



FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 11, 2020

AMERICAN FRIENDS OF MAGEN DAVID ADOM
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents (Notes 2C and 15A)	\$ 31,315,862	\$ 34,469,207
Pledges receivable, net (Notes 2F, 2G, 4, 15B)	29,122,400	35,157,434
Investments, at fair value (Notes 2D, 6 and 7)	1,018,088	4,104,208
Assets held in split interest agreements, at fair value (Notes 7 and 8)	6,064,769	5,332,753
Prepaid expenses and other assets	1,133,346	686,883
Property and equipment, net (Notes 2E and 5)	280,424	-
Beneficial interest in perpetual endowment (Note 16)	<u>10,083,715</u>	<u>9,337,500</u>
 TOTAL ASSETS	 <u>\$ 79,018,604</u>	 <u>\$ 89,087,985</u>
 LIABILITIES		
Accounts payable and accrued expenses	\$ 10,864,457	\$ 8,927,594
Grants payable (Notes 2M and 10)	24,910,212	31,138,174
Loans payable (Note 11)	2,300,000	2,300,000
Foreign exchange contract valuation (Note 9)	-	514,885
Interest rate swap liability (Note 11)	-	531
Deferred revenue (Note 2J)	471,846	449,925
Due to AF-West (Note 1)	-	2,101,519
Accrued postretirement health benefit costs (Notes 12 and 13)	<u>1,138,510</u>	<u>1,110,227</u>
 TOTAL LIABILITIES	 <u>39,685,025</u>	 <u>46,542,855</u>
 NET ASSETS (Note 2B)		
Without donor restrictions	<u>5,476,858</u>	<u>2,165,339</u>
With donor restrictions		
Beneficial interest in perpetual endowment (Note 16)	10,083,715	9,337,500
Donor restricted endowments (Note 16)	462,120	462,120
Time and purpose (Note 16)	<u>23,310,886</u>	<u>30,580,171</u>
Total with donor restrictions	<u>33,856,721</u>	<u>40,379,791</u>
 TOTAL NET ASSETS	 <u>39,333,579</u>	 <u>42,545,130</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 79,018,604</u>	 <u>\$ 89,087,985</u>

**AMERICAN FRIENDS OF MAGEN DAVID ADOM
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	For the Year Ended December 31, 2019			For the Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	2019 Total	Without Donor Restrictions	With Donor Restrictions	2018 Total
OPERATING REVENUE AND SUPPORT:						
Contributions (Notes 4 and 16)	\$ 7,190,861	\$ 16,445,463	\$ 23,636,324	\$ 8,386,724	\$ 13,904,088	\$ 22,290,812
Special events, net of direct expenses of \$1,503,355 and \$1,161,413 for 2019 and 2018, respectively (Note 2J)	814,690	5,030,121	5,844,811	1,715,979	5,255,525	6,971,504
Estates, trusts, bequests, legacies and other (Note 2I)	9,022,998	872,020	9,895,018	6,558,681	530,000	7,088,681
Interest	381,645	-	381,645	646,482	-	646,482
Investment activity (Note 6)	485,258	-	485,258	144,196	-	144,196
Change in value of split interest agreements (Note 8)	156,719	-	156,719	(588,502)	-	(588,502)
Miscellaneous income	232,645	-	232,645	-	-	-
Net assets released from restrictions (Note 16)	29,616,889	(29,616,889)	-	23,655,103	(23,655,103)	-
TOTAL OPERATING REVENUE AND SUPPORT	47,901,705	(7,269,285)	40,632,420	40,518,663	(3,965,490)	36,553,173
OPERATING EXPENSES (Note 2K):						
Program services	35,891,169	-	35,891,169	32,380,923	-	32,380,923
Management and general	4,873,804	-	4,873,804	4,340,444	-	4,340,444
Fundraising	4,108,351	-	4,108,351	4,889,869	-	4,889,869
TOTAL OPERATING EXPENSES	44,873,324	-	44,873,324	41,611,236	-	41,611,236
CHANGE IN NET ASSETS FROM OPERATIONS	3,028,381	(7,269,285)	(4,240,904)	(1,092,573)	(3,965,490)	(5,058,063)
NON-OPERATING ACTIVITIES:						
Beneficial interest in perpetual endowment (Note 16)	-	746,215	746,215	-	9,337,500	9,337,500
Transfer to AF-West (Note 1)	-	-	-	(2,101,519)	-	(2,101,519)
Gain on interest rate swap (Notes 2N and 11)	531	-	531	2,364	-	2,364
Foreign exchange valuation (Note 2C, 2N and 9)	310,890	-	310,890	(1,252,940)	-	(1,252,940)
TOTAL NON-OPERATING ACTIVITIES	311,421	746,215	1,057,636	(3,352,095)	9,337,500	5,985,405
CHANGE IN NET ASSETS BEFORE POSTRETIREMENT RELATED CHANGES	3,339,802	(6,523,070)	(3,183,268)	(4,444,668)	5,372,010	927,342
Postretirement changes other than net periodic pension cost (Notes 12 and 13)	(28,283)	-	(28,283)	(55,704)	-	(55,704)
CHANGE IN TOTAL NET ASSETS	3,311,519	(6,523,070)	(3,211,551)	(4,500,372)	5,372,010	871,638
Net assets - beginning of year	2,165,339	40,379,791	42,545,130	6,665,711	35,007,781	41,673,492
NET ASSETS - END OF YEAR	\$ 5,476,858	\$ 33,856,721	\$ 39,333,579	\$ 2,165,339	\$ 40,379,791	\$ 42,545,130

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, 2019 AND 2018**

	Year Ended December 31, 2019					Year Ended December 31, 2018				
	Supporting Services				Total Expenses 2019	Supporting Services				Total Expenses 2018
	Program Services	Management and General	Fundraising	Total Supporting Services		Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 2,429,609	\$ 1,653,070	\$ 1,413,997	\$ 3,067,067	\$ 5,496,676	\$ 2,418,506	\$ 1,583,475	\$ 1,315,023	\$ 2,898,498	\$ 5,317,004
Payroll taxes and employee benefits (Notes 12 and 13)	753,914	452,710	387,267	839,977	1,593,891	459,737	348,166	332,471	680,637	1,140,374
Total salaries and related costs	3,183,523	2,105,780	1,801,264	3,907,044	7,090,567	2,878,243	1,931,641	1,647,494	3,579,135	6,457,378
Occupancy and utilities (Note 14A)	102,711	282,456	128,389	410,845	513,556	154,035	423,597	192,544	616,141	770,176
Professional fees (Note 2L)	243,090	378,740	199,676	578,416	821,506	542,471	766,806	302,265	1,069,071	1,611,542
Insurance	23,947	46,737	23,368	70,105	94,052	27,496	54,454	27,227	81,681	109,177
Printing, publications and supplies	87,158	84,645	118,391	203,036	290,194	61,214	22,201	81,404	103,605	164,819
Travel, conferences and events	327,578	-	147,826	147,826	475,404	465,904	-	225,606	225,606	691,510
Telephone	23,174	33,561	29,365	62,926	86,100	24,389	36,494	31,932	68,426	92,815
Postage and shipping	37,443	34,204	250,905	285,109	322,552	34,920	41,757	218,963	260,720	295,640
Dues and subscriptions	6,930	5,940	6,930	12,870	19,800	3,923	3,362	3,923	7,285	11,208
Equipment (Note 14A)	14,936	29,801	80,135	109,936	124,872	17,394	34,715	39,204	73,919	91,313
Bank charges and interest expense	37,074	153,998	-	153,998	191,072	51,435	141,615	-	141,615	193,050
Events expense	925,554	81,004	1,307,032	1,388,036	2,313,590	1,006,808	-	1,375,239	1,375,239	2,382,047
Depreciation and amortization	-	22,252	-	22,252	22,252	-	24,000	-	24,000	24,000
Marketing and direct mail	1,073,734	43,110	1,464,677	1,507,787	2,581,521	1,400,475	-	1,838,912	1,838,912	3,239,387
Bad debt expense	-	1,523,233	-	1,523,233	1,523,233	-	757,561	-	757,561	757,561
Grants to Magen David Adom	29,740,209	-	-	-	29,740,209	25,633,007	-	-	-	25,633,007
Interest expense	4,547	25,768	-	25,768	30,315	9,019	51,106	-	51,106	60,125
Miscellaneous	59,561	22,575	53,748	76,323	135,884	70,190	51,135	66,569	117,704	187,894
TOTAL EXPENSES	35,891,169	4,873,804	5,611,706	10,485,510	46,376,679	32,380,923	4,340,444	6,051,282	10,391,726	42,772,649
Less: Special event direct expenses	-	-	(1,503,355)	(1,503,355)	(1,503,355)	-	-	(1,161,413)	(1,161,413)	(1,161,413)
TOTAL EXPENSES, Net of special event direct expenses	\$ 35,891,169	\$ 4,873,804	\$ 4,108,351	\$ 8,982,155	\$ 44,873,324	\$ 32,380,923	\$ 4,340,444	\$ 4,889,869	\$ 9,230,313	\$ 41,611,236

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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (3,211,551)	\$ 871,638
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	22,252	24,000
Pension and postretirement changes	28,283	55,704
Bad debt	1,523,233	757,561
Change in beneficial interest in perpetual endowment	(746,215)	(9,337,500)
Change in value of split interest agreements	(156,719)	588,502
Change in discount on pledges receivable	(65,500)	74,194
Change in value from foreign exchange contract	(514,885)	1,666,446
Transfer to AF-West	(2,101,519)	2,101,519
Gain on interest rate swap	(531)	(2,364)
Realized and unrealized (gain) loss on investments	<u>20,151</u>	<u>1,775</u>
Subtotal	(5,203,001)	(3,198,525)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable	4,577,301	3,403,746
Prepaid expenses and other assets	(446,463)	633,156
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses (net of change in split interest agreements)	1,361,566	(1,333,749)
Grants payable	(6,227,962)	(2,381,849)
Accrued postretirement health benefit costs	-	(130,371)
Deferred revenue	<u>21,921</u>	<u>(184,382)</u>
Net Cash Used in Operating Activities	<u>(5,916,638)</u>	<u>(3,191,974)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of donated property	-	649,509
Purchases of property and equipment	(302,676)	
Proceeds from sales/redemptions of investments	5,731,933	6,355,859
Purchase of investments	<u>(2,665,964)</u>	<u>(2,348,927)</u>
Net Cash Provided by Investing Activities	<u>2,763,293</u>	<u>4,656,441</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,153,345)	1,464,467
Cash and cash equivalents - beginning of year	<u>34,469,207</u>	<u>33,004,740</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 31,315,862</u>	<u>\$ 34,469,207</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 30,315</u>	<u>\$ 60,125</u>

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

AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 United States Internal Revenue Service (the "IRS") as a public charity. The Organization solicits contributions, which are used to purchase ambulances, medical and other supplies, emergency medical stations, blood service centers, 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 of America for MDA.

On December 30, 2018, the Organization's Western Office ("AF-West") separated from the Organization. In accordance with the separation agreement, the Organization was to transfer \$2,000,000 to AF-West for startup costs beginning in fiscal year 2019, such amounts were accrued in fiscal year 2018.

In January 2019, the Organization transferred \$500,000 to AF-West. Subsequently, AF-West terminated operations on June 6, 2019 and the remaining \$1,500,000 was not transferred. AF-West returned to the Organization and all financial transactions from June 6, 2019 forward are included in the Organization financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. *Basis of accounting*** - 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. *Basis of presentation*** - Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without donor restrictions – These represent resources of the Organization that have not been restricted by the donor and that have no time restrictions. Such resources are available for support of the Organization's operations over which the Board of Directors has discretionary control.

With donor restrictions – These represent 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), these are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. These also represent 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 and cash equivalents*** - 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.

AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- D. *Investments and fair value measurements*** - 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 7.
- E. *Property and equipment*** - 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. *Revenue recognition and pledges receivable*** - 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.
- G. *Allowance for doubtful accounts*** - As of December 31, 2019 and 2018, the Organization determined that allowances of \$513,918 and \$800,000, respectively, were 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. *Use of estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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. *Bequests*** - 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. *Special events*** - The direct expense of special events includes expenses for the benefit of the donor. For example, meals, facilities and rentals are considered direct expenses of special events. 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.
- K. *Functional allocation of expenses*** - The costs of providing program, management and general and fundraising have been summarized on a functional basis in the statements of activities and in the statements of functional expenses.
- Accordingly, expenses that are not directly charged to program, management and general and fundraising are allocated among them. The expenses that are allocated include salaries and wages, benefits, and payroll taxes, which are allocated on the basis of estimates of time and effort. Other costs such as occupancy, insurance and telephone are allocated on the basis of personnel services allocation.
- L. *Donated stock and in-kind contributions*** - The Organization records donated stock or services at their fair value on the date of receipt. Donated legal services are estimated at \$13,902 and \$17,427 for the years ended December 31, 2019 and 2018, respectively, and are included as contributions income and expense in the accompanying financial statements.

AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- M. *Grants payable*** - 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. *Operating and non-operating activities*** - 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 restricted in perpetuity by donors. Gain or loss on interest rate swap, and foreign exchange contract valuation are recognized as non-operating activities.
- O. *Recent accounting pronouncement*** - Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” and ASU 2018-08, “Contributions Received and Contributions Made.” ASU 2014-09 requires the Organization to recognize revenue to depict the provision of services in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those services. These changes were adopted retrospectively and had no impact on the change in net assets for the years ended December 31, 2019 or 2018. ASU 2018-08 provides for guidance to assist the Organization in accounting for contributions. The Organization considers whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and a right of return of assets transferred or a right of release of a resource provider’s obligation to transfer assets. The changes were adopted retrospectively and had no impact on the change in net assets for the years ended December 31, 2019 and 2018.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization manages its assets available to meet general expenditures following the guiding principles of operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets. The Organization’s primary purpose is to support MDA in Israel. All contributions received for such purpose is considered part of general expenditures.

As of December 31, 2019, the Organization’s financial assets available to meet the general expenditures over the next twelve months were as follows:

Cash and cash equivalents	\$ 31,315,862
Pledges receivable one year or less	12,437,167
Investments, at fair value	<u>1,018,088</u>
	<u>\$ 44,771,117</u>

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:

	<u>2019</u>	<u>2018</u>
One year or less	\$ 12,437,167	\$ 22,868,108
One year to five years	17,460,597	12,651,233
Five years and more	<u>685,000</u>	<u>1,625,000</u>
	30,582,764	37,144,341
Less: allowance for doubtful pledges	(513,918)	(800,000)
Less: present value discount ranging from 1.07% to 3.05%	<u>(946,446)</u>	<u>(1,186,907)</u>
	<u>\$ 29,122,400</u>	<u>\$ 35,157,434</u>

AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

	Estimated Useful Lives	2019	2018
Furniture and equipment	3-7 years	\$ 494,771	\$ 274,220
Leasehold improvements	10 years	276,899	194,775
		771,670	468,995
Less: accumulated depreciation and amortization		(491,246)	(468,995)
Total		<u>\$ 280,424</u>	<u>\$ -</u>

Depreciation and amortization expense amounted to \$22,252 and \$24,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE 6 – INVESTMENTS

Investments consist of the following as of December 31:

	2019	2018
Cash and money market funds	\$ 412,045	\$ 411,075
Equities	447,139	46,051
State of Israel bonds	158,904	3,647,082
	<u>\$ 1,018,088</u>	<u>\$ 4,104,208</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:

	2019	2018
Interest and dividends	\$ 505,399	\$ 145,971
Realized loss (gain) on investments	(21,650)	7,839
Unrealized loss (gain) on investments	1,499	(9,614)
	<u>\$ 485,248</u>	<u>\$ 144,196</u>

NOTE 7 – 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 the Level 3 category.

AMERICAN FRIENDS OF MAGEN DAVID ADOM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 7 – 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 equities, cash and money market funds and fixed income securities 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. State of 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, 2019 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	\$ 412,044	\$ -	\$ 412,044
Equities	447,139	-	447,139
State of Israel bonds	<u>-</u>	<u>158,904</u>	<u>158,904</u>
Total Investments	<u>859,183</u>	<u>158,904</u>	<u>1,018,087</u>
Assets held in split interest agreements			
Cash and money market funds	107,174	-	107,174
Equities	4,275,551	-	4,275,551
Mutual Funds	-	-	-
Fixed income	<u>1,682,044</u>	<u>-</u>	<u>1,682,044</u>
Total assets held in split interest agreements	<u>6,064,769</u>	<u>-</u>	<u>6,064,769</u>
TOTAL ASSETS CARRIED AT FAIR VALUE	<u>\$ 6,923,952</u>	<u>\$ 158,904</u>	<u>\$ 7,082,856</u>
LIABILITIES CARRIED AT FAIR VALUE:			
Foreign exchange contract	\$ -	\$ -	\$ -
Interest rate swap agreement	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES CARRIED AT FAIR VALUE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value at December 31, 2018 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	\$ 411,075	\$ -	\$ 411,075
Equities	46,051	-	46,051
State of Israel bonds	<u>-</u>	<u>3,647,082</u>	<u>3,647,082</u>
Total Investments	457,126	3,647,082	4,104,208
Assets held in split interest agreements			
Cash and money market funds	748,514	-	748,514
Equities	3,351,259	-	3,351,259
Mutual funds	-	-	-
Fixed income – other	<u>1,232,980</u>	<u>-</u>	<u>1,232,980</u>
Total assets held in split interest agreements	<u>5,332,753</u>	<u>-</u>	<u>5,332,753</u>
TOTAL ASSETS CARRIED AT FAIR VALUE	<u>\$ 5,789,879</u>	<u>\$ 3,647,082</u>	<u>\$ 9,436,961</u>
LIABILITIES CARRIED AT FAIR VALUE:			
Foreign exchange contract	\$ -	\$ 514,885	\$ 514,885
Interest rate swap agreement	<u>-</u>	<u>531</u>	<u>531</u>
TOTAL LIABILITIES CARRIED AT FAIR VALUE	<u>\$ -</u>	<u>\$ 515,416</u>	<u>\$ 515,416</u>

NOTE 8 – 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, 2019 and 2018, the estimated future liabilities of \$3,996,318 and \$3,421,021, 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, 2019 and 2018. The majority of the underlying assets of the split interest agreements are held in equities and fixed income securities. As of December 31, 2019 and 2018, 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 9 – 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. During the year ended December 31, 2019, the Organization no longer maintained the contract with IDB Bank, therefore the fair value of the contract amounted to \$0 at December 31, 2019 and a liability of \$514,885 at December 31, 2018.

NOTE 10 – GRANTS PAYABLE

As of December 31, 2019 and 2018, the Organization was obligated under unconditional promises to give amounting to \$24,910,212 and \$31,138,174, respectively, to MDA for several projects. The payments for such commitments are made as needed based on actual expenses incurred by MDA. As of December 31, 2019, the grants payable are expected to be paid to MDA within one to three years or upon completion of ongoing projects. Grants payable also include \$23 million and \$27 million received for the Blood Center Project as of December 31, 2019 and 2018.

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NOTE 11 – LOANS PAYABLE AND INTEREST RATE SWAP

During 2013, the Organization obtained two loans from a bank to pay down the accrued defined benefit pension plan liability. The first loan matured on April 1, 2016. As of December 31, 2019 and 2018, the Organization has a loan payable to a bank in the principal amount of \$2,300,000, which matures on April 1, 2020. Interest on the outstanding principal balance accrues and will be payable monthly at a fixed rate of 2.5% per annum plus London Inter-bank Offered Rate (“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 years ended December 31, 2019 and 2018 amounted to \$30,315 and \$60,125, respectively. In connection with the loan payable 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 \$0 and \$531 as of December 31, 2019 and 2018, respectively, and is included as a liability in the statements of financial position. The recognition of the change in fair value of the swap is recorded as a gain of \$531 and \$2,364 for the years ended December 31, 2019 and 2018, respectively.

NOTE 12 – 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, 2019 and 2018 amounted to \$297,973 and \$203,824, respectively.

NOTE 13 – POSTRETIREMENT HEALTH BENEFITS PLAN

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.

The funded status of the Postretirement Plan as of December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,110,227	\$ 1,184,894
Service cost	3,883	4,218
Interest cost	43,352	40,671
Plan participants’ contributions	21,557	19,802
Actuarial gain	55,384	(50,098)
Benefits paid	<u>(95,893)</u>	<u>(89,260)</u>
Benefit obligation at end of year	<u>1,138,510</u>	<u>1,110,227</u>
Funded status	<u>\$ (1,138,510)</u>	<u>\$ (1,110,227)</u>

AMERICAN FRIENDS OF MAGEN DAVID ADOM
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NOTE 13 – POSTRETIREMENT HEALTH BENEFITS PLAN (Continued)

The components of benefit credit for the years ended December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Service cost	\$ 3,883	\$ 4,218
Interest cost	43,352	40,671
Prior service credit	(67,333)	(67,333)
Actuarial gain	<u>(41,056)</u>	<u>(38,469)</u>
Net benefits (credit) cost	<u>\$ (61,154)</u>	<u>\$ (60,913)</u>

The amounts recognized in the without donor net assets for the Postretirement Plan as of December 31 consist of the following:

	<u>2019</u>	<u>2018</u>
Net actuarial gain	\$ 552,721	\$ 649,161
Prior service credit	<u>49,377</u>	<u>116,710</u>
	<u>\$ 602,098</u>	<u>\$ 765,871</u>

Other changes in Postretirement Plan assets and benefit obligations recognized in the change in net assets without donor restrictions for the years ended December 31 consist of the following:

	<u>2019</u>	<u>2018</u>
Net actuarial (loss) gain	\$ (96,440)	\$ 11,629
Net prior service cost	<u>(67,333)</u>	<u>(67,333)</u>
	<u>\$ (163,773)</u>	<u>\$ (55,704)</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 are based on the following assumptions:

	<u>2019</u>	<u>2018</u>
Discount rate	2.95%	4.04%

The assumed health care cost trend rates as of December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Health care cost trend rate assumed for next year	7.0% / 4.5%	7.0% / 5.0%
Rate to which the cost trend rate is assumed to decline	3.784%	3.784%
Year that the rate reaches the ultimate trend rate	2075	2075

To illustrate, increasing the assumed medical care cost trend rates by 1% in each year would increase the accumulated postretirement benefit obligation by \$115,596 as of December 31, 2019, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$5,275. Decreasing the assumed health care cost trend rates by 1% would decrease the accumulated postretirement benefit obligation by \$100,909 as of December 31, 2019, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$4,512.

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NOTE 13 – POSTRETIREMENT HEALTH BENEFITS PLAN (Continued)

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:

2020	\$	76,941
2021		78,566
2022		79,875
2023		80,854
2024		81,306
Five years thereafter		391,866

For the years ended December 31, 2019 and 2018, the Postretirement Plan held no assets.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

- A. The Organization leases certain office facilities and equipment. The Organization also entered into a new 10-year lease for the Organization's New York headquarters starting in June 2019. Minimum annual rentals related to the leases are as follows for the years ending after December 31, 2019:

	<u>Real Property</u>	<u>Office Equipment</u>	<u>Total</u>
2020	\$ 546,343	\$ 6,129	\$ 552,472
2021	389,324	1,939	391,263
2022	368,730	1,939	370,669
2023	357,778	1,939	359,717
2024	357,701	1,777	359,478
2025 and after	<u>2,027,011</u>	<u>-</u>	<u>2,027,011</u>
	<u>\$ 4,046,887</u>	<u>\$ 13,723</u>	<u>\$ 4,060,610</u>

Rent expense amounted to the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Real property	\$ 431,416	\$ 737,364
Equipment	33,778	50,831

- 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, 2019 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.

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NOTE 15 – CONCENTRATIONS

- A. Financial instruments that potentially subject the Organization to a concentration of credit risk include cash held with two banks in excess of Federal Deposit Insurance Corporation (“FDIC”) insurance limits by approximately \$31.2 million and \$34.5 million as of December 31, 2019 and 2018, 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 \$4.3 million and \$7.8 million as of December 31, 2019 and 2018, respectively.
- B. As of December 31, 2019 and 2018, approximately 73% and 77% of pledges receivable is comprised of eight donors and five donors, respectively.

NOTE 16 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Ambulances	\$ 4,477,119	\$ 4,772,045
Blood center construction	17,688,227	25,406,485
Other	1,145,540	401,641
Restricted in perpetuity	<u>10,545,835</u>	<u>9,799,620</u>
	<u>\$ 33,856,721</u>	<u>\$ 40,379,791</u>

Net assets with donor restrictions amounting to \$29,616,889 and \$23,655,103 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, 2019 and 2018, respectively.

Net assets with donor restrictions also include fund restricted in perpetuity of \$10,545,835 and \$9,799,620 as of December 31 2019 and 2018, respectively, included in the statements of financial position as follows:

	<u>2019</u>	<u>2018</u>
Beneficial interest in perpetual endowment	\$ 10,083,715	\$ 9,337,500
Cash and cash equivalents	<u>462,120</u>	<u>462,120</u>
	<u>\$ 10,545,835</u>	<u>\$ 9,799,620</u>

In 2012, a decedent bequeathed a portion of her estate to a perpetual endowment in which the Organization was named a beneficiary. In accordance with the endowment agreement signed by the decedent, the funds are to be kept in perpetual endowment, and distributions from the fund may be used for general operations.

As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization is a New York corporation and is subject to the New York Prudent Management Institutional Funds Act (“NYPMIFA”) adopted by New York State. The Board of Directors of the Organization has interpreted NYPMIFA as allowing the Organization to appropriate for expenditure or accumulate as much of an endowment fund the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment funds are established subject to the intent of the donor as expressed in the gift instrument.

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NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through August 11, 2020, the date the financial statements were available to be issued.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, which continues to spread throughout the United States. The Organization could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on The Organization’s mission, programs, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, the Organization cannot predict the extent to which its financial condition and results of operations will be affected.

In response to the pandemic, in March 2020, the United States passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) which includes the Paycheck Protection Program which intends to provide loans to businesses to cover payroll costs. The loans are eligible for forgiveness if certain criteria are met. On April 20, 2020, the Organization received a loan of \$1,008,642 under this program.