

**AMERICAN FRIENDS OF MIGDAL OHR**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**DECEMBER 31, 2014**

**AMERICAN FRIENDS OF MIGDAL OHR**

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## Independent Auditor's Report

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of American Friends of Migdal Ohr, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Friends of Migdal Ohr as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter - Restatement***

As more fully disclosed in Note 7 to the financial statements, opening net assets as of December 31, 2013 have been restated to properly reflect the classification of net assets and the carrying amount of pledges receivable. Our opinion is not modified with respect to this matter.

*Loeb & Troper LLP*

September 21, 2015

**AMERICAN FRIENDS OF MIGDAL OHR**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2014**

**ASSETS**

Cash and cash equivalents	\$ 549,716
Pledges receivable - net (Note 6)	1,680,032
Prepaid expenses and other assets	36,035
Fixed assets - net (Note 3)	<u>2,963</u>
Total assets	<u>\$ 2,268,746</u>

**LIABILITIES AND NET ASSETS**

Liabilities	
Accounts payable and accrued expenses	\$ 2,101
Deferred revenue	<u>30,119</u>
Total liabilities	<u>32,220</u>
Net assets (Exhibit B)	
Unrestricted	348,973
Temporarily restricted (Note 4)	<u>1,887,553</u>
Total net assets	<u>2,236,526</u>
Total liabilities and net assets	<u>\$ 2,268,746</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## AMERICAN FRIENDS OF MIGDAL OHR

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

	2014		
	Unrestricted	Temporarily Restricted	Total
Revenues and other support			
Contributions	\$ 2,250,261	\$ 2,532,405	\$ 4,782,666
Interest and dividends	643		643
Net assets released from restrictions (Note 4)	854,237	(854,237)	
Total revenues and other support	<u>3,105,141</u>	<u>1,678,168</u>	<u>4,783,309</u>
Expenses (Exhibit C)			
Program services - grants	4,024,292		4,024,292
Management and general	276,764		276,764
Fund raising	432,854		432,854
Total expenses	<u>4,733,910</u>		<u>4,733,910</u>
Change in net assets (Exhibit D)	<u>(1,628,769)</u>	<u>1,678,168</u>	<u>49,399</u>
Net assets - beginning of year, as previously reported	1,665,914	710,000	2,375,914
Restatement (Note 7)	311,828	(500,615)	(188,787)
Net assets - beginning of year - restated	<u>1,977,742</u>	<u>209,385</u>	<u>2,187,127</u>
Net assets - end of year (Exhibit A)	<u>\$ 348,973</u>	<u>\$ 1,887,553</u>	<u>\$ 2,236,526</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**AMERICAN FRIENDS OF MIGDAL OHR**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2014**

**EXHIBIT C**

	2014			
	Program Services - Grants	Management and General	Fund Raising	Total
Transmissions to Migdal Ohr - Israel	\$ 4,024,292			\$ 4,024,292
Salaries		90,753	245,371	336,124
Payroll taxes, employee benefits		19,811	53,562	73,373
Consultants		40,000		40,000
Bookkeeping services		7,500		7,500
Professional fees		49,038		49,038
Rent (Note 5)		5,846	15,806	21,652
Telephone		1,334	7,562	8,896
Printing and postage		8,490	48,107	56,597
Office supplies		5,116	28,992	34,108
Travel		3,092	12,367	15,459
Insurance		1,276	5,104	6,380
Equipment rental/maintenance		6,943	1,225	8,168
Advertisement			5,650	5,650
Board meetings		2,221		2,221
Depreciation		2,168	3,253	5,421
Miscellaneous expenses		33,176	5,855	39,031
	\$ 4,024,292	\$ 276,764	\$ 432,854	\$ 4,733,910
Total expenses reported by function on the statement of activities (Exhibit B)				

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## AMERICAN FRIENDS OF MIGDAL OHR

## STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2014

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 49,399
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation and amortization	5,421
Increase in assets	
Pledges receivable	(514,194)
Prepaid expenses and other assets	(21,172)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(10,031)
Deferred revenues	30,119
	<hr/>
Net cash used by operating activities	(460,458)
Cash flows from investing activities	
Fixed assets acquisitions	(958)
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Net change in cash and cash equivalents	(461,416)
Cash and cash equivalents - beginning of year	1,011,132
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Cash and cash equivalents - end of year	\$ 549,716
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See independent auditor's report.

The accompanying notes are an integral part of these statements.



**AMERICAN FRIENDS OF MIGDAL OHR**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**

**NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES**

The American Friends of Migdal Ohr ("AFMO") was incorporated as a not-for-profit corporation in New York State on July 31, 1986. Its sole purpose is to raise funds for Migdal Ohr institutions in Israel that provide education and social guidance to children from underprivileged and problem homes. AFMO's primary source of revenue is from contributions.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

*Use of estimates* - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and cash equivalents* - Cash and cash equivalents are comprised of highly liquid investments that mature in three months or less from date of acquisition.

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

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

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## AMERICAN FRIENDS OF MIGDAL OHR

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fixed assets** - Fixed assets are recorded at cost. Donated assets are recorded at fair value at the date of the donation. Acquisitions of \$500 or more with an estimated useful life of more than one year are capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Office equipment	5 years
Computer software	5 years

**Deferred revenue** - Event income is recognized at the net realizable amount when earned. The portion of event charges collected in the current fiscal year pertaining to events that will take place in the next fiscal year is reflected as deferred revenue. Deferred revenue is generally earned within one year.

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

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

**Contributions** - Unconditional private grants and contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. AFMO reports gifts of cash and other assets, received from foundations, corporations and the general public as restricted support if they are with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When applicable, in-kind contributions are reported at fair value at the date the contribution is received.

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

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

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## AMERICAN FRIENDS OF MIGDAL OHR

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Uncertainty in income taxes* - AFMO has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2011 and subsequent remain subject to examination by applicable tax authorities.

*Subsequent events* - Subsequent events have been evaluated through September 21, 2015 which is the date the financial statements were available to be issued.

**NOTE 3 - FIXED ASSETS**

Fixed assets consist of the following:

Office equipment	\$ 54,160
Computer program	<u>25,570</u>
	79,730
Less accumulated depreciation	<u>(76,767)</u>
Total	<u>\$ 2,963</u>

**NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS**

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

Bridal Fund	\$ 160,204
Special Projects	35,912
Zoharim	11,405
Periods after December 31, 2014	<u>1,680,032</u>
	<u>\$ 1,887,553</u>

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## AMERICAN FRIENDS OF MIGDAL OHR

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

**NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS (continued)**

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

Bridal Fund	\$	380,500
Special Projects		295,865
Zoharim		<u>177,872</u>
	\$	<u>854,237</u>

**NOTE 5 - LEASE COMMITMENT**

On June 1, 2012 AFMO entered into a noncancelable operating lease for smaller office space. The lease expires May 31, 2015. AFMO is currently renting on a month-to-month basis. The lease is subject to escalations for AFMO's proportionate share of increases in real estate taxes and operating expenses. Minimum future payments under the terms of the lease are as follows:

2015	\$	<u>8,440</u>
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**NOTE 6 - PLEDGES RECEIVABLE**

Year	Amount
2015	\$ 1,356,808
2016	61,000
2017	61,000
2018	61,000
2019 and subsequent	<u>197,000</u>
Total	1,736,808
Discount on pledges receivable	(6,776)
Allowances for doubtful pledges receivable	<u>(50,000)</u>
Net	<u>\$ 1,680,032</u>

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

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## AMERICAN FRIENDS OF MIGDAL OHR

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

## NOTE 7 - RESTATEMENT

The opening December 31, 2013 net assets balances have been restated to correct the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
To correct carrying amount of pledge receivables as reported in prior years	\$ (188,787)		\$ (188,787)
To correct net asset classification	<u>500,615</u>	<u>\$ (500,615)</u>	<u>                    </u>
	<u>\$ 311,828</u>	<u>\$ (500,615)</u>	<u>\$ (188,787)</u>

