Friends of Israel Disabled Veterans, Inc.

Independent Auditor’s Report and Financial Statements

December 31, 2018 and 2017

BKD
CPAs & Advisors

Friends of Israel Disabled Veterans, Inc.
December 31, 2018 and 2017

Contents

BKD
CPAs & Advisors

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Independent Auditor's Report

Board of Directors
Friends of Israel Disabled Veterans, Inc.
New York, New York

We have audited the accompanying financial statements of Friends of Israel Disabled Veterans, Inc., which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of Israel Disabled Veterans, Inc. as of December 31, 2018, and the changes in net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 11* to the financial statements, in 2018, Friends of Israel Disabled Veterans, Inc. adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Prior Year Audited by Other Auditors

The 2017 financial statements were audited by other auditors, and their report thereon, dated June 15, 2018, expressed an unmodified opinion.

BKD, LLP

New York, New York
July 25, 2019

Friends of Israel Disabled Veterans, Inc.

Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents - without donor restrictions	$ 2,155,303	$ 1,885,264
Cash and cash equivalents - with donor restrictions	315,454	221,497
Investments	308,348	304,219
Contributions receivable - current	888,614	427,764
Beneficial interest in remainder trust	2,307,756	2,485,863
Beneficial interest in perpetual trust	154,727	176,938
Security deposits	20,621	20,621
Prepaid expenses	15,344	13,649
Property and equipment, net	706	2,248
Total assets	$ 6,166,873	$ 5,538,063
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 26,166	$ 20,691
Grants payable	1,300,000	551,418
Total liabilities	1,326,166	572,109
Net Assets		
Without donor restrictions	2,056,612	2,081,656
With donor restrictions	2,784,095	2,884,298
Total net assets	4,840,707	4,965,954
Total liabilities and net assets	$ 6,166,873	$ 5,538,063

Friends of Israel Disabled Veterans, Inc.

Statements of Activities

Years Ended December 31, 2018 and 2017

	2018				2017			
		Without Donor Restrictions	With Donor Restrictions	Total		Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support								
Contributions		$ 2,273,070	$ 1,500,049	$ 3,773,119		$ 2,352,387	$ 2,650,330	$ 5,002,717
Direct mail		339,374	-	339,374		459,104	-	459,104
Gross revenue from special events	$ 145,123				$ 159,931			
Less direct costs of special events	(70,176)				(101,892)			
Net revenue from special events		74,947	-	74,947		58,039	-	58,039
Change in value in beneficial interest in remainder trusts		-	(178,107)	(178,107)		-	(249,192)	(249,192)
Change in value of perpetual trust		-	(22,211)	(22,211)		-	14,045	14,045
Recovery of bad debt		-	38,000	38,000		-	-	-
Net assets released from restrictions		1,437,934	(1,437,934)	-		3,492,095	(3,492,095)	-
Total revenues and other support		4,125,325	(100,203)	4,025,122		6,361,625	(1,076,912)	5,284,713
Expenses								
Program services								
Facilities and special programs		3,375,868	-	3,375,868		4,571,193	-	4,571,193
Supporting services								
Management and general		201,509	-	201,509		207,344	-	207,344
Fund raising		586,408	-	586,408		584,198	-	584,198
Total supporting services		787,917	-	787,917		791,542	-	791,542
Total expenses		4,163,785	-	4,163,785		5,362,735	-	5,362,735
Change in Net Assets Before Investment Income		(38,460)	(100,203)	(138,663)		998,890	(1,076,912)	(78,022)
Investment income		13,416	-	13,416		14,939	-	14,939
Change in Net Assets		(25,044)	(100,203)	(125,247)		1,013,829	(1,076,912)	(63,083)
Net Assets, Beginning of Year		2,081,656	2,884,298	4,965,954		1,067,827	3,961,210	5,029,037
Net Assets, End of Year		$ 2,056,612	$ 2,784,095	$ 4,840,707		$ 2,081,656	$ 2,884,298	$ 4,965,954

Friends of Israel Disabled Veterans, Inc.

Statements of Functional Expenses

Years Ended December 31, 2018 and 2017

	2018						2017					
	Program Services	Supporting Services					Program Services	Supporting Services				
	Facilities and Special Programs	Management and General	Fund Raising	Total Supporting Services	Direct Cost of Special Events	Total	Facilities and Special Programs	Management and General	Fund Raising	Total Supporting Services	Direct Cost of Special Events	Total
Transmissions to Israel-Zahal Disabled Veterans' Organization	$ 3,375,868	$ -	$ -	$ -	$ -	$ 3,375,868	$ 4,571,193	$ -	$ -	$ -	$ -	$ 4,571,193
Salaries	-	97,615	227,769	325,384	-	325,384	-	109,630	232,964	342,594	-	342,594
Payroll taxes and employee benefits	-	17,383	40,560	57,943	-	57,943	-	17,664	37,535	55,199	-	55,199
Professional fees	-	26,156	61,030	87,186	-	87,186	-	24,585	52,243	76,828	-	76,828
Insurance	-	627	1,462	2,089	-	2,089	-	662	1,408	2,070	-	2,070
Data processing	-	11,845	27,638	39,483	-	39,483	-	1,970	30,556	32,526	-	32,526
Direct mail	-	-	98,140	98,140	-	98,140	-	-	95,884	95,884	-	95,884
Occupancy	-	22,465	52,418	74,883	-	74,883	-	24,429	51,912	76,341	-	76,341
Telephone and online services	-	2,096	4,891	6,987	-	6,987	-	2,093	4,447	6,540	-	6,540
Office supplies	-	20,787	48,502	69,289	-	69,289	-	21,475	45,633	67,108	-	67,108
Postage, printing and publications	-	1,560	3,641	5,201	-	5,201	-	3,654	7,764	11,418	-	11,418
Advertising	-	-	5,927	5,927	-	5,927	-	-	3,653	3,653	-	3,653
Travel	-	-	12,156	12,156	-	12,156	-	-	17,690	17,690	-	17,690
Catering, entertainment and awards	-	-		-	70,176	70,176	-	-	-	-	101,892	101,892
Depreciation	-	463	1,078	1,541	-	1,541	-	597	1,268	1,865		1,865
Miscellaneous	-	512	1,196	1,708	-	1,708	-	585	1,241	1,826	-	1,826
Total expenses	3,375,868	201,509	586,408	787,917	70,176	4,233,961	4,571,193	207,344	584,198	791,542	101,892	5,464,627
Less direct costs of special events deducted from revenue on the statement of activities	-	-	-	-	(70,176)	(70,176)	-	-	-	-	(101,892)	(101,892)
Total expenses reported by function on the statement of activities	$ 3,375,868	$ 201,509	$ 586,408	$ 787,917	$ -	$ 4,163,785	$ 4,571,193	$ 207,344	$ 584,198	$ 791,542	$ -	$ 5,362,735

Friends of Israel Disabled Veterans, Inc.

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ (125,247)	$ (63,083)
Items not requiring (providing) operating cash flows		
Depreciation and amortization	1,541	1,865
Realized and unrealized gain on investments	(5,552)	(8,119)
Change in value in beneficial interest in remainder trust	178,107	249,192
Change in value of perpetual trust	22,211	(14,045)
Changes in		
Contributions receivable	(460,850)	(415,069)
Prepaid expenses	(1,695)	20,610
Accounts payable and accrued expenses	5,475	(10,375)
Grants payable	748,582	(98,582)
Net cash provided by (used in) operating activities	362,572	(337,606)
Investing Activities		
Purchase of investments	(1,273)	(22,326)
Proceeds from sales of investments	2,697	-
Purchase of property and equipment	-	(1,883)
Net cash provided by (used in) investing activities	1,424	(24,209)
Net Change in Cash and Cash Equivalents	363,996	(361,815)
Cash and Cash Equivalents, Beginning of Year	2,106,761	2,468,576
Cash and Cash Equivalents, End of Year	$ 2,470,757	$ 2,106,761

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Zahal Disabled Veterans Organization (ZDVO) was founded to represent, lobby for and rehabilitate the quadriplegic, paraplegic, blind, burned, amputee and other disabled Israeli veterans. To facilitate their rehabilitation, four Beit Halochem Centers (the Centers) were built in Tel Aviv, Haifa, Jerusalem and Beer Sheva and a rest and recreational facility in Nahariya. The campaign for the fifth center in Ashdod started in 2015. With the tireless help of Friends of Israel Disabled Veterans, Inc. the funds were collected and submitted during 2017 which allowed the construction to begin April 2018. 6,500 veterans and their families will benefit from a center of their own. Friends of Israel Disabled Veterans, Inc. is the official U.S. tax-exempt representative of ZDVO. Its major mission is to bring awareness of and raise funds for these Centers and the veterans they serve.

The Centers are dedicated to providing comprehensive treatment and services. Limited by serious handicaps, many disabled find it difficult to re-establish a daily regimen so necessary to physical and mental well-being. Providing the means to succeed is Beit Halochem's top priority. The veterans receive individualized physical and hydrotherapy, psychological counseling, sports, vocational and academic training. The Centers also provide programs and activities for the entire family, bringing together parents and children in an environment of "normalcy" and warmth.

Academic scholarships give the disabled veterans the opportunity to go to college, either to continue what they were learning before being disabled, or new fields, as their disabilities often prevent them from pursuing their original goals.

The Centers also provide state-of-the-art sports training and sports scholarships. Some of the members progress so well that they are given specialized training in order to compete in the Paralympics and other games specifically geared to disabled athletes around the world. The Centers' veterans have won gold medals at many of these events. Becoming a successful athlete gives the disabled veteran strength of mind and spirit, enabling him or her to overcome the painful obstacles of the disability.

The Centers enable these men and women to regain control of their lives, with self-confidence and dignity, in an atmosphere of love, encouragement and deep appreciation for their tremendous sacrifice.

ZDVO took upon itself to care for a population of civilians that found themselves standing on the front line and being injured side by side with soldiers during terror attacks. Today civilian victims of terror can become equal members of one of the four Beit Halochem Centers and enjoy Beit Halochem Centers and benefit from their services.

Friends of Israel Disabled Veterans, Inc. (Friends) was incorporated in 1987 as a nonprofit organization.

The Friends website is available for more information about individual disabled veterans, current events at Beit Halochem in Israel and in the U.S. and donation opportunities.

Friends' primary purpose is to obtain contributions to fund facilities and special programs for disabled Israeli veterans in Israel.

Friends is funded primarily by contributions.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and change in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Friends considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of money market accounts with certificates of deposit.

At December 31, 2018 Friends' cash accounts exceeded federally insured limits by approximately $2,180,000.

Investments

Investments are recorded at fair value. Friends invests in various investment securities. Investment securities are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could materially affect Friends' financial statements.

Contributions Receivable

Unconditional promises to give 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

Friends determines whether an allowance for uncollectibles should be provided for its receivables. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent receipts and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. No allowance for doubtful accounts was deemed necessary as of December 31, 2018 or 2017.

Beneficial Interest in Remainder Trust

The fair value of the beneficial interest is estimated by discounting the estimated future cash flows using a risk-adjusted rate.

Beneficial Interest in Perpetual Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Property and Equipment

Property and equipment acquisitions are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

	Estimated Useful Lives
Computer and equipment	3 years
Equipment, furniture and fixtures	3 years
Leasehold improvements	5 years

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contribution

Contributions are provided to Friends either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
Conditional gifts, with or without restriction	
Gifts that depend on Friends overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, *i.e.*, the donor imposed barrier is met
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Transmissions to Israel-Zahal Disabled Veterans' Fund

Friends grants funds to ZDVO for different programs. Grants are recorded when approved by the Board of Directors. Funds approved for transmission are recorded as grants payable.

Advertising

Advertising costs are expensed in the year they are incurred.

Leases

Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Operating lease payments are charged to equipment and auto leases expense. Operating lease expense is recorded on the straight-line basis over the life of the lease, unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property, in which case that basis shall be used. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense. In 2018 and 2017, all leases were classified as operating leases.

Income Taxes

Friends is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, Friends is subject to federal income tax on any unrelated business taxable income. Friends files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the separate statements of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general, and fundraising categories based on hours worked, square footage of space used, and other methods.

Note 2: Investments and Fair Value Measurements

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018, and December 31, 2017:

		2018		
		Fair Value Measurements at Report Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
General				
Equities				
U.S. equities	$ 180,200	$ 180,200	$ -	$ -
Total equities	180,200	180,200	-	-
State of Israel bonds	15,000	-	15,000	-
Fixed-income securities				
Asset backed securities	15,935	-	15,935	-
Municipal bonds	25	-	25	-
Total investments reported on the fair value hierarchy	211,160	180,200	30,960	-
Cash and cash equivalents (held at cost)	97,188	-	-	-
Total investments	$ 308,348	$ 180,200	$ 30,960	$ -
Beneficial interest in trust				
Remainder trust	-	-	-	2,307,756
Perpetual trust	-	-	-	154,727
Total assets	$ -	$ -	$ -	$ 2,462,483

		2017		
		Fair Value Measurements at Report Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
General				
Equities				
U.S. equities	$ 162,127	$ 162,127	$ -	$ -
Total equities	162,127	162,127	-	-
State of Israel bonds	30,180	-	30,180	-
Fixed-income securities				
Government National Mortgage Association	19,693	-	19,693	-
Total investments reported on the fair value hierarchy	212,000	162,127	49,873	-
Cash and cash equivalents (held at cost)	92,219	-	-	-
Total investments	$ 304,219	$ 162,127	$ 49,873	$ -
Beneficial interest in trust				
Remainder trust	-	-	-	2,485,863
Perpetual trust	-	-	-	176,938
Total assets	$ -	$ -	$ -	$ 2,662,801

Following is a description of the valuation methodology and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2018, and December 31, 2017.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 3: Beneficial Interest in Trusts

A. Friends has a beneficial interest in a trust agreement established by Mr. and Mrs. Leonard Smith of Beverly Hills, California on November 24, 1995. The trust agreement provides that 8% of the net fair market value of the trust assets shall be paid semiannually to Mr. and Mrs. Leonard Smith during their lifetimes, in each taxable year. Upon the death of Mr. and Mrs. Smith, the principal of the trust would be remitted to Friends. The value of the trust at the present value of estimated future cash flows at December 31, 2018 and 2017 is $0. The trust uses a 6% discount rate. As of December 31, 2018 and 2017, the trust fund assets are $1 and $6,155, respectively.

B. In June 2011, Friends was bequeathed a 25% interest in the residual assets of the Chai Trust (the Trust). The Trust provides for annual fixed distributions for a period of 10 years to other named beneficiaries, as well as annual distributions to Friends. At the conclusion of the ten-year period, the trust will be liquidated and any residual assets distributed to the beneficiaries. Friends received distributions of $325,000 in 2018 and $361,000 in 2017. As of December 31, 2018 and 2017, the value of Friends' interest in the trust is based on the present value of estimated future cash flows, valued by the trustee to be worth approximately $2,307,756 and $2,485,863, respectively.

Anticipated future distributions, recorded at present value using a discount rate of 5% as of December 31, 2018 are as follows:

2018	$ 374,000
2019	203,000
2020	467,000
2021	211,000
2022	215,000
Thereafter	1,380,000
	2,850,000
Less present value discount	(542,244)
Total	$ 2,307,756

The present value discount was $542,244 at December 31, 2018 and $651,137 at December 31, 2017.

C. In 2014, Friends was bequeathed a 9.1% interest in the Kamaiko Charitable Endowment Fund 2, a perpetual trust. The Trust provides for annual distributions of 5% of the assets of the trust in perpetuity. The fair value of Friends' proportionate share of the Trust at December 31, 2018 and 2017 was $154,727 and $176,938, respectively.

Note 4: Property and Equipment

	2018	2017
Computer and equipment	$ 5,332	$ 5,332
Furniture and fixtures	3,864	3,864
Leasehold improvements	16,990	16,990
	26,186	26,186
Less accumulated depreciation and amortization	(25,480)	(23,938)
Net fixed assets	$ 706	$ 2,248

Note 5: Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	2018	2017
Program for paralyzed veterans	$ 38,200	$ 189,534
Showers at Beit Halochem Jerusalem	31,963	31,963
Time restrictions	2,559,205	2,485,863
Kamaiko perpetual trust	154,727	176,938
	$ 2,784,095	$ 2,884,298

Net assets with donor restrictions were released from restrictions for the following:

	2018	2017
Time restrictions	$ 700,634	$ -
Showers at Beit Halochem Jerusalem	-	1,000,000
Program for paralyzed veterans	737,300	2,492,095
	$ 1,437,934	$ 3,492,095

Note 6: Zahal Disabled Veterans' Organization

During 2018 and 2017, Friends granted the sum of $3,375,868 and $4,571,193, respectively, to Zahal Disabled Veterans' Fund of ZDVO which included funding for building the new centers in Ashdod and Beer-Sheva, programs for severely wounded, young disabled, sports, cultural and educational activities, equipment and academic and sports scholarships.

Note 7: Occupancy Costs

Friends leases space for its operations. The lease expires on April 30, 2022. The lease expense, including charges for Friends' proportional share of the real estate taxes and utilities, was $74,833 in 2018 and $76,341 in 2017.

Minimum lease payments are as follows:

2019	$ 72,988
2020	74,664
2021	76,900
2022	25,884
	$ 250,436

Note 8: Pension

Friends has a defined contribution 401(k) plan which covers substantially all employees. All participating eligible employees receive a matching of employees' contributions up to a maximum 3% not to exceed IRS guidelines. The expense for the year ended December 31, 2018 and 2017 was $7,631 and $8,069, respectively.

Note 9: Liquidity and Availability

Friends' financial assets available within one year of the balance sheet date for general expenditures as of December 31, 2018 and December 31, 2017 are:

	2018
Financial assets at year end	
Cash and cash equivalents	$ 2,470,757
Investments	308,348
Contributions receivable, due within one year	888,614
Beneficial interest in remainder trust	2,307,756
Beneficial interest in perpetual trust	154,727
Total financial assets	6,130,202
Less restrictions	
Beneficial interest in remainder trust	(1,933,756)
Beneficial interest in perpetual trust	(154,727)
Less other net assets with donor restrictions	(695,612)
Financial assets available to meet cash needs for general expenditures within one year	$ 3,346,107

Friends manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Friends has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days' operating expenses. Friends has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets to meet 30 to 45 days of expected expenditures. To achieve these targets, Friends forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the years ended December 31, 2018 and 2017, the level of liquidity and reserves was managed within the policy requirements.

Friends expects to receive a $374,000 and $325,000 payment off of the beneficial interest in remainder trust in 2019 and 2018, respectively. Thus those amounts are not included in the restrictions as of December 31, 2018 and December 31, 2017, respectively.

Note 10: Subsequent Events

Subsequent events have been evaluated through July 25, 2019, which is the date the financial statements were available to be issued.

Note 11: Change in Accounting Principle

In 2018, Friends adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statements of Financial Position

- The statements of financial position distinguish between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statements of Activities and Functional Expenses

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.
- Expenses are reported by both nature and function in one location.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.
- Amounts and purposes of governing board designations and appropriations as of the end of the period are disclosed. Friends does not have any governing board designations in 2018 and 2017.

This change had no impact on previously reported total change in net assets.

Note 12: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities, and any interim periods within annual reporting periods that begin after December 15, 2019. Friends is in the process of evaluating the impact the amendment will have on the financial statements.

FASB Releases Not-for-Profit Accounting Standard for Grants and Contributions

ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance. For non-public entities, the standard will be effective for reporting periods beginning on or after December 15, 2018.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. Friends is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have an impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.