



AMERICAN FRIENDS OF MAGEN DAVID ADOM

Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2016 and 2015

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

AMERICAN FRIENDS OF MAGEN DAVID ADOM
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
American Friends of Magen David Adom

We have audited the accompanying financial statements of American Friends of Magen David Adom (the "Organization") which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 the Organization as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Marks Paneth LLP

New York, NY
August 1, 2017

**AMERICAN FRIENDS OF MAGEN DAVID ADOM
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents (Notes 2C and 9)	\$ 40,845,767	\$ 33,598,805
Pledges receivable, net (Notes 2F, 2G and 4)	26,560,719	19,758,747
Investments, at fair value (Notes 2D, 6 and 14)	6,331,004	11,633,378
Assets held in split interest agreements, at fair value (Notes 10 and 14)	7,198,517	6,870,328
Prepaid expenses and other assets (Note 6)	690,864	660,842
Property and equipment, net (Notes 2E and 3)	<u>54,444</u>	<u>152,010</u>
TOTAL ASSETS	<u>\$ 81,681,315</u>	<u>\$ 72,674,110</u>
LIABILITIES		
Accounts payable and accrued expenses (Note 8)	\$ 11,016,533	\$ 11,097,799
Grants payable (Notes 2M, 11 and 15)	38,707,075	37,388,769
Loans payable (Note 5)	2,300,000	2,500,000
Foreign exchange contract valuation (Note 2C and 15)	17,215	961,419
Interest rate swap liability (Note 5)	27,632	49,080
Deferred revenue (Note 2K)	618,609	476,291
Accrued postretirement health benefit costs (Notes 6, 7, and 8)	<u>1,269,866</u>	<u>1,566,617</u>
TOTAL LIABILITIES	<u>53,956,930</u>	<u>54,039,975</u>
NET ASSETS (Note 2B)		
Unrestricted	6,677,858	1,109,466
Temporarily restricted (Note 12)	20,584,407	17,062,549
Permanently restricted (Note 12)	<u>462,120</u>	<u>462,120</u>
TOTAL NET ASSETS	<u>27,724,385</u>	<u>18,634,135</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 81,681,315</u>	<u>\$ 72,674,110</u>

**AMERICAN FRIENDS OF MAGEN DAVID ADOM
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	For the Year Ended December 31, 2016				For the Year Ended December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total	Unrestricted	Temporarily Restricted	Permanently Restricted
OPERATING REVENUE AND SUPPORT (Note 2J):								
Contributions (Notes 4 and 12)	\$ 4,613,108	\$ 17,851,981	\$ -	\$ 22,465,089	\$ 16,316,078	\$ 6,695,806	\$ 9,620,272	\$ -
Special events, net of direct expenses of \$1,776,104 and \$1,846,861 for 2016 and 2015, respectively (Note 2J)	6,928,074	788,950	-	7,717,024	12,422,420	2,938,858	9,483,562	-
Estates, trusts, bequests, legacies and other (Note 2I)	6,523,975	1,324,243	-	7,848,218	11,528,152	10,022,133	1,476,399	29,620
Interest	299,267	-	-	299,267	303,828	303,828	-	-
Investment activity (Note 13)	73,322	-	-	73,322	53,026	53,026	-	-
Change in value of split interest agreements (Note 10)	779,538	-	-	779,538	(435,941)	(435,941)	-	-
Net assets released from restrictions (Note 12)	16,443,316	(16,443,316)	-	-	-	18,439,726	(18,439,726)	-
TOTAL OPERATING REVENUE AND SUPPORT	<u>35,660,600</u>	<u>3,521,858</u>	<u>-</u>	<u>39,182,458</u>	<u>40,187,563</u>	<u>38,017,436</u>	<u>2,140,507</u>	<u>29,620</u>
OPERATING EXPENSES (Notes 2I and 2J):								
Program services	21,716,043	-	-	21,716,043	26,891,305	26,891,305	-	-
Management and general	3,105,541	-	-	3,105,541	2,803,289	2,803,289	-	-
Fundraising	5,068,073	-	-	5,068,073	4,256,876	4,256,876	-	-
TOTAL OPERATING EXPENSES	<u>29,889,657</u>	<u>-</u>	<u>-</u>	<u>29,889,657</u>	<u>33,951,470</u>	<u>33,951,470</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>5,770,943</u>	<u>3,521,858</u>	<u>-</u>	<u>9,292,801</u>	<u>6,236,093</u>	<u>4,065,966</u>	<u>2,140,507</u>	<u>29,620</u>
NON-OPERATING ACTIVITIES (Note 2J):								
Gain (Loss) on interest rate swap (Note 5)	21,448	-	-	21,448	7,114	7,114	-	-
Foreign exchange contract valuation (Note 2C and 15)	(215,012)	-	-	(215,012)	(290,292)	(290,292)	-	-
TOTAL NON-OPERATING ACTIVITIES	<u>(193,564)</u>	<u>-</u>	<u>-</u>	<u>(193,564)</u>	<u>(283,178)</u>	<u>(283,178)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS BEFORE POSTRETIREMENT RELATED CHANGES	<u>5,577,379</u>	<u>3,521,858</u>	<u>-</u>	<u>9,099,237</u>	<u>5,952,915</u>	<u>3,782,788</u>	<u>2,140,507</u>	<u>29,620</u>
Postretirement changes other than net periodic pension cost (Notes 6, 7 and 8)	(8,987)	-	-	(8,987)	(45,219)	(45,219)	-	-
CHANGE IN TOTAL NET ASSETS	<u>5,568,392</u>	<u>3,521,858</u>	<u>-</u>	<u>9,090,250</u>	<u>5,907,696</u>	<u>3,737,569</u>	<u>2,140,507</u>	<u>29,620</u>
Net assets - beginning of year	1,109,466	17,062,549	462,120	18,634,135	12,726,439	(2,628,103)	14,922,042	432,500
NET ASSETS - END OF YEAR	<u>\$ 6,677,858</u>	<u>\$ 20,584,407</u>	<u>\$ 462,120</u>	<u>\$ 27,724,385</u>	<u>\$ 18,634,135</u>	<u>\$ 1,109,466</u>	<u>\$ 17,062,549</u>	<u>\$ 462,120</u>

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

**AMERICAN FRIENDS OF MAGEN DAVID ADOM
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Year Ended December 31, 2016					Year Ended December 31, 2015				
	Supporting Services				Total Expenses 2016	Supporting Services				Total Expenses 2015
	Program Services	Management and General	Fundraising	Total Supporting Services		Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 2,284,802	\$ 1,201,042	\$ 1,548,185	\$ 2,749,227	\$ 5,034,029	\$ 3,922,430	\$ 1,420,009	\$ 1,175,926	\$ 1,326,495	\$ 2,502,421
Payroll taxes and employee benefits (Notes 6 and 7)	602,413	316,668	408,196	724,864	1,327,277	1,737,955	1,065,175	316,150	356,630	672,780
Total salaries and related costs	<u>2,887,215</u>	<u>1,517,710</u>	<u>1,956,381</u>	<u>3,474,091</u>	<u>6,361,306</u>	<u>5,660,385</u>	<u>2,485,184</u>	<u>1,492,076</u>	<u>1,683,125</u>	<u>3,175,201</u>
Occupancy (Note 8A)	261,328	233,170	195,421	428,591	689,919	694,646	227,424	219,555	247,667	467,222
Professional fees (Note 2L)	601,086	593,451	265,597	859,048	1,460,134	1,082,391	367,330	363,058	352,003	715,061
Insurance	34,509	38,994	35,796	74,790	109,299	133,264	43,703	42,086	47,475	89,561
Printing, publications and supplies	63,633	81,565	49,713	131,278	194,911	252,859	78,138	138,814	35,907	174,721
Travel, conferences and events	273,553	155,546	218,048	373,594	647,147	744,196	281,653	117,356	345,187	462,543
Telephone	26,774	58,359	17,342	75,701	102,475	106,571	36,522	32,917	37,132	70,049
Postage and shipping	18,092	45,310	9,071	54,381	72,473	94,327	25,069	58,407	10,851	69,258
Dues and subscriptions	2,027	4,877	1,565	6,442	8,469	24,872	8,130	7,867	8,875	16,742
Equipment (Note 9A)	27,771	54,893	23,014	77,907	105,678	183,319	60,972	57,493	64,854	122,347
Bank charges and interest expense	13,213	251,040	-	251,040	264,253	204,522	10,330	194,192	-	194,192
Marketing, direct mail and public relations	1,335,805	-	1,820,500	1,820,500	3,156,305	2,136,910	871,258	-	1,265,652	1,265,652
MDA program-related grant expenses	16,120,161	-	-	-	16,120,161	22,350,856	22,350,856	-	-	-
Depreciation and amortization	32,938	64,628	-	64,628	97,566	109,065	36,820	72,245	-	72,245
Bad debt expense	-	-	460,433	460,433	460,433	150,000	-	-	150,000	150,000
Miscellaneous	17,938	5,998	15,192	21,190	39,128	23,287	7,916	7,223	8,148	15,371
TOTAL EXPENSES	<u>\$ 21,716,043</u>	<u>\$ 3,105,541</u>	<u>\$ 5,068,073</u>	<u>\$ 8,173,614</u>	<u>\$ 29,889,657</u>	<u>\$ 33,951,470</u>	<u>\$ 26,891,305</u>	<u>\$ 2,803,289</u>	<u>\$ 4,256,876</u>	<u>\$ 7,060,165</u>

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

**AMERICAN FRIENDS OF MAGEN DAVID ADOM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 9,090,250	\$ 5,907,696
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	97,566	109,065
Pension and post retirement changes	8,987	45,219
Bad debt	460,433	150,000
Change in value of split interest agreements	(779,538)	435,941
Change in discount on pledges receivable	199,135	288,903
Change in value from foreign exchange contract	215,012	290,292
Gain on interest rate swap	(21,448)	(7,114)
Realized and unrealized gain on investments	6,049	(4,093)
Subtotal	9,276,446	7,215,909
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable	(7,461,540)	(8,534,106)
Prepaid expenses and other assets	(30,022)	(383,361)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses (net of change in split interest agreements)	370,083	2,412,469
Grants payable	1,318,306	3,131,781
Accrued post retirement benefit costs	(305,738)	(299,090)
Deferred revenue	142,318	272,047
Net Cash Provided by Operating Activities	3,309,853	3,815,649
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	-	(26,338)
Proceeds from sales/redemptions of investments	8,689,581	1,388,118
Purchase of investments	(3,393,256)	(1,836,314)
Net Cash Provided by (Used In) Investing Activities	5,296,325	(474,534)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in value of foreign exchange contract	(1,159,216)	(3,706,305)
Repayment of loans payable	(200,000)	(500,000)
Net Cash (Used In) Financing Activities	(1,359,216)	(4,206,305)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,246,962	(865,190)
Cash and cash equivalents - beginning of year	33,598,805	34,463,995
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 40,845,767	\$ 33,598,805
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 112,972	\$ 83,723

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

AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

American Friends of Magen David Adom (the "Organization"), a not-for-profit 501(c)(3) organization, exempt from federal income taxes, is recognized by the U.S. Internal Revenue Service as a public charity. The Organization solicits contributions, which are used to purchase ambulances, medical and other supplies, emergency medical stations, blood service center, cord blood bank and training for Magen David Adom ("MDA") in Israel. The Organization is the only authorized tax-exempt fundraising organization in the United States for MDA.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The Organization's financial statements have been prepared on the accrual basis of accounting. The Organization adheres to accounting principles generally accepted in the United States of America.
- B. The Organization maintains its net assets under the following three classes:
- (i) Unrestricted – represents resources available for support to the Organization's operations over which the Board of Directors has discretionary control.
 - (ii) Temporarily restricted – represents net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reported in the statements of activities as net assets released from restrictions.
 - (iii) Permanently restricted – represents net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization.
- C. Cash equivalents consist of all highly liquid debt instruments with maturities of three months or less when acquired except for certain cash, money market funds and short-term government securities held for long-term investment purposes, which are included in investments. Included in cash and cash equivalents is approximately \$1,700,00 and \$5,400,000 set aside as collateral for the foreign exchange contract (Note 15), as of December 31, 2016 and 2015, respectively.
- D. Investments are carried at fair value. Fair value measurements are 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 levels, as described in Note 14.
- E. Property and equipment is stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. Property and equipment is capitalized provided its cost is \$5,000 or more and its useful life is greater than one year. Depreciation is provided on a straight-line basis over the estimated useful life of the asset. Leasehold improvements are amortized over the lesser of their useful lives or the term of the lease.
- F. Unconditional promises to give are recorded as income when the Organization is formally notified of the grants or contributions by the respective donors. Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Material 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. If material, the discounts are computed using risk-adjusted interest rates for the expected term of the promise to give applicable to the years in which the promises are received. Conditional pledges are not included as support until the conditions are substantially met.

**AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- G. As of December 31, 2016 and 2015, the Organization determined that an allowance of approximately \$150,000 and \$243,000, respectively was necessary relative to its pledges receivable. Such estimates are based on management's assessment of the creditworthiness of donors, review of individual accounts outstanding, as well as current economic conditions and historical information.
- H. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.
- I. The Organization recognizes bequests as income when the bequests become known and when the individual's will is declared valid by the probate court and the sum is certain.
- J. The direct expense of special events includes expenses for the benefit of the donor. For example, meals, facilities and rental are considered direct expenses of special events.
- K. On occasion, the Organization receives cash donations for special events that are to be held after the date of the statement of financial position. It is the policy of the Organization to refund all cash received in advance of special events (both contribution and exchange portions), if the event is subsequently cancelled.
- L. The Organization records donated stock or services at their fair value on the date of receipt. Donated legal services are estimated at \$164,733 and \$11,533 for the years ended December 31, 2016 and 2015, respectively, and are included as contributions income and expense in the accompanying financial statements.
- M. Grants made, including unconditional promises to give, are recognized as an expense in the period made. Unconditional promises to give that are payable in future periods are recorded as grants payable in the statements of financial position.
- N. The Organization includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities, including all contributions except for those that have been permanently restricted by donors. Gain or loss on interest rate swap, and foreign exchange contract valuation are recognized as non-operating activities.
- O. Certain line items in the 2015 financial statements were reclassified to conform to the 2016 presentation.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2016 and 2015:

	Estimated Useful Lives	_____ 2016	_____ 2015
Furniture and equipment	3-7 years	\$ 428,402	\$ 428,402
Leasehold improvements	10 years	_____ 194,775	_____ 194,775
		623,177	623,177
Less: accumulated depreciation and amortization		_____ (568,733)	_____ (471,167)
Net book value		\$ _____ 54,444	\$ _____ 152,010

Depreciation and amortization expense amounted to \$97,566 and \$109,065 for the years ended December 31, 2016 and 2015, respectively.

AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable are recorded net of a discount (at a risk adjusted rate) to reflect the present value of future cash flows and are scheduled to be collected as follows as of December 31, 2016 and 2015:

	2016	2015
One year or less	\$ 18,637,320	\$ 10,281,012
One year to five years	6,950,000	9,553,600
Five years and more	2,070,000	915,000
	27,657,320	20,749,612
Less: allowance for doubtful pledges	(150,000)	(243,399)
Less: present value discount ranging from 0.6% to 3.1%	(946,601)	(747,466)
	\$ 26,560,719	\$ 19,758,747

NOTE 5 – LOANS PAYABLE AND INTEREST RATE SWAP

During the year ended December 31, 2013, the Organization obtained two loans from a bank. The proceeds from the loans were used to pay down the accrued defined benefit pension plan liability. As of December 31, 2016 and 2015, loans payable amounted to \$2,300,000 and \$2,500,000, respectively, and consists of the following two loans:

- A. Loan payable to a bank in the principal amount of \$0 and \$200,000 as of December 31, 2016 and 2015, respectively. The loan matured on April 1, 2016. Interest on the outstanding principal balance accrues and was payable monthly at a fixed rate of 3.45% per annum. Principal was due on maturity.
- B. Loan payable to a bank in the principal amount of \$2,300,000 and matures on April 1, 2018. Interest on the outstanding principal balance accrues and will be payable monthly at a fixed rate of 2.5% per annum plus LIBOR. Principal is due on maturity. There is no prepayment charge with respect to this loan. The loan is secured by investments.

Interest expense for the year ended December 31, 2016 and 2015 amounted to \$112,972 and \$83,723, respectively. In connection with the loan payable in the amount of \$2,300,000, the Organization entered into a fixed rate swap agreement with the bank. The purpose of the swap agreement is to establish a synthetic fixed rate. The synthetic fixed rate is fixed at 4.45%. The fair value of the swap agreement was (\$27,632) and (\$49,080) as of December 31, 2016 and 2015, respectively, and is included as a liability in the statements of financial position. The recognition of change in fair value of the swap is recorded as a gain of \$21,448 and \$7,114 for the year ended December 31, 2016 and 2015, respectively.

NOTE 6 – PENSION PLANS

The Organization has a 403(b) defined contribution pension plan for all employees. The Organization contributes 6% of eligible employees' compensation to the plan after one year of employment. The total expense of the Organization under the plan for the years ended December 31, 2016 and 2015 amounted to \$159,991 and \$175,293, respectively.

The Organization maintains a postretirement health benefits plan (the "Postretirement Plan") that covers substantially all current and future retirees. Employees who qualify to receive paid postretirement medical coverage are those employees who retire with an immediate pension benefit and are at least age 60 with at least 15 years of service or age 65. During 2011, the Organization amended the Postretirement Plan to require participants who retire on or after September 1, 2011 to contribute 50% of the premium rates.

AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 – POSTRETIREMENT HEALTH BENEFITS PLAN

The funded status of the Postretirement Plan as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,566,617	\$ 1,820,488
Service cost	4,250	7,218
Interest cost	49,757	62,141
Plan participants' contributions	12,464	11,927
Actuarial loss (gain)	(271,534)	(237,028)
Benefits paid	<u>(91,688)</u>	<u>(98,129)</u>
Benefit obligation at end of year	<u>1,269,866</u>	<u>1,566,617</u>
Funded status	<u>\$ (1,269,866)</u>	<u>\$ (1,566,617)</u>

The components of benefit credit for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Service cost	\$ 4,250	\$ 7,218
Interest cost	49,757	62,141
Prior service credit	(67,333)	(67,333)
Actuarial gain	<u>(213,188)</u>	<u>(124,476)</u>
Net benefits (credit) cost	<u>\$ (226,514)</u>	<u>\$ (122,450)</u>

The amounts recognized in the unrestricted net assets for the Postretirement Plan as of December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Net actuarial gain	\$ 722,319	\$ 663,973
Prior service credit	<u>251,376</u>	<u>318,709</u>
	<u>\$ 973,695</u>	<u>\$ 982,682</u>

Other changes in Postretirement Plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Net actuarial (loss) gain	\$ 58,346	\$ 112,552
Net prior service cost	<u>(67,333)</u>	<u>(67,333)</u>
	<u>\$ (8,987)</u>	<u>\$ 45,219</u>

The Organization's expected rate of return on Postretirement Plan assets is determined by the Postretirement Plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

The measurement of the benefit obligation as of December 31, 2016 and 2015 are based on the following assumptions:

	<u>2016</u>	<u>2015</u>
Discount rate	3.9%	3.8%

**AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 7 – POSTRETIREMENT HEALTH BENEFITS PLAN (Continued)

The assumed health care cost trend rates as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Health care cost trend rate assumed for next year	7.5% / 5.6%	8% / 5.8%
Rate to which the cost trend rate is assumed to decline	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2023	2023

To illustrate, increasing the assumed medical care cost trend rates by 1% in each year would increase the accumulated postretirement benefit obligation by \$137,993 as of December 31, 2016, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended by \$6,575. Decreasing the assumed health care cost trend rates by 1% would decrease the accumulated postretirement benefit obligation by \$119,370 as of December 31, 2016, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended by \$5,552.

The following schedule of benefit payments, which reflects expected future services, as appropriate, are expected to be paid in each of the next five years and in the aggregate for the five years thereafter:

2017	\$	82,998
2018		84,868
2019		86,422
2020		87,512
2021		88,313
Five years thereafter		442,228

For the years ended December 31, 2016 and 2015, the Postretirement Plan held no assets.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A. The Organization leases certain office facilities and equipment. The leases expire at various dates up to 2019. Minimum annual rentals related to the leases are approximately as follows for the years ending after December 31, 2016:

	<u>Real Property</u>	<u>Office Equipment</u>	<u>Total</u>
2017	\$ 650,000	\$ 26,000	\$ 676,000
2018	481,000	8,000	489,000
2019	158,000	-	158,000
	<u>\$ 1,289,000</u>	<u>\$ 34,000</u>	<u>\$ 1,323,000</u>

Rent expense amounted to the following for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Real property	\$ 640,516	\$ 623,757
Equipment	38,161	48,640

Such amounts are included in occupancy and equipment, respectively, in the accompanying financial statements.

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NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)

- B. On January 27, 2011, the Organization entered into an agreement with MDA to act as a nationwide organization for the purpose of fundraising for MDA in the territory of the United States of America. This agreement restricts the Organization from dealing in any other business apart from raising funds for MDA and ensures that four voting members of the Board of Directors of the Organization will be from a slate of candidates proposed by MDA. The agreement is for five years commencing January 1, 2011 and will be renewed automatically in five year periods up to four renewals. Upon expiration or termination of this agreement, the Organization is required to immediately cease to solicit contributions of any kind intended for the benefit of MDA and distribute all contributions raised by the Organization to MDA in accordance with applicable laws. In addition, the termination or expiration of this agreement will require the Organization to stop using MDA trademarks, the corporate name and domain names that are in any way associated with MDA.
- C. The Organization believes it has no material uncertain tax positions as of December 31, 2016 in accordance with Accounting Standards Codification (“ASC”) Topic 740, Income Taxes, which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 9 – CONCENTRATION

Financial instruments that potentially subject the Organization to a concentration of credit risk include cash held with banks in excess of federal deposit insurance coverage (“FDIC”) insurance limits by approximately \$23.6 million and \$27.2 million as of December 31, 2016 and 2015, respectively. Cash accounts are insured up to \$250,000 per depositor. The Organization also maintains cash and cash equivalents in financial institutions located in Israel that are not FDIC insured. These accounts totaled approximately \$16.7 million and \$6.4 million as of December 31, 2016 and 2015, respectively.

NOTE 10 – ASSETS HELD IN SPLIT INTEREST AGREEMENTS

Assets held in split interest agreements include charitable gift annuities and charitable remainder trusts agreements. As of December 31, 2016 and 2015, the estimated future liabilities of \$3,616,754 and \$3,771,703, respectively, are included in accounts payable and accrued expenses in the accompanying statements of financial position. The present value of the estimated future interest is calculated using a discount rate of 5% as of December 31, 2016 and 2015. The majority of the underlying assets of the split interest agreements are held in equities and fixed income securities. As of December 31, 2016 and 2015, the assets comprising the charitable gift annuities are segregated and held separately for the purposes of annuity benefits and may not, without exception, be applied towards the payment of other debts or obligations of the Organization.

NOTE 11 – GRANTS PAYABLE

As of December 31, 2016 and 2015, the Organization was obligated under unconditional promises to give amounting to \$38,707,075 and \$37,388,769, respectively, to MDA for several projects. The payments for such commitments are made on as needed based on actual expenses incurred by MDA. As of December 31, 2016, the grants payable are expected to be paid to MDA within a one to three years or upon completion of ongoing projects. Grants payable also include \$22 million received for the Blood Center Project as of December 31, 2016.

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NOTE 12 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Ambulances	\$ 3,926,284	\$ 2,128,018
Blood center construction	16,202,123	14,738,474
Other	<u>456,000</u>	<u>196,057</u>
	<u>\$ 20,584,407</u>	<u>\$ 17,062,549</u>

Temporarily restricted net assets amounting to \$16,443,316 and \$18,439,726 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors for the years ended December 31, 2016 and 2015, respectively.

Permanently restricted net assets of \$462,120 are included under cash and cash equivalents. For the year ended December 31, 2016 and 2015, there were no additions or earnings.

NOTE 13 – INVESTMENTS

Investments consist of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2014</u>
Cash and money market funds	\$ 1,059,637	\$ 6,461,316
Equities	6,486	-
State of Israel bonds	<u>5,264,881</u>	<u>5,172,062</u>
	<u>\$ 6,331,004</u>	<u>\$ 11,633,378</u>

Investments are subject to market volatility that could change their carrying value in the near term.

Investment activity consists of the following for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2016</u>
Interest and dividends	\$ 67,273	\$ 57,119
Realized gain (loss) on investments	2,111	(3,470)
Unrealized loss on investments	<u>3,938</u>	<u>(623)</u>
	<u>\$ 73,322</u>	<u>\$ 53,026</u>

NOTE 14 – FAIR VALUE MEASUREMENTS

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market 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: Valuations based on 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: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs. The Organization does not have investments in Level 3 category.

AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
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NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. Investments in common stock, cash and money market funds and mutual funds are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes in active exchange markets involving identical assets. Israel bonds are designated as Level 2 instruments and valuations are obtained from readily-available pricing sources for comparable instruments (credit risk/grade, maturities, etc). Fair value of the interest rate swap agreement is based on inputs from current valuation information priced with observable market assumptions and appropriate valuation adjustments for credit risk. The valuation is based on a mid-level market basis, at the close of business, on the reporting date. Fair value of the foreign exchange contract is based on observable inputs available in the New York foreign exchange market or any other financial center, for the purchase or sale of one currency against another currency for delivery on a specified settlement date.

Financial assets and liabilities carried at fair value at December 31, 2016 are classified in the table in one of the three levels as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
ASSETS CARRIED AT FAIR VALUE:			
Investments			
Cash and money market funds	\$ 1,059,637	\$ -	\$ 1,059,637
Equities	6,486		6,486
State of Israel bonds	<u>-</u>	<u>5,264,881</u>	<u>5,264,881</u>
Total Investments	1,066,123	5,264,881	6,331,004
Assets held in split interest agreements			
Cash and money market funds	186,874	-	186,874
Equities:			
Consumer discretionary	283,343	-	283,343
Consumer staples	214,532	-	214,532
Energy	97,646	-	97,646
Financials	492,181	-	492,181
Healthcare	194,228	-	194,228
Industrials	293,553	-	293,553
Information technology	211,985	-	211,985
Materials and utilities	61,921	-	61,921
Foreign stock	182,287	-	182,287
Mutual funds	4,959,041	-	4,959,041
Other	<u>-</u>	<u>20,926</u>	<u>20,926</u>
Total Assets held in split interest agreements	<u>7,177,591</u>	<u>20,926</u>	<u>7,198,517</u>
TOTAL ASSETS CARRIED AT FAIR VALUE	<u>\$ 8,243,714</u>	<u>\$ 5,285,807</u>	<u>\$ 13,529,521</u>
LIABILITIES CARRIED AT FAIR VALUE:			
Foreign exchange contract	-	17,215	17,215
Interest rate swap agreement	<u>-</u>	<u>27,632</u>	<u>27,632</u>
TOTAL LIABILITIES CARRIED AT FAIR VALUE	<u>\$ -</u>	<u>\$ 44,847</u>	<u>\$ 44,847</u>

**AMERICAN FRIENDS OF MAGEN DAVID ADOM
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NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value at December 31, 2015 are classified in the table in one of the three levels as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
ASSETS CARRIED AT FAIR VALUE:			
Investments			
Cash and money market funds	\$ 6,461,316	\$ -	\$ 6,461,316
State of Israel bonds	<u>-</u>	<u>5,172,062</u>	<u>5,172,062</u>
Total Investments	6,461,316	5,172,062	11,633,378
Assets held in split interest agreements			
Cash and money market funds	201,388	-	201,387
Equities:			
Consumer discretionary	387,515	-	387,515
Consumer staples	241,956	-	241,956
Energy	94,193	-	94,193
Financials	751,203	-	751,203
Healthcare	196,156	-	196,156
Industrials	357,956	-	357,956
Information technology	380,236	-	380,236
Materials and utilities	33,762	-	33,761
Foreign stock	61,433	-	61,433
Mutual funds	4,026,135	-	4,026,136
Other	<u>-</u>	<u>138,395</u>	<u>138,395</u>
Total Assets held in split interest agreements	<u>6,731,933</u>	<u>138,395</u>	<u>6,870,328</u>
TOTAL ASSETS CARRIED AT FAIR VALUE	<u>\$ 13,193,249</u>	<u>\$ 5,310,457</u>	<u>\$ 18,503,706</u>
LIABILITIES CARRIED AT FAIR VALUE:			
Foreign exchange contract	-	961,419	961,419
Interest rate swap agreement	<u>-</u>	<u>49,080</u>	<u>49,080</u>
TOTAL LIABILITIES CARRIED AT FAIR VALUE	<u>\$ -</u>	<u>\$ 1,010,499</u>	<u>\$ 1,010,499</u>

NOTE 15 – FOREIGN EXCHANGE CONTRACT

During 2014, the Organization entered into a foreign exchange contract with a bank to mitigate the risk associated with fluctuations in Israeli currency value for future grant obligations. The contract enables the organization to buy the Israeli Shekel at a fixed rate. The fair value of the contract as of December 31, 2016 and 2015 amounted to a liability of \$17,215 and \$961,419, respectively.

NOTE 16 – SUBSEQUENT EVENTS

The Organization has evaluated, for potential recognition and disclosure, events subsequent to the statement of financial position date through August 1, 2017, the date the financial statements were available to be issued.