



**FINANCIAL STATEMENTS**  
**(Together with Independent Auditors' Report)**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**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, 2018 AND 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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.

### ***Emphasis of Matter***

As discussed in Note 20 to the financial statements, during the year ended December 31, 2018, the Organization adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

*Marks Paneth LLP*

New York, NY  
July 26, 2019

**AMERICAN FRIENDS OF MAGEN DAVID ADOM**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2C and 15A)	\$ 34,469,207	\$ 33,004,740
Pledges receivable, net (Notes 2F, 2G, 4, 15B and 16)	35,157,434	39,392,935
Investments, at fair value (Notes 2D, 6 and 7)	4,104,208	8,112,915
Assets held in split interest agreements, at fair value (Notes 7 and 8)	5,332,753	8,157,759
Foreign exchange contract valuation (Notes 2C and 9)	-	1,151,561
Prepaid expenses and other assets	686,883	1,320,039
Property and equipment, net (Notes 2E and 5)	-	673,509
Beneficial interest in perpetual endowment (Note 16)	<u>9,337,500</u>	<u>-</u>
 <b>TOTAL ASSETS</b>	 <u><b>\$ 89,087,985</b></u>	 <u><b>\$ 91,813,458</b></u>
 <b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 8,927,594	\$ 12,497,847
Grants payable (Notes 2M and 11)	31,138,174	33,520,023
Loans payable (Note 12)	2,300,000	2,300,000
Foreign exchange contract valuation (Note 9)	514,885	-
Interest rate swap liability (Note 11)	531	2,895
Deferred revenue (Note 2J)	449,925	634,307
Due to AF-West (Note 1)	2,101,519	-
Accrued postretirement health benefit costs (Notes 12 and 13)	<u>1,110,227</u>	<u>1,184,894</u>
 <b>TOTAL LIABILITIES</b>	 <u><b>46,542,855</b></u>	 <u><b>50,139,966</b></u>
 <b>NET ASSETS (Note 2B)</b>		
Without donor restrictions	<u>2,165,339</u>	<u>6,665,711</u>
With donor restrictions		
Perpetual in nature (Note 16)	9,799,620	462,120
Time and purpose (Note 16)	<u>30,580,171</u>	<u>34,545,661</u>
Total with donor restrictions	<u>40,379,791</u>	<u>35,007,781</u>
 <b>TOTAL NET ASSETS</b>	 <u><b>42,545,130</b></u>	 <u><b>41,673,492</b></u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><b>\$ 89,087,985</b></u>	 <u><b>\$ 91,813,458</b></u>

**AMERICAN FRIENDS OF MAGEN DAVID ADOM  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	2018 Total	Without Donor Restrictions	With Donor Restrictions	2017 Total
<b>OPERATING REVENUE AND SUPPORT:</b>						
Contributions (Notes 4 and 16)	\$ 8,386,724	\$ 13,904,088	\$ 22,290,812	\$ 2,891,213	\$ 16,881,526	\$ 19,772,739
Special events, net of direct expenses of \$1,161,413 and \$1,556,936 for 2018 and 2017, respectively (Note 2J)	1,715,979	5,255,525	6,971,504	7,783,113	12,000,000	19,783,113
Estates, trusts, bequests, legacies and other (Note 2I)	6,558,681	530,000	7,088,681	6,311,151	468,362	6,779,513
Interest (Note 16)	646,482	-	646,482	254,689	-	254,689
Investment activity (Note 6)	144,196	-	144,196	166,288	-	166,288
Change in value of split interest agreements (Note 8)	(588,502)	-	(588,502)	1,131,530	-	1,131,530
Net assets released from restrictions (Note 16)	23,655,103	(23,655,103)	-	15,388,634	(15,388,634)	-
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<b>40,518,663</b>	<b>(3,965,490)</b>	<b>36,553,173</b>	<b>33,926,618</b>	<b>13,961,254</b>	<b>47,887,872</b>
<b>OPERATING EXPENSES</b> (Note 2K):						
Program services	31,916,358	-	31,916,358	26,365,423	-	26,365,423
Management and general	4,340,444	-	4,340,444	3,295,969	-	3,295,969
Fundraising	5,354,434	-	5,354,434	5,614,576	-	5,614,576
<b>TOTAL OPERATING EXPENSES</b>	<b>41,611,236</b>	<b>-</b>	<b>41,611,236</b>	<b>35,275,968</b>	<b>-</b>	<b>35,275,968</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>(1,092,573)</b>	<b>(3,965,490)</b>	<b>(5,058,063)</b>	<b>(1,349,350)</b>	<b>13,961,254</b>	<b>12,611,904</b>
<b>NON-OPERATING ACTIVITIES:</b>						
Beneficial interest in perpetual endowment (Note 16)	-	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)	2,364	-	2,364	24,737	-	24,737
Foreign exchange contract valuation (Note 2C, 2N and 9)	(1,252,940)	-	(1,252,940)	1,464,586	-	1,464,586
<b>TOTAL NON-OPERATING ACTIVITIES</b>	<b>(3,352,095)</b>	<b>9,337,500</b>	<b>5,985,405</b>	<b>1,489,323</b>	<b>-</b>	<b>1,489,323</b>
<b>CHANGE IN NET ASSETS BEFORE POSTRETIREMENT RELATED CHANGES</b>	<b>(4,444,668)</b>	<b>5,372,010</b>	<b>927,342</b>	<b>139,973</b>	<b>13,961,254</b>	<b>14,101,227</b>
Postretirement changes other than net periodic pension cost (Notes 14 and 15)	(55,704)	-	(55,704)	(152,120)	-	(152,120)
<b>CHANGE IN TOTAL NET ASSETS</b>	<b>(4,500,372)</b>	<b>5,372,010</b>	<b>871,638</b>	<b>(12,147)</b>	<b>13,961,254</b>	<b>13,949,107</b>
Net assets - beginning of year	6,665,711	35,007,781	41,673,492	6,677,858	21,046,527	27,724,385
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 2,165,339</b>	<b>\$ 40,379,791</b>	<b>\$ 42,545,130</b>	<b>\$ 6,665,711</b>	<b>\$ 35,007,781</b>	<b>\$ 41,673,492</b>

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, 2018 AND 2017**

	Year Ended December 31, 2018					Year Ended December 31, 2017				
	Supporting Services				Total	Supporting Services				Total
	Program Services	Management and General	Fundraising	Total Supporting Services	Expenses 2018	Program Services	Management and General	Fundraising	Total Supporting Services	Expenses 2017
Salaries	\$ 2,418,506	\$ 1,583,475	\$ 1,315,023	\$ 2,898,498	\$ 5,317,004	\$ 2,394,091	\$ 1,176,234	\$ 1,678,298	\$ 2,854,532	\$ 5,248,623
Payroll taxes and employee benefits (Notes 12 and 13)	459,737	348,166	332,471	680,637	1,140,374	892,670	251,596	397,958	649,554	1,542,224
Total salaries and related costs	2,878,243	1,931,641	1,647,494	3,579,135	6,457,378	3,286,761	1,427,830	2,076,256	3,504,086	6,790,847
Occupancy (Note 14A)	154,035	423,597	192,544	616,141	770,176	265,497	176,998	294,997	471,995	737,492
Professional fees (Note 2L)	542,471	766,806	302,265	1,069,071	1,611,542	261,434	894,292	230,195	1,124,487	1,385,921
Insurance	27,496	54,454	27,227	81,681	109,177	40,025	26,549	44,248	70,797	110,822
Printing, publications and supplies	61,214	22,201	81,404	103,605	164,819	74,615	43,021	71,702	114,723	189,338
Travel, conferences and events	465,904	-	225,606	225,606	691,510	343,527	24,072	240,723	264,795	608,322
Telephone	24,389	36,494	31,932	68,426	92,815	36,333	23,134	38,557	61,691	98,024
Postage and shipping	34,920	41,757	218,963	260,720	295,640	23,113	15,409	25,681	41,090	64,203
Dues and subscriptions	3,923	3,362	3,923	7,285	11,208	3,591	2,394	3,990	6,384	9,975
Equipment (Note 14A)	17,394	34,715	39,204	73,919	91,313	23,808	15,390	25,650	41,040	64,848
Bank charges and interest expense	51,435	141,615	-	141,615	193,050	101,423	158,852	-	158,852	260,275
Marketing, direct mail and public relations	1,942,718	-	2,517,303	2,517,303	4,460,021	2,200,102	-	2,551,813	2,551,813	4,751,915
Grants to Magen David Adom	25,633,007	-	-	-	25,633,007	19,668,102	-	-	-	19,668,102
Depreciation and amortization	-	24,000	-	24,000	24,000	10,312	18,333	-	18,333	28,645
Bad debt expense	-	757,561	-	757,561	757,561	-	430,996	-	430,996	430,996
Miscellaneous	79,209	102,241	66,569	168,810	248,019	26,780	38,699	10,764	49,463	76,243
<b>TOTAL EXPENSES</b>	<b>\$ 31,916,358</b>	<b>\$ 4,340,444</b>	<b>\$ 5,354,434</b>	<b>\$ 9,694,878</b>	<b>\$ 41,611,236</b>	<b>\$ 26,365,423</b>	<b>\$ 3,295,969</b>	<b>\$ 5,614,576</b>	<b>\$ 8,910,545</b>	<b>\$ 35,275,968</b>

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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 871,638	\$ 13,949,107
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	24,000	28,645
Pension and postretirement changes	55,704	152,120
Bad debt	757,561	430,996
Loss on disposal	-	1,799
Beneficial interest in perpetual endowment	(9,337,500)	-
Change in value of split interest agreements	588,502	(1,131,530)
Change in discount on pledges receivable	74,194	166,112
Change in value from foreign exchange contract	1,252,940	(1,464,586)
Transfer to AF-West	2,101,519	-
Value of contributed property	-	(649,509)
Gain on interest rate swap	(2,364)	(24,737)
Realized and unrealized loss (gain) on investments	<u>1,775</u>	<u>(603)</u>
Subtotal	(3,612,031)	11,457,814
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable	3,403,746	(13,429,324)
Prepaid expenses and other assets	633,156	(629,175)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses (net of change in split interest agreements)	(1,333,749)	1,653,602
Grants payable	(2,381,849)	(5,187,052)
Accrued postretirement health benefit costs	(130,371)	(237,092)
Deferred revenue	<u>(184,382)</u>	<u>15,698</u>
<b>Net Cash Used in Operating Activities</b>	<u>(3,605,480)</u>	<u>(6,355,529)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of donated property	649,509	-
Proceeds from sales/redemptions of investments	6,355,859	4,112,091
Purchase of investments	<u>(2,348,927)</u>	<u>(5,893,399)</u>
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>4,656,441</u>	<u>(1,781,308)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in value of foreign exchange contract	<u>413,506</u>	<u>295,810</u>
<b>Net Cash Provided by Financing Activities</b>	<u>413,506</u>	<u>295,810</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,464,467	(7,841,027)
<b>Cash and cash equivalents - beginning of year</b>	<u>33,004,740</u>	<u>40,845,767</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 34,469,207</u>	<u>\$ 33,004,740</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	<u>\$ 60,125</u>	<u>\$ 103,772</u>
<b>Supplemental Non-Cash Flow Information:</b>		
Donated property	<u>\$ -</u>	<u>\$ 649,509</u>

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

**AMERICAN FRIENDS OF MAGEN DAVID ADOM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**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 and incorporated as a separate 501(c)(3) charitable corporation and is recognized as a public charity under the IRS. After receiving the consent of MDA, on December 31, 2018 the Organization and AF-West agreed that AF-West be the sole fundraising organization for MDA in the United States western region territory. The Organization agreed to transfer \$2,000,000 to AF-West for startup costs, which is included in Due to AF-West in the accompanying statements of financial position-of that amount \$500,000 was transferred during 2018. Following the implementation of this separation by AF-West, the Organization estimated initially that in 2019 operating revenue and expenses would decrease by approximately 27% and 29%, respectively, as a result of the separation of AF-West. The Organization's financial statements do not include contributions directly received by AF-West that were not transferred to the Organization by AF-West during the year ended December 31, 2018. Since December 31, 2018 and the separation of AF-West from the Organization, certain developments have occurred, including the cessation of operations by AF-West in June 2019 that will result in a reassessment of the revenue and expense impact of the separation on the Organization, as well as amounts previously included by the Organization in Due to AF-West.

**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. Included in cash and cash equivalents as of December 31, 2018 and 2017 is approximately \$700,000 and \$1,100,000, respectively, set aside as collateral for the foreign exchange contract (Note 9).

**AMERICAN FRIENDS OF MAGEN DAVID ADOM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017, the Organization determined that allowances of \$800,000 and \$150,000, 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 \$17,427 and \$222,316 for the years ended December 31, 2018 and 2017, 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, 2018 AND 2017**

**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") 2016-14, "Not-for-Profit Entities" was adopted for the year ended December 31, 2018. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquid resources and expense allocation. The changes were adopted retrospectively and had no impact on the change in net assets for the year ended December 31, 2017. Net assets as of December 31, 2017 were renamed to conform to the new presentation.
- P. *Reclassification*** - Certain line items in the 2017 financial statements were reclassified to conform to the 2018 presentation. The reclassification had no impact on the Organization's net assets.

**NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES**

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. During the year ending December 31, 2018, the Organization was able to meet its cash needs without utilizing reserves. 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, 2018, the Organization's financial assets and financial assets available to meet the general expenditures of the next twelve months were as follows:

Cash and cash equivalents	\$ 34,007,087
Pledges receivable one year or less	22,868,108
Investments, at fair value	<u>4,104,208</u>
	<u>\$ 60,979,403</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>2018</u>	<u>2017</u>
One year or less	\$ 22,868,108	\$ 26,559,415
One year to five years	12,651,233	12,471,233
Five years and more	<u>1,625,000</u>	<u>1,625,000</u>
	37,144,341	40,655,648
Less: allowance for doubtful pledges	(800,000)	(150,000)
Less: present value discount ranging from 0.99% to 3.05%	<u>(1,186,907)</u>	<u>(1,112,713)</u>
	<u>\$ 35,157,434</u>	<u>\$ 39,392,935</u>

**AMERICAN FRIENDS OF MAGEN DAVID ADOM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 5 – PROPERTY AND EQUIPMENT**

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

	Estimated Useful Lives	2018	2017
Furniture and equipment	3-7 years	\$ 274,220	\$ 274,220
Leasehold improvements	10 years	194,775	194,775
		468,995	468,995
Less: accumulated depreciation and amortization		(468,995)	(444,995)
Net book value		-	24,000
Asset held for sale		-	649,509
Total		\$ -	\$ 673,509

Depreciation and amortization expense amounted to \$24,000 and \$28,645 for the years ended December 31, 2018 and 2017, respectively. Asset held for sale represents a donated property received by the Organization in 2017, which was sold in January 2018. Proceeds from the sale are restricted for Blood center construction.

**NOTE 6 – INVESTMENTS**

Investments consist of the following as of December 31:

	2018	2017
Cash and money market funds	\$ 411,075	\$ 410,268
Equities	46,051	444,616
State of Israel bonds	3,647,082	7,258,031
	\$ 4,104,208	\$ 8,112,915

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:

	2018	2017
Interest and dividends	\$ 145,971	\$ 303,560
Realized gain (loss) on investments	7,839	(139,286)
Unrealized gain (loss) on investments	(9,614)	2,014
	\$ 144,196	\$ 166,288

**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.

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**NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)**

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.

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, 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>
<b>ASSETS CARRIED AT FAIR VALUE:</b>			
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
Fixed income	<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>
<b>TOTAL ASSETS CARRIED AT FAIR VALUE</b>	<b><u>\$ 5,789,879</u></b>	<b><u>\$ 3,647,082</u></b>	<b><u>\$ 9,436,961</u></b>
<b>LIABILITIES CARRIED AT FAIR VALUE:</b>			
Foreign exchange contract	-	514,885	514,885
Interest rate swap agreement	<u>-</u>	<u>531</u>	<u>531</u>
<b>TOTAL LIABILITIES CARRIED AT FAIR VALUE</b>	<b><u>\$ -</u></b>	<b><u>\$ 515,416</u></b>	<b><u>\$ 515,416</u></b>

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**NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)**

Financial assets carried at fair value at December 31, 2017 are classified in the table in one of the three levels as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>ASSETS CARRIED AT FAIR VALUE:</b>			
Investments			
Cash and money market funds	\$ 410,268	\$ -	\$ 410,268
Equities	444,616	-	444,616
State of Israel bonds	<u>-</u>	<u>7,258,031</u>	<u>7,258,031</u>
Total Investments	854,884	7,258,031	8,112,915
Assets held in split interest agreements			
Cash and money market funds	112,134	-	112,134
Equities	1,155,137	-	1,155,137
Mutual funds	5,062,861	-	5,062,861
Fixed income - other	<u>1,827,627</u>	<u>-</u>	<u>1,827,627</u>
Total assets held in split interest agreements	<u>8,157,759</u>	<u>-</u>	<u>8,157,759</u>
Foreign exchange contract	<u>-</u>	<u>1,151,561</u>	<u>1,151,561</u>
<b>TOTAL ASSETS CARRIED AT FAIR VALUE</b>	<u><b>\$ 9,012,643</b></u>	<u><b>\$ 8,409,592</b></u>	<u><b>\$ 17,422,235</b></u>
<b>LIABILITIES CARRIED AT FAIR VALUE:</b>			
Interest rate swap agreement	<u>-</u>	<u>2,895</u>	<u>2,895</u>
<b>TOTAL LIABILITIES CARRIED AT FAIR VALUE</b>	<u><b>\$ -</b></u>	<u><b>\$ 2,895</b></u>	<u><b>\$ 2,895</b></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, 2018 and 2017, the estimated future liabilities of \$3,421,021 and \$3,440,484, 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, 2018 and 2017. The majority of the underlying assets of the split interest agreements are held in equities and fixed income securities. As of December 31, 2018 and 2017, 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. The fair value of the contract amounted to a liability of \$514,885 at December 31, 2018 and an asset of \$1,151,561 at December 31, 2017.

**NOTE 10 – GRANTS PAYABLE**

As of December 31, 2018 and 2017, the Organization was obligated under unconditional promises to give amounting to \$31,138,174 and \$33,520,023, 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, 2018, 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 \$27 million received for the Blood Center Project as of both December 31, 2018 and 2017.

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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, 2018 and 2017, 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, 2018 and 2017 amounted to \$60,125 and \$103,772, 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 (\$531) and (\$2,895) as of December 31, 2018 and 2017, 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 \$2,364 and \$24,737 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 amounted to \$203,824 and \$163,300, 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.

**NOTE 13 – POSTRETIREMENT HEALTH BENEFITS PLAN**

The funded status of the Postretirement Plan as of December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,184,894	\$ 1,269,866
Service cost	4,218	4,024
Interest cost	40,671	44,642
Plan participants’ contributions	19,802	19,574
Actuarial gain	(50,098)	(59,910)
Benefits paid	<u>(89,260)</u>	<u>(93,302)</u>
Benefit obligation at end of year	<u>1,110,227</u>	<u>1,184,894</u>
Funded status	<u>\$ (1,110,227)</u>	<u>\$ (1,184,894)</u>

The components of benefit credit for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 4,218	\$ 4,024
Interest cost	40,671	44,642
Prior service credit	(67,333)	(67,333)
Actuarial gain	<u>(38,469)</u>	<u>(144,697)</u>
Net benefits (credit) cost	<u>\$ (60,913)</u>	<u>\$ (163,364)</u>

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**NOTE 13 – POSTRETIREMENT HEALTH BENEFITS PLAN (Continued)**

The amounts recognized in the without donor net assets for the Postretirement Plan as of December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Net actuarial gain	\$ 649,161	\$ 637,532
Prior service credit	<u>116,710</u>	<u>184,043</u>
	<u>\$ 765,871</u>	<u>\$ 821,575</u>

Other changes in Postretirement Plan assets and benefit obligations recognized in the change in without donor restriction net assets for the years ended December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Net actuarial (loss) gain	\$ 11,629	\$ (84,787)
Net prior service cost	<u>(67,333)</u>	<u>(67,333)</u>
	<u>\$ (55,704)</u>	<u>\$ (152,120)</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, 2018 and 2017 are based on the following assumptions:

	<u>2018</u>	<u>2017</u>
Discount rate	4.04%	3.90%

The assumed health care cost trend rates as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Health care cost trend rate assumed for next year	7.0% / 5.0%	7.0% / 5.4%
Rate to which the cost trend rate is assumed to decline	3.784%	4.75%
Year that the rate reaches the ultimate trend rate	2075	2023

To illustrate, increasing the assumed medical care cost trend rates by 1% in each year would increase the accumulated postretirement benefit obligation by \$112,470 as of December 31, 2018, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$5,003. Decreasing the assumed health care cost trend rates by 1% would decrease the accumulated postretirement benefit obligation by \$98,196 as of December 31, 2018, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$4,281.

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:

2019	\$ 74,336
2020	77,182
2021	79,572
2022	81,575
2023	83,221
Five years thereafter	\$ 417,883

For the years ended December 31, 2018 and 2017, the Postretirement Plan held no assets.

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**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

- A. The Organization leases certain office facilities and equipment. The leases expire at various dates up to 2021. Minimum annual rentals related to the leases are approximately as follows for the years ending after December 31, 2018:

	<u>Real Property</u>	<u>Office Equipment</u>	<u>Total</u>
2019	\$ 365,832	\$ 21,408	\$ 387,240
2020	188,408	4,191	192,599
2021	<u>52,442</u>	<u>-</u>	<u>52,442</u>
	<u>\$ 606,682</u>	<u>\$ 25,599</u>	<u>\$ 632,281</u>

Rent expense amounted to the following for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Real property	\$ 737,364	\$ 698,922
Equipment	50,831	41,821

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

- 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, 2018 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 15 – CONCENTRATION**

- 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 \$34.5 million and \$32.3 million as of December 31, 2018 and 2017, 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 \$7.8 million and \$1.8 million as of December 31, 2018 and 2017, respectively.
- B. As of December 31, 2018 and 2017, approximately 77% and 67% of pledges receivable is comprised of five donors and four donors, respectively.

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**NOTE 16 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consists of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Ambulances	\$ 4,772,045	\$ 4,297,594
Blood center construction	25,406,485	29,846,426
Other	401,641	401,641
Restricted in perpetuity	<u>9,799,620</u>	<u>462,120</u>
	<u>\$ 40,379,791</u>	<u>\$ 35,007,781</u>

Net assets with donor restrictions amounting to \$23,655,103 and \$15,388,634 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, 2018 and 2017, respectively.

Net assets with donor restrictions also include fund restricted in perpetuity of \$9,799,620 and \$462,120 as of December 31, 2018 and 2017, respectively, included in the statements of financial position as follows:

	<u>2018</u>	<u>2017</u>
Beneficial interest in perpetual endowment	\$ 9,337,500	\$ -
Cash and cash equivalents	<u>462,120</u>	<u>462,120</u>
	<u>\$ 9,799,620</u>	<u>\$ 462,120</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 of December 31, 2018, the Organization recorded the beneficial interest in the perpetual endowment amounting to \$9,337,500, and recognized interest income of \$354,647 for the year then ended, which is included in interest in the 2018 statement of activities.

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 is established subject to the intent of the donor as expressed in the gift instrument.

**NOTE 17 – SUBSEQUENT EVENTS**

The Organization has evaluated, for potential recognition and disclosure, events subsequent to the statement of financial position date through July 26, 2019, the date the financial statements were available to be issued.