

**AMIT CHILDREN, INC.  
AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**DECEMBER 31, 2010**

**AMIT CHILDREN, INC. AND AFFILIATE**

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## Independent Auditor's Report

### Board of Directors AMIT Children, Inc.

We have audited the accompanying consolidated statement of financial position of AMIT Children, Inc. and Affiliate as of December 31, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of AMIT's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of AMIT Women, the Israel affiliate, which statements reflect 77% of total assets and 92% of total revenues, gains and other support for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for AMIT Children, Inc. and Affiliate, is based solely on the reports of the other auditors. The prior-year summarized comparative information has been derived from AMIT Children, Inc. and Affiliate's December 31, 2009 financial statements and, in our report dated July 23, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AMIT Children, Inc. and Affiliate's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AMIT Children, Inc. and Affiliate as of December 31, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information in the Schedules is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken at a whole.

*Loeb & Troper LLP*

September 8, 2011

## AMIT CHILDREN, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 16,261,294	\$ 14,669,705
Investments (Notes 2 and 6)	11,711,459	10,820,701
Certificates of deposit	427,565	834,376
Contributions receivable (Note 3)	519,992	394,175
Receivables - net (Note 4)	5,605,916	3,498,421
Prepaid expenses and other assets	1,589,747	1,226,507
Fixed assets - net (Note 5)	<u>25,721,185</u>	<u>24,355,876</u>
Total assets	<u>\$ 61,837,158</u>	<u>\$ 55,799,761</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 16,600,209	\$ 13,092,189
Deferred tuition	1,519,155	1,232,368
Loans payable (Note 9)	1,765,634	1,909,474
Accrued severance, vacation and sick payable	2,196,338	1,075,789
Gift Annuity and charitable remainder trust obligations (Note 6)	<u>933,958</u>	<u>806,664</u>
Total liabilities	<u>23,015,294</u>	<u>18,116,484</u>
<b>Net assets (Exhibit B)</b>		
Unrestricted	37,170,666	36,334,106
Temporarily restricted (Note 11)	1,127,818	983,868
Permanently restricted (Note 11)	<u>523,380</u>	<u>365,303</u>
Total net assets	<u>38,821,864</u>	<u>37,683,277</u>
Total liabilities and net assets	<u>\$ 61,837,158</u>	<u>\$ 55,799,761</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMIT CHILDREN, INC. AND AFFILIATE

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010  
(With Summarized Financial Information  
for the Year Ended December 31, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
Revenues, gains, losses and other support					
Tuition fees and government support	\$ 68,162,032			\$ 68,162,032	\$ 60,977,863
Other program service fees	8,592,246			8,592,246	7,395,420
Contributions	5,697,769	\$ 451,575	\$ 100,000	6,249,344 *	4,974,561 *
Special events income	\$ 1,705,799				
Direct costs of special events	(792,779)				
Scholarships and family funds in Israel	913,020			913,020	553,073
Legacies and bequests	227,743			227,743	385,186
Membership dues	1,381,756			1,381,756	2,441,594
In-kind contributions	25,436			25,436	44,758
Investment income (Note 2)	20,000			20,000	31,000
Other revenue	775,250		1,604	776,854	582,248
Net assets released from restrictions (Note 11)	1,411,954			1,411,954	1,037,174
	329,091	(329,091)			
Total revenues, gains and other support	87,536,297	122,484	101,604	87,760,385	78,422,877
Expenses (Exhibit C)					
Program services					
Israel projects	81,530,728			81,530,728	69,692,012
Public information and education	785,917			785,917	824,490
AMIT Children magazine	304,177			304,177	330,924
Total program expenses	82,620,822			82,620,822	70,847,426
Supporting services					
Management and general	4,505,528			4,505,528	4,056,310
Fund raising	1,009,693			1,009,693	1,000,464
Total supporting services	5,515,221			5,515,221	5,056,774
Total expenses	88,136,043			88,136,043	75,904,200

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## CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010  
(With Summarized Financial Information  
for the Year Ended December 31, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
Change in net assets before other changes	\$ (599,746)	\$ 122,484	\$ 101,604	\$ (375,658)	\$ 2,518,677
Actuarial change in annuity obligations	(188,665)			(188,665)	(144,198)
Gain on foreign currency translation	1,624,971	21,466	56,473	1,702,910	41,321
Gain on sale of land					302,036
Change in net assets (Exhibit D)	836,560	143,950	158,077	1,138,587	2,717,836
Net assets - beginning of year, as previously stated					34,362,747
Restatement (Note 10)					602,694
Net assets - beginning of year, restated	36,334,106	983,868	365,303	37,683,277	34,965,441
Net asset - end of year (Exhibit A)	\$ 37,170,666	\$ 1,127,818	\$ 523,380	\$ 38,821,864	\$ 37,683,277
			2010	2009	
* Total contributions per financial statements			\$ 6,249,344	\$ 4,974,561	
Payment of contributions receivable			200,000	200,000	
Change in discount of contribution receivable			(18,683)	(5,656)	
Total contributions per internal reports			\$ 6,430,661	\$ 5,168,905	

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2010  
(With Summarized Financial Information  
for the Year Ended December 31, 2009)

	Program Services				Supporting Services			Total	
	Israel Projects	Public Information and Education	AMIT Children Magazine	Total	Management and General	Fund Raising	Direct Cost of Special Events	2010	2009
Salaries	\$ 45,511,220	\$ 397,599	\$ 136,567	\$ 46,045,386	\$ 2,291,634	\$ 542,457		\$ 48,879,477	\$ 43,149,021
Payroll taxes and employee benefits	11,947,289	57,400	19,715	12,024,404	521,336	114,415		12,660,155	10,522,973
Total salaries and related expenses	57,458,509	454,999	156,282	58,069,790	2,812,970	656,872		61,539,632	53,671,994
School cultural and educational materials	7,911,965			7,911,965				7,911,965	6,655,298
School renovations and maintenance	2,457,365			2,457,365				2,457,365	2,066,968
Teaching and expendable materials	378,395			378,395				378,395	579,127
Food, clothing and medicine	3,042,420			3,042,420	24,359			3,066,779	2,431,096
Awards and certificates	9,323			9,323		5,476	\$ 1,734	16,533	23,641
Catering							667,899	667,899	326,909
Cleaning and rubbish removal	1,471,558	3,298	1,133	1,475,989	4,015	2,524		1,482,528	1,192,810
Computer services	340,893	35,311		376,204	107,760	9,602		493,566	358,980
Dues and subscriptions	6,028	5,899	2,026	13,953	7,182	4,514		25,649	23,214
Entertainment							22,320	22,320	
Equipment rental and repairs	7,756	7,591	2,607	17,954	72,672	9,223		99,849	56,559
Fees and taxes	19,144	3,333	1,145	23,622	114,602	2,550		140,774	141,920
Insurance	191,039	8,742	3,003	202,784	32,955	7,419		243,158	267,758
Occupancy	1,969,742	61,716	21,199	2,052,657	120,928	59,582		2,233,167	2,162,498
Office supplies	287,472	6,903		294,375	41,955	7,808		344,138	23,532
Photography	252	252		504	281	184	20,562	21,531	21,240
Postage	28,710	28,766	24,163	81,639	10,118	24,987	14,172	130,916	216,396
Printing	278,804	37,418	55,553	371,775	8,020	35,133	35,918	450,846	176,710
Professional fees	1,090,093		28,611	1,118,704	267,463	6,105		1,392,272	1,113,256
Public relations and advertising	196,706	88,577	3,387	288,670	114,598	70,423		473,691	247,645
Security	636,083	1,128	387	637,598	3,782	863	743	642,986	554,584
Telephone	380,055	11,247	3,863	395,165	112,954	21,665		529,784	481,794
Travel and transportation	827,739	8,842	818	837,399	189,990	35,760		1,063,149	863,063
Investment management fees	14,282			14,282	14,491			28,773	26,294
Interest expense	32,620			32,620				32,620	48,601
Miscellaneous	264,039	21,895		285,934	24,238	49,003	29,431	388,606	295,798
Depreciation	2,244,018			2,244,018	434,686			2,678,704	2,320,739
Total expenses	81,545,010	785,917	304,177	82,635,104	4,520,019	1,009,693	792,779	88,957,595	76,348,424
Less expenses deducted directly from revenue on the statement of activities									
Direct cost of special events							(792,779)	(792,779)	(417,930)
Investment management fees	(14,282)			(14,282)	(14,491)			(28,773)	(26,294)
Total expenses (Exhibit B)	\$ 81,530,728	\$ 785,917	\$ 304,177	\$ 82,620,822	\$ 4,505,528	\$ 1,009,693	\$ -	\$ 88,136,043	\$ 75,904,200

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**AMIT CHILDREN, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2010**

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 1,138,587
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	2,678,704
Actuarial change in annuity obligation	188,665
Contribution income from split interest agreements	(84,835)
Contributions restricted for endowments	(100,000)
Foreign currency exchange gain on loan	(108,344)
Net realized and unrealized gain on investments	(411,582)
Increase in assets	
Contributions receivable	(125,817)
Receivables	(2,107,495)
Prepaid expenses and other assets	(363,240)
Increase in liabilities	
Accounts payable and accrued expenses	3,508,020
Deferred tuition	286,787
Accrued severance, vacation and sick payable	1,120,549
Net cash provided by operating activities	<u>5,619,999</u>
Cash flows from investing activities	
Acquisition of fixed assets	(4,044,013)
Purchase of securities	(1,137,482)
Redemption of certificates of deposit	406,811
Proceeds from sale of securities	658,306
Net cash used by investing activities	<u>(4,116,378)</u>
Cash flows from financing activities	
Proceeds from contribution for endowment	100,000
Proceeds from investments subject to annuity obligation	209,891
Proceeds from investment income subject to annuity agreement	11,853
Payment of annuity obligation	(198,280)
Repayment of loans	(35,496)
Net cash provided by financing activities	<u>87,968</u>
Net change in cash and cash equivalents	1,591,589
Cash and cash equivalents - beginning of year	<u>14,669,705</u>
Cash and cash equivalents - end of year	<u>\$ 16,261,294</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 32,620</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMIT CHILDREN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

**NOTE 1 - NATURE OF ORGANIZATION**

The financial statements include the activities of AMIT Children, Inc. ("AMIT USA") and AMIT Israel ("AMIT Israel"), collectively referred to as "AMIT". In February 2009, AMIT USA legally changed its name from AMIT Women, Inc. to AMIT Children, Inc.

AMIT USA is a 501(c)(3) not-for-profit organization which is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code.

AMIT Israel is registered as an Amuta (a society) under the Laws of Societies in Israel and is a "public institution" as defined in the Income Tax Ordinance and is, therefore, exempt from income tax. The Board of Directors of AMIT Israel is appointed by the Board of Directors of AMIT USA.

In addition, AMIT Israel is also recognized by the Income Tax Authority for purposes of receiving donations under Article No. 46 of the Income Tax Ordinance.

AMIT enables Israel's youth to realize their potential and strengthen Israeli society by educating and nurturing children from diverse backgrounds within a framework of academic excellence, religious values and Zionist ideals. Founded in 1925, AMIT operates over 70 schools, youth villages, surrogate family residences and other programs, constituting Israel's only government-recognized network of religious Jewish education incorporating academic and technological studies. AMIT encompasses an international membership spanning North America and Israel, with additional supporters in Great Britain and France. AMIT USA operates chapters throughout the USA and raises funds to support the activities of AMIT. AMIT Israel operates the projects in Israel.

AMIT Israel's primary sources of revenues are government grants, tuition and contributions. AMIT USA's primary source of revenue is contributions.

Substantially all of the funds raised by AMIT USA and its various chapters are used to fund the projects in Israel.

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

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

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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

*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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Consolidation* - All significant intercompany balances and transactions have been eliminated in the combination.

*Chapter activities* - Chapter activities are reflected in these financial statements.

*Cash and cash equivalents* - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities when acquired of three months or less.

*Certificates of deposit* - Certificates of deposit have maturity dates of more than three months and are considered investments for purposes of cash flow reporting.

*Investments* - Investments in securities are recorded at fair value. AMIT invests in various investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain 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 the amounts reported in the statement of activities. Investment expenses are netted against investment income.

*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. No allowance was deemed necessary on these receivables.

*Receivables and allowance for doubtful accounts* - AMIT records receivables based on established rates or contracts for service provided. Bad debt expense is charged if the receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Interest is not recorded or accrued on outstanding receivables.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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

**Fixed assets** - Fixed assets are stated at cost. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. AMIT reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Items of \$1,000 or more and an estimated useful life of greater than one year are capitalized at cost.

**Deferred tuition** - Tuition income is recognized at the net realizable amount when earned. The portion of tuition charges billed to the students but not yet earned is reflected as deferred revenue. Deferred revenue is earned within one year.

**In-kind contributions** - In-kind contributions are recorded at fair value at the date of donation.

**Contributions** - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received 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 as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

**Bequests** - Bequest income is recorded at the time AMIT has established the right to such bequest and the proceeds are measurable.

**Grants** - Grants are recorded as expenses in the year in which they are awarded.

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

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

**Permanently restricted net assets** - Permanently restricted net assets are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and that only the income from such investments be utilized. Such income has not been specifically restricted by the donor and is available for unrestricted use.

**Advertising expense** - Advertising expense is expensed when incurred.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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

*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.

*Foreign currency translation* - The assets and liabilities of AMIT Israel, which are stated in New Israeli Shekels, are translated to U.S. dollars using the exchange rate in effect at the date of the statement of financial position. Revenue, expenses, gains and losses are translated using the average exchange rate for the year. Gains or losses on foreign currency translation are recognized in the accompanying consolidated financial statements.

*Volunteers* - A number of unpaid volunteers has made contribution of their time to develop AMIT's programs. The value of this contributed time is not reflected because such services either do not require specialized skills or would not typically be purchased had they not been provided by donation.

*Fair Value Measurements and Disclosures*

*Fair Value Measurements and Disclosures* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AMIT has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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

*Fair Value Measurements and Disclosures (continued)*

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010.

*Money market funds* - Valued at the closing price reported on the active market on which the underlying money market instruments and other short-term debt securities are traded.

*Municipal securities, corporate bonds, government bonds and equities* - Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds* - Valued at the net assets value (NAV) of shares held at year end.

*State of Israel bonds* - Recorded at fair value which approximates cost. Fair value is determined by using observed pricing for similar instruments.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while AMIT believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash and money market funds	\$ 921,224	\$ -	\$ 921,224
Corporate bonds	800,309	-	800,309
Government bonds			
Domestic	360,407	-	360,407
Foreign	7,871,549	-	7,871,549
Equities			
Common stock - domestic	551,797	-	551,797
Preferred stock - domestic	147,588	-	147,588
Mutual funds - equity	980,474	-	980,474
State of Israel bonds	-	78,111	78,111
	<u>\$ 11,633,348</u>	<u>\$ 78,111</u>	<u>\$ 11,711,459</u>

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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

*Fair Value Measurements and Disclosures (continued)*

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2009:

	Level 1	Level 2	Total
Cash and money market funds	\$ 913,024	\$ -	\$ 913,024
Municipal securities	159,247	-	159,247
Corporate bonds	629,310	-	629,310
Government bonds			
Domestic	414,608	-	414,608
Foreign	6,922,368	-	6,922,368
Equities			
Common stock - domestic	1,332,118	-	1,332,118
Preferred stock - domestic	71,925	-	71,925
Mutual funds	260,789	-	260,789
State of Israel bonds	-	117,312	117,312
	<u>\$ 10,703,389</u>	<u>\$ 117,312</u>	<u>\$ 10,820,701</u>

Investments are held for charitable gift annuities of \$1,345,989 in 2010 and \$1,138,306 in 2009, and charitable remainder trusts of \$272,435 in 2010 and \$255,587 in 2009.

Investment earnings as shown in the statement of activities consisted of the following:

	2010	2009
Interest and dividends	\$ 394,045	\$ 227,272
Net realized and unrealized gain on investments	411,582	381,270
Investment management fees	<u>(28,773)</u>	<u>(26,294)</u>
	<u>\$ 776,854</u>	<u>\$ 582,248</u>

*Uncertainty in income taxes* - AMIT adopted the provision pertaining to uncertain tax positions and have determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2007 and subsequent remain subject to examination by applicable taxing authorities.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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

*Prior-year amounts* - Certain prior year amounts related to the classification of investments and the functional classification of expenses have been reclassified to conform with the current year presentation.

*Subsequent events* - Subsequent events have been evaluated through September 8, 2011, which is the date the financial statements were available to be issued.

## NOTE 3 - CONTRIBUTIONS RECEIVABLE

All unconditional contributions receivable have been recorded at fair value. Those receivables that are due in more than one year have been discounted to their present value using an estimated discount rate of 3%. The receivables are due as follows:

2011	\$ 344,500
2012	25,000
2013	25,000
2014	25,000
2015	25,000
Thereafter	100,000
Less discount to present value	<u>(24,508)</u>
Total	\$ <u>519,992</u>

## NOTE 4 - RECEIVABLES

Receivables are collectible within one year, and consist of the following:

	<u>2010</u>	<u>2009</u>
Due from Israeli government ministries and municipalities	\$ 3,138,028	\$ 1,634,474
Other receivables	1,136,902	522,894
Accounts receivable (due from the sale of assets)	<u>1,330,986</u>	<u>1,341,053</u>
Total accounts receivable- net	\$ <u>5,605,916*</u>	\$ <u>3,498,421</u>

\* These amounts are net of allowance for doubtful accounts of \$317,183

-continued-

## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

## NOTE 5 - FIXED ASSETS

	<u>2010</u>	<u>2009</u>	<u>Estimated Useful Life</u>
Land and buildings in Israel	\$ 28,063,276	\$ 26,948,119	35-50 years
Furniture, fixtures and equipment	5,376,664	6,421,813	5-10 years
Computer hardware and software	3,292,401	5,615,105	5-10 years
Motor vehicles	33,239	31,053	5-10 years
Torahs	48,000	48,000	
Construction in progress	<u>14,775,211</u>	<u>12,062,632</u>	
	51,588,791	51,126,722	
Less accumulated depreciation	<u>(25,867,606)</u>	<u>(26,770,846)</u>	
	<u>\$ 25,721,185</u>	<u>\$ 24,355,876</u>	

Certain assets acquired by AMIT Israel prior to 1997 have not been recorded in the financial statements of AMIT Israel as they were not required to be recorded at that time under Israeli accounting principles. The assets acquired prior to that time were acquired by AMIT USA and are recorded in the financial statements of AMIT USA. Management has determined that the impact of not recording assets acquired prior to 1997 by AMIT Israel is not significant to these financial statements.

To secure long-term loans received from Israeli banks, a fixed lien was placed on the land that serves as the head office of AMIT Israel. In addition, a charge was placed on the rights of AMIT Israel to receive monies from a revenue producing asset.

## NOTE 6 - SPLIT-INTEREST AGREEMENTS

AMIT's split-interest agreements with donors consist of charitable remainder trusts (the "CRTs") and charitable gift annuities.

AMIT is the beneficiary of several CRTs in which an officer of AMIT serves as the trustee. Under the CRTs, AMIT must make periodic payments to the individuals who established the CRTs at varying interest rates from 5.5% to 12% per annum of the original principal amounts of each CRT. The carrying amount of the CRTs represents the current value of the underlying assets, at market.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

**NOTE 6 - SPLIT-INTEREST AGREEMENTS (continued)**

AMIT is also the beneficiary of various gift annuities whereby the donors have contributed assets to the organization in exchange for the right to receive a fixed dollar return during their lifetimes.

At the time of the gift, and adjusted annually, AMIT records contribution revenue and a liability for amounts payable to the beneficiaries using an actuarial calculation based on estimated mortality rates and other assumptions that could change in the near term. Gains and losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in unrestricted net assets in the statement of activities. The discount rate used in calculating the present value liability associated with split-interest agreements ranged from 4% to 6%.

The fair market value of the investment of the annuities totaled \$1,618,424 and \$1,393,893 at December 31, 2010 and 2009, respectively.

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

- A. In connection with a sales agreement for the sale of an AMIT Israel-owned plot of land at the "Ganim" junction in Petach Tikva, a demand was received from the local council for the payment of betterment tax in an amount of approximately \$2,500,000. This demand, in the opinion of management, based on its legal counsel, is clearly unreasonable. AMIT Israel appealed the betterment tax assessment to the court in respect of the mere imposition of this tax. The court recently issued a decision rejecting the appeal and AMIT Israel appealed the court decision on the grounds that, as a public not-for-profit organization which improved the land which it used to further its public goals, AMIT Israel should be entitled to a full exemption from paying this tax. Concurrently, AMIT Israel presented on its behalf "another assessment" that stipulates that in the event that this appeal is not accepted, the assessment should be considerably lower.

As part of the appeal proceedings in the court, it was agreed to appoint an expert appraiser as an arbitrator. Negotiations are currently being conducted through the offices of the arbitrator in order to reach a compromise agreement. On the basis of the assessment of AMIT Israel's legal counsel, a provision was made in the financial statements should the parties not reach a compromise, leaving the matter to be decided by the court.

The parties recently reached a compromise agreement in the arbitration process, submitting the decision to an expert appraiser, while agreeing that the tax to be levied would be equal to half the amount in the decision of the appraiser.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

## NOTE 7 - COMMITMENTS AND CONTINGENCIES (continued)

- B. AMIT Israel received a payment demand from the Petach Tikva Municipality for a pavement levy in excess of approximately \$845,000. Since the negotiations to reach a compromise were unsuccessful, it seems that AMIT Israel will have to contemplate instituting legal proceedings against the municipality. For this purpose, AMIT Israel obtained the opinion of a professional appraiser and it instructed its legal counsel to prepare a suit against the municipality.
- C. Further to the approval of a zoning change plan instituted by AMIT Israel at the "Ganim" junction in Petach Tikva, a suit was filed in the amount of approximately \$260,000 by the owners of the adjacent property, claiming that the plan caused damage to their plot.

AMIT Israel submitted an opinion of an expert property appraiser whereby there was no decline in the value of the plot of the plaintiffs as a result of the approval of the plan.

The local council rejected the suit and the plaintiff appealed the decision to the appeals committee.

In 2011, the claim was rejected and the provision in respect thereof was erased from the financial statements of AMIT Israel.

- D. A suit was filed against the AMIT Petach Tikva Youth Village in respect of a debt for the payment of water and sewage levies. The current amount of the debt is approximately \$197,000 for the periods 2004 through 2009. Concurrent with the legal proceedings being carried out in court, efforts are being made to reach an out-of-court settlement of the dispute by mutual agreement.
- E. The Ra'anana Municipality sent a rates bill and development levy in an amount of approximately \$3,380,000. AMIT Israel filed an administrative appeal. At this stage, it is difficult to assess the results of this claim.
- F. A number of suits were filed against AMIT Israel in connection with employee-employer relations, damages and other matters.

The financial statements include provisions in connection with the above except when stated otherwise which, in the opinion of management, based on its legal counsel, are adequate to cover the results of these contingencies.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

## NOTE 8 - RENT EXPENSE

AMIT USA leases office space for its New York headquarters and several local chapters under various operating leases through 2019. Total rent expense amounted to \$244,171 and \$214,563 for the years ended December 31, 2010 and 2009, respectively.

The future aggregate minimum noncancelable rental payment, exclusive of required payments for increases in real estate taxes and operating costs, is as follows:

2011	\$ 182,159
2012	175,332
2013	160,240
2014	168,240
2015	176,240
Thereafter	<u>616,840</u>
	\$ <u>1,479,051</u>

## NOTE 9 - LOANS PAYABLE

AMIT Israel has two loans with a financial institution in Israel with final payments due February 2022 and May 2022. Both loans bear interest at 1.69% and 1.67% in 2010 and 2009, respectively, and are secured by a lien on land owned by AMIT Israel. Interest expense for December 31, 2010 and 2009 was \$32,620 and \$48,601, respectively. The outstanding loan balance at December 31, 2010 and 2009 is \$1,765,634 and \$1,909,474, respectively. The loans will be paid as follows:

2011	\$ 155,775
2012	155,775
2013	155,775
2014	155,775
2015	155,775
Thereafter	<u>986,759</u>
	\$ <u>1,765,634</u>

## NOTE 10 - RESTATEMENT

In 2009, a restatement of \$582,694 was recorded to properly reflect outstanding contributions receivable as of January 1, 2009, as well as a Torah purchased for \$20,000 as of January 1, 2009.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

## NOTE 11 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Renovations and expansion in educational institutions in Israel	\$ <u>1,127,818</u>	\$ <u>983,868</u>

Net assets released from restrictions for the years ended December 31, 2010 and 2009 was \$329,091 and \$373,187, respectively, by incurring expenses related to the renovations and expansion in educational institutions in Israel.

Endowments

Permanently restricted net assets at December 31, 2010 consist of:

	<u>AMIT USA</u>	<u>AMIT Israel</u>	<u>Total</u>
Renovations and expansion in educational institutions in Israel	\$ <u>200,000</u>	\$ <u>323,380</u>	\$ <u>523,380</u>

Permanently restricted net assets at December 31, 2009 consist of:

	<u>AMIT USA</u>	<u>AMIT Israel</u>	<u>Total</u>
Renovations and expansion in educational institutions in Israel	\$ <u>100,000</u>	\$ <u>265,303</u>	\$ <u>365,303</u>

The terms of the contributions are for the principal to remain intact in perpetuity. All investment income is available for unrestricted purposes.

Interpretation of Relevant Law

The Board of Directors of AMIT USA follows New York State guidelines under the Uniform Management of Institutional Funds Act (UMIFA). UMIFA provides that the governing board may appropriate for expenditure the uses and purposes for which the endowment fund was established, including how much of the net appreciation, both realized and unrealized, of the fair value of the assets of the endowment to be added over the historical value of the fund that is considered prudent. As of September 17, 2010, New York State adopted New York Prudent Management of Institutional Funds Act (NYPMIFA), which eliminated the requirement of maintaining new endowment funds at their historic dollar value. In addition, it has given the option to older endowment funds to opt "in" or "out" of the new provisions.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

## NOTE 11 - RESTRICTED NET ASSETS (continued)

*Interpretation of Relevant Law (continued)*

Endowment funds held in Israel are not required to follow UMIFA, but follow prudent man principles.

*Return Objectives, Strategies Employed and Spending Policy*

AMIT's endowment investment policy is conservative in nature and is only to invest these funds in cash and cash equivalents, to ensure the corpus of the fund.

Interest earned in relation to the endowment funds of AMIT USA is recorded as unrestricted, since it is spent in the year that it is earned.

*Funds with Deficiencies*

AMIT does not have any funds with deficiencies.

*Changes in Endowment Net Assets for the Years Ended December 31, 2010*

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds - beginning of year		\$ 365,303	\$ 365,303
Add interest and dividends	\$ 16,052	1,604	17,656
Add gain on foreign currency translation		56,473	56,473
Add new contributions		100,000	100,000
Less appropriated for expenditures	<u>(16,052)</u>	<u>          </u>	<u>(16,052)</u>
Endowment funds - end of year	<u>\$ -</u>	<u>\$ 523,380</u>	<u>\$ 523,380</u>

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

## NOTE 11 - RESTRICTED NET ASSETS (continued)

*Changes in Endowment Net Assets for the Years Ended December 31, 2009*

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds - beginning of year		\$ 1,371,664	\$ 1,371,664
Add interest and dividends	\$ 6,245		6,245
Less appropriated for expenditures	(6,245)		(6,245)
Less reclassification*	<u>          </u>	<u>(1,006,361)</u>	<u>(1,006,361)</u>
Endowment funds - end of year	\$ <u>          </u>	\$ <u>365,303</u>	\$ <u>365,303</u>

\* \$1,006,361 was reclassified to unrestricted net assets based upon the donors' request.

## NOTE 12 - CONCENTRATIONS

Financial instruments which potentially subject AMIT to a concentration of credit risk are cash accounts with a major financial institution in excess of FDIC insurance limits.

The majority of AMIT Children, Inc. and Affiliate's revenue comes from tuition and government grants from the State of Israel.

AMIT CHILDREN, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010

	AMIT USA	AMIT ISRAEL	Eliminations	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,499,604	\$ 13,761,690		\$ 16,261,294
Investments	3,112,022	8,599,437		11,711,459
Certificates of deposit	427,565			427,565
Contributions receivable	519,992			519,992
Receivables - net		5,605,916		5,605,916
Prepaid expenses and other assets	75,662	1,514,085		1,589,747
Fixed assets - net	7,566,948	21,195,775	(3,041,538)	25,721,185
Total assets	\$ 14,201,793	\$ 50,676,903	\$ (3,041,538)	\$ 61,837,158
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 227,813	\$ 16,372,396		\$ 16,600,209
Deferred tuition		1,519,155		1,519,155
Loans payable		1,765,634		1,765,634
Accrued severance, vacation and sick payable		2,196,338		2,196,338
Gift Annuity and charitable remainder trust obligations	933,958			933,958
Total liabilities	1,161,771	21,853,523		23,015,294
<b>Net assets</b>				
Unrestricted	11,755,866	28,456,338	(3,041,538)	37,170,666
Temporarily restricted	1,084,156	43,662		1,127,818
Permanently restricted	200,000	323,380		523,380
Total net assets	13,040,022	28,823,380	(3,041,538)	38,821,864
Total liabilities and net assets	\$ 14,201,793	\$ 50,676,903	\$ (3,041,538)	\$ 61,837,158

See independent auditor's report.

## CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

	AMIT USA				AMIT Israel				Eliminations	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		
Revenues, gains and other support										
Tuition fees and government support					\$ 68,162,032			\$ 68,162,032		\$ 68,162,032
Other program service fees					8,592,246			8,592,246		8,592,246
Contributions	\$ 3,865,212	\$ 442,484	\$ 100,000	\$ 4,407,696	* 6,035,027	\$ 9,091		6,044,118	\$ (4,202,470)	6,249,344
Special events income	\$ 1,705,799									
Direct costs of special events	(792,779)									
Scholarships and family funds in Israel	913,020			913,020						913,020
Legacies and bequests	227,743			227,743						227,743
Membership dues	1,381,756			1,381,756						1,381,756
In-kind contributions	25,436			25,436						25,436
Investment income	20,000			20,000						20,000
Other revenue	283,271			283,271	491,979		\$ 1,604	493,583		776,854
Net assets released from restrictions	46,714			46,714	1,365,240			1,365,240		1,411,954
	270,000	(270,000)			59,091	(59,091)				
Total revenues, gains and other support	7,033,152	172,484	100,000	7,305,636	84,705,615	(50,000)	1,604	84,657,219	(4,202,470)	87,760,385
Expenses										
Program services										
Israel projects	5,488,868			5,488,868	80,370,117			80,370,117	(4,328,257)	81,530,728
Public information and education	785,917			785,917						785,917
AMIT Children magazine	304,177			304,177						304,177
Total program expenses	6,578,962			6,578,962	80,370,117			80,370,117	(4,328,257)	82,620,822
Supporting services										
Management and general	846,959			846,959	3,658,569			3,658,569		4,505,528
Fund raising	527,683			527,683	482,010			482,010		1,009,693
Total supporting services	1,374,642			1,374,642	4,140,579			4,140,579		5,515,221
Total expenses	7,953,604			7,953,604	84,510,696			84,510,696	(4,328,257)	88,136,043
Change in net assets before other changes	(920,452)	172,484	100,000	(647,968)	194,919	(50,000)	1,604	146,523	125,787	(375,658)
Actuarial change in annuity obligations	(188,665)			(188,665)						(188,665)
Gain on foreign currency translation					1,624,971	21,466	56,473	1,702,910		1,702,910
Change in net assets	(1,109,117)	172,484	100,000	(836,633)	1,819,890	(28,534)	58,077	1,849,433	125,787	1,138,587
Net assets - beginning of year	12,864,983	911,672	100,000	13,876,655	26,636,448	72,196	265,303	26,973,947	(3,167,325)	37,683,277
Net asset - end of year	\$ 11,755,866	\$ 1,084,156	\$ 200,000	\$ 13,040,022	\$ 28,456,338	\$ 43,662	\$ 323,380	\$ 28,823,380	\$ (3,041,538)	\$ 38,821,864
* Total contributions per financial statements				\$ 4,407,696						
Payment of contribution receivable				200,000						
Change in discount of contributions receivable				(18,683)						
Total contributions per internal reports				\$ 4,589,013						

See independent auditor's report.

## STATEMENT OF FUNCTIONAL EXPENSES - AMIT USA

YEAR ENDED DECEMBER 31, 2010

	Program Services			Total Israel Programming	Supporting Services		Direct Cost of Special Events	Total
	Israel Projects	Public Information and Education	AMIT Children Magazine		Management and General	Fund Raising		
Salaries	\$ 406,242	\$ 397,599	\$ 136,567	\$ 940,408	\$ 484,033	\$ 304,250		\$ 1,728,691
Payroll taxes and employee benefits	58,647	57,400	19,715	135,762	69,878	43,923		249,563
Total salaries and related expenses	464,889	454,999	156,282	1,076,170	553,911	348,173		1,978,254
Grants for Israel projects and programs	4,202,470			4,202,470				4,202,470
Awards and certificates	9,323			9,323		5,476	\$ 1,734	16,533
Catering							667,899	667,899
Cleaning and rubbish removal	3,370	3,298	1,133	7,801	4,015	2,524		14,340
Computer services	13,140	35,311		48,451	14,656	9,602		72,709
Dues and subscriptions	6,028	5,899	2,026	13,953	7,182	4,514		25,649
Equipment rental and repairs	7,756	7,591	2,607	17,954	9,242	5,809		33,005
Entertainment							22,320	22,320
Fees and taxes	19,144	3,333	1,145	23,622	26,282	2,550		52,454
Insurance	8,932	8,742	3,003	20,677	10,643	6,690		38,010
Investment management fees	14,282			14,282	14,491			28,773
Occupancy	63,058	61,716	21,199	145,973	75,133	47,226		268,332
Office supplies	6,903	6,903		13,806	7,700	5,045		26,551
Photography	252	252		504	281	184	20,562	21,531
Postage	28,710	28,766	24,163	81,639	1,444	20,211	14,172	117,466
Printing	41,848	37,418	55,553	134,819	8,020	22,491	35,918	201,248
Professional fees	465		28,611	29,076	76,799	4,700		110,575
Public relations and advertising	106,272	88,577	3,387	198,236		10,688		208,924
Security	1,153	1,128	387	2,668	1,373	863	743	5,647
Telephone	11,491	11,247	3,863	26,601	13,692	8,606		48,899
Travel	8,894	8,842	818	18,554	2,901	6,362		27,817
Miscellaneous	21,852	21,895		43,747	24,238	15,969	29,431	113,385
Depreciation	462,918			462,918	9,447			472,365
Total expenses before depreciation	5,503,150	785,917	304,177	6,593,244	861,450	527,683	792,779	8,775,156
Less expenses deducted directly from revenue on the statement of activities								
Direct cost of special events							(792,779)	(792,779)
Investment management fees	(14,282)			(14,282)	(14,491)			(28,773)
Total expenses	\$ 5,488,868	\$ 785,917	\$ 304,177	\$ 6,578,962	\$ 846,959	\$ 527,683	\$ -	\$ 7,953,604

See independent auditor's report.