743	-	119,202	356,947
Subtotal	<u>3,867,751</u>	<u>81,352,057</u>	<u>85,219,808</u>	<u>6,549,541</u>	<u>572,811</u>	<u>128,626</u>	<u>7,250,978</u>	<u>92,470,786</u>
Direct cost of special events	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(128,626)</u>	<u>(128,626)</u>	<u>(128,626)</u>
Total	<u>\$ 3,867,751</u>	<u>\$ 81,352,057</u>	<u>\$ 85,219,808</u>	<u>\$ 6,549,541</u>	<u>\$ 572,811</u>	<u>\$ -</u>	<u>\$ 7,122,352</u>	<u>\$ 92,342,160</u>

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

VERA INSTITUTE OF JUSTICE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 17,415,746
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	250,597
Deferred rent	(152,483)
Net realized and unrealized gains on investments	(385,325)
Amortization of discount on pledge receivable	(111,337)
Changes in assets (increase) decrease:	
Grants and contracts receivable	(1,106,646)
Contributions receivable	(3,490,071)
Other assets	5,674
Changes in liabilities increase (decrease):	
Accounts payable and accrued expenses	(3,480,290)
Accrued salaries and related benefits payable	(8,088)
Advances from government agencies	<u>(1,285,194)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 7,652,583

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(705,800)
Proceeds from sale of investments	112,759
Purchase of leasehold improvements, furniture and equipment	<u>(26,606)</u>

NET CASH USED IN INVESTING ACTIVITIES (619,647)

NET INCREASE IN CASH AND CASH EQUIVALENTS 7,032,936

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 12,807,888

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 19,840,824

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

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 - Nature of Operations

Vera Institute of Justice, Inc. ("Vera") was organized under the Not-for-Profit Corporation Law of the State of New York and is qualified as a public charity 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's mission is to drive change and urgently build and improve justice systems that ensure fairness, promote safety, and strengthen communities. Vera works with others who share its vision to tackle the most pressing injustices of our day - from the causes and consequences of mass incarceration, racial disparities, and the loss of public trust in law enforcement, to the unmet needs of the vulnerable, the marginalized, and those harmed by crime and violence. Vera's primary source of funding is government grants and contributions.

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 ("U.S. GAAP").

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

Fair value is defined as 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. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Fair Value of Financial Instruments (cont'd.)

Level 3 - Valuations based on unobservable inputs when little or no market data is available. These valuations require significant judgment.

At June 30, 2017, the cost basis of Vera's financial instruments, including cash and cash equivalents, grants receivable, contributions receivable, accounts payable and accrued expenses, accrued salaries and related benefits payable, and advances from government agencies, approximated fair value due to the short maturity of these instruments.

Refer to Note 5 - Fair Value Measurements for assets measured at fair value.

Investments

Investments are stated at the readily determinable fair value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investments for which fair value is measured using net asset value per share as a practical expedient have not been categorized within the fair value hierarchy.

Grant Revenue, Receivables and Advances from Government Agencies

Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, Vera establishes advances from government funders. For deliverables and fixed price contracts, revenue is recorded when the deliverable is met or on the established time interval as described in the contract, respectively.

Contributions and Contributions Receivable

Vera reports gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 as net assets released from restrictions. Contributed securities are valued at the fair value of the asset on the date of the actual receipt of the gift.

Contributions, including unconditional promises to give, are recorded as revenue. 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 due in the next year 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 risk-free interest rates applicable to the years in which the pledges are to be received. Vera does not accrue interest on past due receivables.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Allowance for Doubtful Accounts

Vera determines whether an allowance for uncollectable accounts should be provided for grant and contributions receivable. Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions and historical information. Grant and contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. At June 30, 2017, there is no allowance for doubtful accounts.

Leasehold Improvements and Furniture and Equipment

Leasehold improvements and furniture and equipment are stated at cost. The costs of additions and betterments are capitalized when they exceed \$5,000 and have a useful life of over one year. Expenditures for repairs and maintenance are expensed in the period incurred. When items are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Depreciation of equipment is provided utilizing the straight-line method. Leasehold improvements are amortized over the term of the lease.

Net Assets

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Board designated funds represent funds designated by the Board of Trustees as a special allocation for enhancing specific program activities. Temporarily restricted net assets are those net assets that are restricted by the donors for specific purposes. Permanently restricted net assets are those net assets whose principal may not be expended. The donors may or may not restrict the use of investment income.

Functional Reporting

The costs of providing Vera's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payment and rent expense.

Measure of Operations

Changes in net assets from operations include all revenues and expenses for the period except for investment income or loss.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Accounting for Uncertainty in Income Taxes

Vera applies the provisions pertaining to uncertain tax provisions of FASB ASC Topic 740, *Income Taxes*, and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Vera is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Vera believes it is no longer subject to income tax examinations prior to 2014.

Upcoming Accounting Pronouncements

ASU No. 2016-14

In August 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. This ASU is a result of the recommendations developed by FASB’s Not-for-Profit Advisory Committee and FASB’s ongoing review of Generally Accepted Accounting Principles (GAAP) standards to improve existing standards to meet the evolving needs of a dynamic financial reporting environment.

The ASU provides for changes in financial statement presentation that effect classification of net assets, presentation of expenses, investment returns and presentation of operating cash flows. It also calls for enhanced disclosures of board designated funds, underwater endowment funds, methods used to allocate costs among functions, and liquidity and availability of resources. The ASU affects all not-for-profit organizations including charities, foundations, colleges and universities, health care providers, religious organizations, trade associations, and cultural institutions, among others.

The amendments of ASU No. 2016-14 are effective for annual financial statements issued for periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.

ASU No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU is the result of a joint project of the FASB and the International Accounting Standards Board (“IASB”) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements for U.S. GAAP and International Financial Reporting Standards (“IFRS”). The guidance in this ASU affects any entity that enters into a lease (as that term is defined in this ASU), with some specified scope exemptions. The guidance in this ASU will supersede Topic 840, *Leases*.

The ASU provides that lessees should recognize lease assets and lease liabilities on the balance sheet for leases previously classified as operating leases that exceed 12 months, including leases existing prior to the effective date of this ASU. It also calls for enhanced leasing arrangement disclosures.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Upcoming Accounting Pronouncements (cont'd.)

ASU No. 2016-02 (cont'd.)

For nonpublic entities, the amendments of ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application is permitted for all entities.

ASU No. 2014-09

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU is the result of a joint project of the FASB and the IASB to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards.

The ASU provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should apply the following five-step process to recognize revenue:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For nonpublic entities, the amendments of ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early application is permitted under certain circumstances.

Vera has not yet determined if these ASU's will have a material effect on its financial statements.

Note 3 - Concentration of Credit Risk

Vera maintains cash balances in several financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000 per institution. From time to time, Vera's balances may exceed these limits.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 4 - Investment Income

For the year ended June 30, 2017, investment income (loss) consists of:

Dividend and interest income	\$	155,481
Investment advisory expense		(50,150)
Realized and unrealized gains on investments		385,325
	<u>\$</u>	<u>490,656</u>

Note 5 - Fair Value Measurements

Vera measures its marketable securities at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect Vera's own assumptions of market participant valuation (unobservable inputs).

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

The following table presents Vera's assets that are measured on a recurring basis at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Equity and fixed income mutual funds:				
Large-cap	\$ 2,495,942	\$ -	\$ -	\$ 2,495,942
International equity	681,023	-	-	681,023
Emerging markets	184,137	-	-	184,137
Directional hedge-long/short equity	87,947	-	-	87,947
Interest rate sensitive fixed income	1,475,912	-	-	1,475,912
Credit sensitive fixed income	580,835	-	-	580,835
Alternative assets:				
Multi-strategy hedge mutual funds	220,538	-	-	220,538
Managed futures	66,342	-	-	66,342
	<u>\$ 5,792,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>5,792,676</u>
Alternative investment (a)				<u>29,367</u>
				<u>\$ 5,822,043</u>

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 5 - Fair Value Measurements (cont'd.)

(a) In accordance with ASC Subtopic 820-10, certain investments that were measured at net asset value ("NAV") per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient as of June 30, 2017.

Fund Name	NAV in Fund	Number of Funds	Redemption Terms/Restrictions	Redemption Restrictions in Place at Year-End
Hatteras Multi-Strategy TEI Fund, L.P.	\$ 29,367	1	1-year lock-up period quarterly withdrawal, with 65 days notice	Yes

Note 6 - Contributions Receivable

At June 30, 2017, contributions receivable, net consist of the following:

Receivable in less than one year	\$ 5,502,663
Receivable in one to five years	2,782,500
Total	<u>8,285,163</u>
Less: Discount to net present value (3%)	<u>111,337</u>
Net contributions receivable	<u><u>\$ 8,173,826</u></u>

Contributions receivable due in one to five years are discounted at rates ranging from 1.38% to 1.89%.

Note 7 - Leasehold Improvements and Furniture and Equipment

Leasehold improvements and furniture and equipment consist of the following:

	<u>Estimated Useful Lives</u>	
Leasehold improvements	10 years	\$ 1,410,856
Computer equipment	3-5 years	625,864
Furniture and fixtures	3-7 years	59,443
Office equipment	3-5 years	<u>170,953</u>
		2,267,116
Less: Accumulated depreciation and amortization		<u>1,717,658</u>
		<u><u>\$ 549,458</u></u>

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 8 - Endowments

Vera's endowments include a permanent donor-restricted fund and a fund designated by the Board of Trustees to function as their endowments. Vera's endowments are established for a variety of purposes and consist of equities, mutual funds, alternative investments, and cash. As required by U.S. GAAP, 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 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 Vera in a manner consistent with the standard of prudence prescribed by applicable laws and regulations. Vera 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 Vera 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 Vera, (7) Vera's investment policies, and (8) when appropriate, alternatives to spending from the donor-restricted endowment funds and the possible effects of those alternatives on Vera.

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 Vera's Board of Trustees incorporate this requirement and provide that the Fund was to be known as the "Endowment Fund."

The Fund continues to be accounted for in a separate, segregated fund and the Finance and Investment Committee of Vera'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. During 2017, the Board of Trustees voted to not make any appropriations.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 8 - Endowments (cont'd.)

Endowment net asset composition by type of fund at June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,147)	\$ -	\$ 250,000	\$ 248,853
Board-designated endowment funds	5,639,195	-	-	5,639,195
Total	\$ 5,638,048	\$ -	\$ 250,000	\$ 5,888,048

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted		Permanently Restricted	Total
	Undesignated	Board Designated		
Endowment net assets, June 30, 2016	\$ (17,232)	\$ 4,664,624	\$ 250,000	\$ 4,897,392
Contributions	-	500,000	-	500,000
Dividend and interest income	-	138,674	-	138,674
Net realized and unrealized gains	16,085	386,047	-	402,132
Investment fees	-	(50,150)	-	(50,150)
Endowment net assets, June 30, 2017	\$ (1,147)	\$ 5,639,195	\$ 250,000	\$ 5,888,048

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 Vera to retain as a fund of perpetual duration. In accordance with U.S. GAAP, there were no deficiencies at June 30, 2017.

Note 9 - Line of Credit

Vera entered into a revolving line of credit agreement with a financial institution, which 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 (4.25% as of June 30, 2017) less 0.75%, or two hundred basis points in excess of a rate of interest determined by the bank in accordance with its customary procedures less 0.75%. There was no interest expense incurred for the year ended June 30, 2017. Vera had no outstanding balance due under the line of credit at June 30, 2017.

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Note 10 - Temporarily Restricted Net Assets

At June 30, 2017, temporarily restricted net assets are available for the following purposes:

Demonstration projects	\$ 3,273,903
Centers and programs	6,667,894
Planning and research	4,889,750
Fundraising	<u>42,898</u>
	<u>\$ 14,874,445</u>

Temporarily restricted net assets were released from restrictions for the year ended June 30, 2017 by incurring expenses satisfying the following:

Demonstration projects	\$ 1,594,286
Centers and programs	10,132,655
Planning and research	93,860
Fundraising	<u>342,227</u>
	<u>\$ 12,163,028</u>

Note 11 - 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"). The Annuity Plan is a defined contribution tax sheltered annuity plan that allows employees to defer a portion of their salaries for tax purposes through payroll deductions. Contributions to the pension plan for the year ended June 30, 2017 amounted to \$430,460.

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Note 12 - Operating Leases

Vera currently has various cancellable and noncancellable property lease agreements in connection with its programs which expire at various dates through October 2020. The property leases are subject to real estate tax escalations. Vera also has a lease for office space located in New York, NY, which expires on July 31, 2021. Rental expense for Vera under all operating leases for the year ended June 30, 2017 was \$1,143,965. The minimum annual future rental commitments are as follows:

Years Ending June 30:

2018	\$ 1,354,828
2019	1,373,084
2020	1,416,685
2021	1,293,032
2022	151,551
	\$ 5,589,180

Note 13 - Funds Held on Behalf of Others

Through the Guardianship Project, Vera acts as the court appointed guardian for designated individuals. The Guardianship Project provides guardianship services for older adults and people with disabilities in New York City who have been determined by a judge to be unable to care for themselves. Vera's administration of these assets is limited as dictated in the Order and Judgment, which limits the scope of Vera's authority to handle financial tasks. At times during the year, cash balances for The Guardianship Project, which are in the designated individual's and Vera's name, may exceed the limits of FDIC insurance coverage. These amounts are not included in the accompanying financial statements.

The approximate value of the assets at June 30, 2017 is as follows:

Cash	\$ 4,000,000
Securities	19,000,000
Real property	2,000,000
	\$ 25,000,000

Note 14 - Esperanza NY, Inc.

Vera guarantees up to \$250,000 of a \$500,000 unsecured, revolving term note that Esperanza NY, Inc., an unrelated entity, entered into with a financial institution. The line of credit agreement expires on April 5, 2018. Interest is charged at 0.5% above the prime rate, limited to 4%. No amount was outstanding at June 30, 2017.

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Note 15 - Subsequent Events

Vera has evaluated all events or transactions that occurred after June 30, 2017 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, the Common Justice program spun off into its own entity, Common Justice, Inc., for which Vera is the sole member. The financial statements for the year ended June 30, 2018 will include Common Justice, Inc. as a consolidating entity.