

AMERICAN FRIENDS OF MIGDAL OHR

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2016

AMERICAN FRIENDS OF MIGDAL OHR

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**Board of Directors
American Friends of Migdal Ohr**

Report on the Financial Statements

We have audited the accompanying financial statements of American Friends of Migdal Ohr, which comprise the statement of financial position as of December 31, 2016, 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 American Friends of Migdal Ohr as of December 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited American Friends of Migdal Ohr's December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

September 14, 2017

AMERICAN FRIENDS OF MIGDAL OHR
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016
(With Summarized Financial Information
for December 31, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,464,961	\$ 907,700
Pledges receivable - net (Note 6)	1,473,103	2,110,639
Prepaid expenses and other assets	13,980	7,876
Fixed assets - net (Note 3)	22,264	27,126
Investment - held for sale real estate (Note 7)		<u>1,187,038</u>
Total assets	<u>\$ 2,974,308</u>	<u>\$ 4,240,379</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 51,570</u>	<u>\$ 2,380</u>
Net assets (Exhibit B)		
Unrestricted	716,288	1,222,581
Temporarily restricted (Note 4)	<u>2,206,450</u>	<u>3,015,418</u>
Total net assets	<u>2,922,738</u>	<u>4,237,999</u>
Total liabilities and net assets	<u>\$ 2,974,308</u>	<u>\$ 4,240,379</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF MIGDAL OHR

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016
 (With Summarized Financial Information
 for the Year Ended December 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2016</u>	<u>2015</u>
Revenues and other support				
Contributions	\$ 2,784,286	\$ 1,609,964	\$ 4,394,250	\$ 6,100,789
Special event revenue	\$ 437,614			
Less direct cost of special events	<u>(116,207)</u>			
Net special event revenue	321,407		321,407	122,536
Interest	1,148		1,148	469
Loss on sale of real estate (Note 7)	(39,203)		(39,203)	
Net assets released from restrictions (Note 4)	<u>2,418,932</u>	<u>(2,418,932)</u>		
Total revenues and other support	<u>5,486,570</u>	<u>(808,968)</u>	<u>4,677,602</u>	<u>6,223,794</u>
Expenses (Exhibit C)				
Program services -				
Education and social guidance	5,047,543		5,047,543	3,459,542
Management and general	266,199		266,199	217,809
Fund raising	<u>679,121</u>		<u>679,121</u>	<u>544,970</u>
Total expenses	<u>5,992,863</u>		<u>5,992,863</u>	<u>4,222,321</u>
Change in net assets (Exhibit D)	(506,293)	(808,968)	(1,315,261)	2,001,473
Net assets - beginning of year	<u>1,222,581</u>	<u>3,015,418</u>	<u>4,237,999</u>	<u>2,236,526</u>
Net assets - end of year (Exhibit A)	<u>\$ 716,288</u>	<u>\$ 2,206,450</u>	<u>\$ 2,922,738</u>	<u>\$ 4,237,999</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF MIGDAL OHR

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016
(With Summarized Financial Information
for the Year Ended December 31, 2015)

	Program Services - Education and Social Guidance	Management and General	Fund Raising	Direct Cost of Special Event	Total	
					2016	2015
Transmissions to Migdal Ohr-Israel	\$ 5,047,543				\$ 5,047,543	\$ 3,459,542
Salaries		\$ 129,848	\$ 351,072		480,920	417,977
Payroll taxes, employee benefits		34,173	92,392		126,565	83,864
Professional fees		31,343			31,343	16,199
Rent (Note 5)		8,477	22,918		31,395	33,780
Telephone		1,743	9,874		11,617	11,338
Printing and postage		11,538	65,382		76,920	82,086
Office supplies		5,832	33,048		38,880	33,230
Travel		6,642	26,568		33,210	21,068
Insurance		1,635	6,541		8,176	11,479
Equipment rental/maintenance		10,078	7,870		17,948	10,760
Catering and facility rental				\$ 116,207	116,207	117,396
Advertisement			40,046		40,046	11,182
Board meetings and conferences		1,130	18,199		19,329	3,731
Bank charges and other fees		16,708			16,708	13,954
Depreciation and amortization		2,997	4,496		7,493	6,967
Miscellaneous expenses		4,055	715		4,770	5,164
Total expenses	5,047,543	266,199	679,121	116,207	6,109,070	4,339,717
Less expenses deducted directly on the statement of activities (Exhibit B)						
Direct cost of special events				(116,207)	(116,207)	(117,396)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 5,047,543	\$ 266,199	\$ 679,121	\$ -	\$ 5,992,863	\$ 4,222,321

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF MIGDAL OHR

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016
 (With Summarized Financial Information
 for the Year Ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (1,315,261)	\$ 2,001,473
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	7,493	6,967
Donated real estate		(1,187,038)
Loss on sale of real estate	39,203	
Decrease (increase) in assets		
Pledges receivable	637,536	(430,607)
Prepaid expenses and other assets	(6,104)	28,159
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	49,190	279
Deferred revenues		(30,119)
Net cash provided (used) by operating activities	<u>(587,943)</u>	<u>389,114</u>
Cash flows from investing activities		
Proceeds from sale of real estate	1,147,835	
Purchases of fixed assets	<u>(2,631)</u>	<u>(31,130)</u>
Net cash provided (used) by investing activities	<u>1,145,204</u>	<u>(31,130)</u>
Net change in cash and cash equivalents	557,261	357,984
Cash and cash equivalents - beginning of year	<u>907,700</u>	<u>549,716</u>
Cash and cash equivalents - end of year	<u>\$ 1,464,961</u>	<u>\$ 907,700</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF MIGDAL OHR

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

American Friends of Migdal Ohr (“AFMO”) was incorporated as a not-for-profit corporation in New York State on July 31, 1986. Its primary purpose is to raise funds for Migdal Ohr institutions in Israel that provide education and social guidance to children from underprivileged and problem homes. In addition, AFMO has a responsibility to raise awareness about Migdal Ohr and its programs to its constituents in the United States. AFMO’s primary source of revenue is from contributions.

AFMO is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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 - Cash and cash equivalents are comprised of highly liquid investments that mature in three months or less from date of acquisition.

Pledges receivable - Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for doubtful accounts - AFMO determines whether an allowance for uncollectibles should be provided for pledges receivable. Such estimates are based on management’s assessment of the aged basis of the pledges, subsequent cash receipts, current economic conditions and historical information. Pledges are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

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AMERICAN FRIENDS OF MIGDAL OHR

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets - Fixed assets are recorded at cost. Donated assets are recorded at fair value at the date of the donation. Acquisitions of \$500 or more with an estimated useful life of more than one year are capitalized.

Depreciation and amortization - Depreciation of fixed assets is calculated on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is calculated on the straight line method over the shorter of the estimated useful life of the assets or the term of the lease, whichever is shorter. The estimated useful lives are as follows:

Office equipment	5 years
Computer software	5 years
Leasehold improvements	5 years

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Temporarily restricted net assets - Temporarily restricted net assets are those funds whose use has been limited by donors to a specific time period or purpose.

Contributions - Unconditional private grants and contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. AFMO reports gifts of cash and other assets, received from foundations, corporations and the general public as restricted support if they are 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. When applicable, in-kind contributions are reported at fair value at the date the contribution is received.

Special events - AFMO conducts a special event in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenue in the accompanying statement of activities.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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AMERICAN FRIENDS OF MIGDAL OHR

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rent expense - AFMO leases office space and equipment. All leases are operating leases. All leases are reflected on the straight-line basis. Deferred rent is recorded where there are material differences between the fixed payment and the rent expense.

Transmissions to Migdal Ohr-Israel - All transmissions to Migdal Ohr-Israel or other educational and charitable institutions in Israel and the United States are recorded pursuant to authorization by the Executive Board of AFMO.

Summarized financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class and functional expense. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Uncertainty in income taxes - AFMO has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2013 and subsequent remain subject to examination by applicable tax authorities.

Subsequent events - Subsequent events have been evaluated through September 14, 2017 which is the date the financial statements were available to be issued.

Reclassification - Prior year miscellaneous expenses were reclassified to bank charges and other fees as well as Board meetings and conferences to conform with the current year presentation.

NOTE 3 - FIXED ASSETS

Fixed assets consist of the following:

Office equipment	\$ 57,736
Leasehold improvements	30,185
Computer software	<u>25,570</u>
	113,491
Less accumulated depreciation and amortization	<u>(91,227)</u>
Net	<u>\$ 22,264</u>

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AMERICAN FRIENDS OF MIGDAL OHR

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 temporarily restricted net assets were available for the following purposes:

Bridal Fund	\$ 220,770
Bar Bat Mitzvah Sponsorship	11,200
Special Projects	556,410
Art, Fashion and Design Programs	2,000
Mishpactonim Dormitory Renovation	20,967
Sulamot Music School	68,426
Carpentry Room	10,000
Girls Elementary School Science Lab	50,000
Mitchell Dormitory Renovation	100,000
Shalhevet High School	30,000
Zoharim Agricultural- Educational Youth Village	33,435
Capital Building Project	75,000
Periods after December 31, 2016	<u>1,028,242</u>
Total	<u>\$ 2,206,450</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes of providing scholarships and related expenses for the following programs:

Bridal Fund	\$ 367,897
Bar Bat Mitzvah Sponsorship	4,780
Gan Yavneh Academic College	155,097
Special Projects	717,247
Art, Fashion and Design Programs	6,050
Mishpactonim Dormitory Renovation	437,739
Sulamot Music School	80,750
Carpentry Room	2,500
Girls Elementary School Science Lab	4,000
Ohr Yisraeli Youth Clubs	414,000
Zoharim Agricultural- Educational Youth Village	93,000
Satisfaction of time restrictions	<u>135,872</u>
	<u>\$ 2,418,932</u>

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AMERICAN FRIENDS OF MIGDAL OHR

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 5 - LEASE COMMITMENT

On November 1, 2015, AFMO entered into a new lease for a larger office space. The lease is for five years and expires on October 31, 2020. Minimum future payments under the terms of the lease are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 31,055
2018	31,986
2019	32,946
2020	<u>28,138</u>
Total	\$ <u>124,125</u>

NOTE 6 - PLEDGES RECEIVABLE

<u>Year</u>	<u>Amount</u>
2017 and past due of \$68,600	\$ 658,468
2018	311,825
2019	257,750
2020	103,750
2021	40,000
Thereafter	<u>164,108</u>
Total	1,535,901
Discount on pledges receivable	(12,798)
Allowances for doubtful pledges receivable	<u>(50,000)</u>
Net	\$ <u>1,473,103</u>

The contributions have been discounted over the payment period using a discount rate of 1.5%.

Approximately 51% of the Organization's gross contributions receivable is from three donors.

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AMERICAN FRIENDS OF MIGDAL OHR**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 7 - INVESTMENT - HELD FOR SALE REAL ESTATE; LOSS ON SALE OF REAL ESTATE**

On December 30, 2015 two condominiums located in Manhattan, New York were donated to AFMO to be held for sale. The condos were appraised by an independent appraiser at \$600,000 and \$575,000. Capitalized expenses totaled to \$12,038. During 2016 both condominiums were sold for \$625,000 and \$605,000. Fees incurred during the sale totaled to \$82,165, resulting in a loss on sale of real estate of \$39,203.

NOTE 8 - CONCENTRATION

Financial instruments which potentially subject the entity to a concentration of credit risk are cash accounts with a financial institution in excess of FDIC insurance limits.

Approximately 30% of the Organization's contributions is from seven donors.

NOTE 9 - DEFERRED COMPENSATION PLAN

In June 2016, the Organization established a deferred compensation plan under Section 457(b) of the Internal Revenue Code for certain eligible employees, defined by the Organization as its Board of Directors. Under the terms of the 457(b) Plan, eligible employees may contribute amounts through a salary-reduction agreement. The Organization does not contribute to this plan.