

**AMIT CHILDREN, INC.  
AND AFFILIATE**

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

**DECEMBER 31, 2015**

# **AMIT CHILDREN, INC. AND AFFILIATE**

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## **Independent Auditor's Report**

**Board of Directors  
AMIT Children, Inc. and Affiliate**

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of AMIT Children, Inc. and Affiliate, which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of AMIT Israel, the Israeli affiliate, which statements reflect total assets constituting 80% of total assets at December 31, 2015 and total revenues constituting 93% of total revenue for the year then ended. Those statements which were prepared in accordance with generally accepted accounting principles in Israel ("Israeli GAAP") were audited by component auditors, whose reports have been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of AMIT Israel, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for AMIT Israel, prior to these conversion adjustments, is based solely on the reports of the component auditors. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, based on our audit and the report of the component auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AMIT Children, Inc. and Affiliate as of December 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

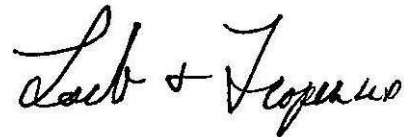
As more fully described in Note 13, AMIT Children, Inc. and Affiliate restated the composition of net assets as of December 31, 2015, by redesignating the status of \$2,307,136 of net assets. Our opinion is not modified with respect to this matter.

### ***Report on Summarized Comparative Information***

We have previously audited AMIT Children, Inc. and Affiliate's December 31, 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information contained in Schedules 1, 2 and 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of the component auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



September 13, 2016

## AMIT CHILDREN, INC. AND AFFILIATE

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u> (Restated Note 13)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 26,501,717	\$ 21,183,312
Investments (Notes 2 and 6)	18,870,631	18,481,883
Certificates of deposit	25,468	100,480
Contributions receivable (Note 3)	1,857,481	2,416,712
Receivables - net (Note 4)	4,991,026	5,942,821
Prepaid expenses and other assets	2,001,714	1,966,716
Fixed assets - net (Note 5)	<u>26,505,801</u>	<u>25,354,065</u>
Total assets	<u>\$ 80,753,838</u>	<u>\$ 75,445,989</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 22,667,110	\$ 20,254,311
Deferred revenue	3,446,793	2,469,231
Loans payable (Note 8)	991,282	1,139,487
Accrued severance, vacation and sick payable	1,148,718	1,142,821
Gift annuity and charitable remainder trust obligations (Note 6)	<u>597,323</u>	<u>634,681</u>
Total liabilities	<u>28,851,226</u>	<u>25,640,531</u>
Net assets (Exhibit B)		
Unrestricted	48,328,316	46,022,229
Temporarily restricted (Note 11)	3,091,219	3,298,870
Permanently restricted (Note 11)	<u>483,077</u>	<u>484,359</u>
Total net assets	<u>51,902,612</u>	<u>49,805,458</u>
Total liabilities and net assets	<u>\$ 80,753,838</u>	<u>\$ 75,445,989</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, 2015  
(With Summarized Financial Information  
for the Year Ended December 31, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2015	2014
Revenues, gains (losses) and other support					
Tuition fees and government support	\$ 137,915,722			\$ 137,915,722	\$ 133,634,454
Contributions	10,242,061	\$ 1,517,215		11,759,276	13,896,919
Special events income	\$ 2,266,534				
Direct costs of special events	<u>(1,292,141)</u>	974,393		974,393	991,366
Legacies and bequests	1,093,755			1,093,755	1,207,662
In-kind contributions	9,900			9,900	7,616
Investment income (loss) (Note 2)	61,179		\$ (1,289)	59,890	954,045
Other revenue	1,306,482			1,306,482	2,182,033
Net assets released from restrictions (Note 11)	<u>1,500,585</u>	<u>(1,500,585)</u>			
Total revenues, gains (losses) and other support	<u>153,104,077</u>	<u>16,630</u>	<u>(1,289)</u>	<u>153,119,418</u>	<u>152,874,095</u>
Expenses (Exhibit C)					
Program services					
Israel projects	141,670,873			141,670,873	138,669,594
Public information and education	1,302,827			1,302,827	943,778
AMIT Children magazine	<u>184,826</u>			<u>184,826</u>	<u>179,517</u>
Total program services	<u>143,158,526</u>			<u>143,158,526</u>	<u>139,792,889</u>
Supporting services					
Management and general	6,299,004			6,299,004	6,475,188
Fund raising	<u>1,367,886</u>			<u>1,367,886</u>	<u>1,241,419</u>
Total supporting services	<u>7,666,890</u>			<u>7,666,890</u>	<u>7,716,607</u>
Total expenses	<u>150,825,416</u>			<u>150,825,416</u>	<u>147,509,496</u>

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AMIT CHILDREN, INC. AND AFFILIATE

EXHIBIT B

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CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015  
(With Summarized Financial Information  
for the Year Ended December 31, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
Change in net assets before other changes	\$ 2,278,661	\$ 16,630	\$ (1,289)	\$ 2,294,002	\$ 5,364,599
Actuarial change in split-interest agreements	(23,824)	(25,818)		(49,642)	9,187
Bad debt loss from uncollectible pledges		(200,000)		(200,000)	
Gain (loss) on foreign currency translation	51,250	1,537	7	52,794	(4,424,394)
Change in net assets (Exhibit D)	<u>2,306,087</u>	<u>(207,651)</u>	<u>(1,282)</u>	<u>2,097,154</u>	<u>949,392</u>
Net assets - beginning of year, as previously stated	43,715,093	5,606,006	484,359	49,805,458	48,856,066
Restatement (Note 13)	<u>2,307,136</u>	<u>(2,307,136)</u>			
Net assets - beginning of year, restated	<u>46,022,229</u>	<u>3,298,870</u>	<u>484,359</u>	<u>49,805,458</u>	<u>48,856,066</u>
Net assets - end of year (Exhibit A)	<u>\$ 48,328,316</u>	<u>\$ 3,091,219</u>	<u>\$ 483,077</u>	<u>\$ 51,902,612</u>	<u>\$ 49,805,458</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.



## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015  
(With Summarized Financial Information  
for the Year Ended December 31, 2014)

	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	2015	2014
Salaries and related expenses	\$ 102,023,229	\$ 570,151	\$ 136,117	\$ 102,729,497	\$ 4,495,450	\$ 952,020		\$ 108,176,967	\$ 102,817,204
School cultural and educational materials	15,003,737			15,003,737	13,573			15,017,310	12,859,508
School renovations and maintenance	5,691,570			5,691,570				5,691,570	1,549,014
Scholarships	588,621			588,621				588,621	1,593,827
School supplies	7,035,409			7,035,409	81,319			7,116,728	7,002,004
Awards and certificates	2,248	2,081		4,329		1,829		6,158	10,217
Catering, venue and entertainment							\$ 1,108,639	1,108,639	1,047,856
Cleaning and rubbish removal	3,625	3,353	801	7,779	4,380	2,945		15,104	2,622,606
Computer services	714,918	20,435	2,797	738,150	16,955	10,293		765,398	509,157
Dues and subscriptions	5,236	4,843	1,156	11,235	6,327	4,254		21,816	25,758
Equipment rental and repairs	12,960	11,988	2,862	27,810	15,660	10,530		54,000	165,063
Fees and taxes	77,311	22,880	5,462	105,653	69,425	20,097		195,175	311,451
Insurance	361,739	9,126	2,179	373,044	17,159	8,395		398,598	765,125
Investment management fees					53,571			53,571	50,470
Occupancy	3,019,383	68,455	16,343	3,104,181	89,423	86,144		3,279,748	4,199,731
Office supplies	490,360	6,664	1,591	498,615	41,848	6,574		547,037	613,334
Photography	2,243	2,075	495	4,813	2,710	1,822	82,928	92,273	59,086
Postage	104,207	66,269		170,476	12,292	2,442	4,040	189,250	197,895
Printing	83,375	83,313		166,688		1,151	32,127	199,966	183,046
Professional fees	45,368		11,834	57,202	502,433	42,804		602,439	1,922,071
Public relations and advertising	440,665	348,425		789,090	252,839	63,801		1,105,730	791,551
Security	678,508	868	207	679,583	1,571	763		681,917	858,623
Telephone	657,491	9,061	2,163	668,715	71,841	17,007		757,563	997,404
Travel and transportation	1,366,886	44,539	819	1,412,244	261,088	100,837		1,774,169	2,034,883
Interest expense					18,041			18,041	23,463
Miscellaneous	347,791	28,301		376,092	55,435	34,178	64,407	530,112	2,217,787
Depreciation	2,913,993			2,913,993	269,235			3,183,228	3,315,263
<b>Total expenses</b>	<b>141,670,873</b>	<b>1,302,827</b>	<b>184,826</b>	<b>143,158,526</b>	<b>6,352,575</b>	<b>1,367,886</b>	<b>1,292,141</b>	<b>152,171,128</b>	<b>148,743,397</b>
Less expenses deducted directly from revenue on the statement of activities									
Direct cost of special events							(1,292,141)	(1,292,141)	(1,183,431)
Investment management fees					(53,571)			(53,571)	(50,470)
<b>Total expenses (Exhibit B)</b>	<b>\$ 141,670,873</b>	<b>\$ 1,302,827</b>	<b>\$ 184,826</b>	<b>\$ 143,158,526</b>	<b>\$ 6,299,004</b>	<b>\$ 1,367,886</b>	<b>\$ -</b>	<b>\$ 150,825,416</b>	<b>\$ 147,509,496</b>

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, 2015**

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 2,097,154
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	3,183,228
Fixed assets exchange rate gain	(14,557)
Actuarial change in split-interest agreements	49,642
Foreign currency exchange gain on loan	(34,359)
Net realized and unrealized loss on investments	25,636
Decrease (increase) in assets	
Contributions receivable	559,231
Receivables	951,795
Prepaid expenses and other assets	(34,998)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	2,412,799
Deferred revenue	977,562
Accrued severance, vacation and sick payable	5,897
Net cash provided by operating activities	<u>10,179,030</u>
Cash flows from investing activities	
Acquisition of fixed assets	(4,320,407)
Proceeds from sale of certificates of deposit	75,012
Purchase of investments	(2,055,613)
Proceeds from sale of investments	1,641,229
Net cash used by investing activities	<u>(4,659,779)</u>
Cash flows from financing activities	
Proceeds from contributions subject to split-interest agreements	
Investment income subject to split-interest agreements	4,688
Payment of annuity obligations	(91,688)
Repayment of loans	(113,846)
Net cash used by financing activities	<u>(200,846)</u>
Net change in cash and cash equivalents	5,318,405
Cash and cash equivalents - beginning of year	<u>21,183,312</u>
Cash and cash equivalents - end of year	<u>\$ 26,501,717</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 18,041</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, 2015**

**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”.

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

The majority 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.

***Consolidation*** - All material intercompany balances and transactions have been eliminated in the consolidation.

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

**AMIT CHILDREN, INC. AND AFFILIATE****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015****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 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 include certain investments in highly liquid 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 financial statements. 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, 2015****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 revenue** - 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 also includes future special event revenue, which is earned within one year.

**Contributions** - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution 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. Contributions whose restrictions are satisfied in the year of restriction are classified as unrestricted.

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

**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. Investment income earned in relation to permanently restricted endowments is initially classified as temporarily restricted net assets and released from restrictions when appropriated. Restricted revenue earned and expended in the same fiscal year is reflected as unrestricted revenue.

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**AMIT CHILDREN, INC. AND AFFILIATE****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Advertising* - Advertising costs are expensed when incurred.

*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 recorded in New Israeli Shekels (NIS), are translated to U.S. Dollars (USD) using the exchange rate in effect at the date of the statement of financial position. Revenues, 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. Exchange rates utilized within the statement of financial position at December 31, 2015 and 2014 were NIS 3.90/1.00 USD and 3.90/1.00 USD, respectively. Average exchange rates utilized to translate revenues, expenses, gains, and losses relating to 2015 and 2014 were NIS 3.88/1.00 USD and 3.57/1.00 USD, respectively.

*Volunteers* - A number of unpaid volunteers have made contributions 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***

*Fair Value Measurements* 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.

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**AMIT CHILDREN, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

***Fair Value Measurements (continued)***

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.

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, 2015 compared to those used at December 31, 2014.

***Corporate bonds and common stock*** - Valued at the closing price reported on the active market on which the individual securities are traded.

***Government bonds and bond mutual funds*** - Valued using pricing models maximizing the use of observable inputs for similar securities.

***Equity mutual funds*** - Valued at the net asset value (NAV) of shares held at year end.

***State of Israel bonds*** - Recorded at cost, which approximates fair value. 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.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

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

*Fair Value Measurements (continued)*

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Corporate bonds	\$ 1,365,442	\$ -	\$ 1,365,442
Government bonds			
U.S. Government bonds	-	796,362	796,362
Foreign	-	12,465,385	12,465,385
Common stock - domestic	1,708,769	-	1,708,769
Mutual funds			
Bonds	-	194,601	194,601
Equity	1,000,455	-	1,000,455
State of Israel bonds	<u>-</u>	<u>25,098</u>	<u>25,098</u>
Total investments by level	<u>\$ 4,074,666</u>	<u>\$ 13,481,446</u>	17,556,112
Cash and cash equivalents			<u>1,314,519</u>
			<u>\$ 18,870,631</u>

Investments held for charitable gift annuities of \$901,221 and \$1,026,180 in 2015 and 2014, respectively, and investments held for charitable remainder trusts of \$171,153 and \$199,800 in 2015 and 2014, respectively, are included in investments in the consolidated statement of financial position.

Investment earnings as shown in the consolidated statement of activities consist of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 139,097	\$ 122,922
Net realized and unrealized gain (loss) on investments	(25,636)	881,593
Investment management fees	<u>(53,571)</u>	<u>(50,470)</u>
	<u>\$ 59,890</u>	<u>\$ 954,045</u>

-continued-



**AMIT CHILDREN, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

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

*Summarized financial information for 2014* - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AMIT's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

*Uncertainty in income taxes* - AMIT has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Periods ending December 31, 2012 and subsequent remain subject to examination by applicable United States taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through September 13, 2016, which is the date the consolidated financial statements were available to be issued.

*Reclassification* - Other program service fees for 2014 have been reclassified to tuition fees and government support to conform with current year presentation.

**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%.

Receivables are due as follows:

2016	\$ 543,375
2017	453,000
2018	405,000
2019	281,000
2020	<u>265,000</u>
	1,947,375
Less discount to present value	<u>(89,894)</u>
Total	<u>\$ 1,857,481</u>

-continued-

**AMIT CHILDREN, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**NOTE 4 - RECEIVABLES**

Receivables consist of the following:

	<u>2015</u>	<u>2014</u>
Due from Israeli government ministries and municipalities	\$ 3,413,333	\$ 4,473,333
Other receivables	<u>1,577,693</u>	<u>1,469,488</u>
Total accounts receivable - net	<u>\$ 4,991,026*</u>	<u>\$ 5,942,821*</u>

\* These amounts are net of allowance for doubtful accounts of \$511,026 and \$434,615 at December 31, 2015 and 2014, respectively.

**NOTE 5 - FIXED ASSETS**

	<u>2015</u>	<u>2014</u>	<u>Estimated Useful Life</u>
Land, land improvements and buildings in Israel	\$ 51,540,705	\$ 48,682,757	15-50 years
Furniture, fixtures and equipment	7,508,601	6,382,525	5-10 years
Computer hardware and software	6,116,264	5,621,003	3-10 years
Motor vehicles	80,000	51,282	5-10 years
Torahs	<u>48,000</u>	<u>48,000</u>	
	65,293,570	60,785,567	
Less accumulated depreciation	<u>(38,787,769)</u>	<u>(35,431,502)</u>	
	<u>\$ 26,505,801</u>	<u>\$ 25,354,065</u>	

Certain fixed assets located within AMIT's Kfar Batya, Israel facility have been recorded within the records of both AMIT USA and AMIT Israel. Such duplication of fixed assets, associated accumulated depreciation and associated depreciation expense have been eliminated within these consolidated financial statements. The net balance of duplicated assets was \$2,416,828 and \$2,541,615 as of December 31, 2015 and 2014, respectively.

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**AMIT CHILDREN, INC. AND AFFILIATE****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015****NOTE 6 - SPLIT-INTEREST AGREEMENTS**

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

AMIT USA is the beneficiary of several CRTs in which an officer of AMIT serves as the trustee. AMIT is also the beneficiary of various CGAs whereby donors have contributed assets to the organization in exchange for the right to receive a fixed dollar return during their lifetimes.

Under the aforementioned agreements, AMIT USA must make periodic payments to the individuals establishing such agreements at varying interest rates ranging from 5% to 12% per annum of the original principal amounts of the respective asset contributed. At the time of gifting, and adjusted annually, AMIT USA 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.

The discount rate used in calculating the present value liability associated with the above split-interest agreements ranges from 4% to 6%. Gains and losses resulting from changes in actuarial assumptions and accretions of discounts are reflected in the respective net asset classes in the statement of activities in accordance with individual donor agreements.

The fair value of the investments held for split-interest agreements totaled \$1,072,374 and \$1,225,980 at December 31, 2015 and 2014, respectively.

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

- A. AMIT Israel received payment demands relating to municipal levies from a number of municipalities in various amounts. AMIT Israel is negotiating with the municipalities to settle the demands.
- B. 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 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, 2015**

**NOTE 8 - LOANS PAYABLE**

AMIT Israel has two loans with a financial institution in Israel with final payments due February 2022 and May 2022. Both loans are variable interest loans based upon LIBOR and are secured by a lien on land owned by AMIT Israel. The interest rates at December 31, 2015 and 2014 were 2.40% and 1.61%, respectively. Interest expense for December 31, 2015 and 2014 was \$18,041 and \$23,463, respectively. The outstanding loan balance at December 31, 2015 and 2014 was \$991,282 and \$1,139,487, respectively.

Combined future minimum payments are due as follows:

2016	\$ 159,744
2017	155,897
2018	155,897
2019	155,897
2020	155,897
Thereafter	<u>207,950</u>
	<u>\$ 991,282</u>

**NOTE 9 - 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 \$308,354 and \$286,859 for the years ended December 31, 2015 and 2014, respectively.

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

2016	\$ 201,015
2017	201,696
2018	195,738
2019	<u>88,119</u>
	<u>\$ 686,568</u>

**NOTE 10 - PENSION PLAN**

Employees of AMIT Israel participate in a defined contribution pension plan. Pension expense for the year ended December 31, 2015 and 2014 was \$3,683,007 and \$3,539,801, respectively.

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**AMIT CHILDREN, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 11 - RESTRICTED NET ASSETS**

**Temporarily Restricted Net Assets**

At December 31, 2015, temporarily restricted net assets were available for:

Renovations and expansion in educational institutions in Israel	\$ 1,185,833
Trusts available for periods after December 31, 2015	48,825
Contributions receivable available for periods after December 31, 2015	<u>1,856,561</u>
	<u>\$ 3,091,219</u>

Temporarily restricted net assets were released from restriction in 2015 as follows:

Lapse of time restrictions	\$ 1,140,262
Release due to satisfaction of restricted purpose - renovations and expansion in educational institutions in Israel	<u>360,323</u>
	<u>\$ 1,500,585</u>

At December 31, 2014, temporarily restricted net assets, as restated, were available for:

Renovations and expansion in educational institutions in Israel	\$ 816,087
Trusts available for periods after December 31, 2014	74,643
Contributions receivable available for periods after December 31, 2014	<u>2,408,140</u>
	<u>\$ 3,298,870</u>

Temporarily restricted net assets were released from restriction in 2014 as follows:

Lapse of time restrictions	\$ 90,000
Release due to satisfaction of restricted purpose - renovations and expansion in educational institutions in Israel	<u>3,414,586</u>
	<u>\$ 3,504,586</u>

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**AMIT CHILDREN, INC. AND AFFILIATE****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015****NOTE 11 - RESTRICTED NET ASSETS (continued)****Permanently Restricted Net Assets****General**

AMIT USA's endowment fund consists of one donor-restricted fund restricted for investment in perpetuity, the income from which is available for unrestricted purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

AMIT USA is governed by the New York Prudent Management of Institutional Funds Act (NYPMIFA) spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, AMIT USA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA. Endowment funds held in Israel are not required to follow NYPMIFA, but follow prudent man principles.

**Return Objectives, Strategies Employed and Spending Policy**

The objective of AMIT is to generate revenues to support operations while preserving the original corpus donated, in keeping with the donors' wishes. The investment policy to achieve this objective is to invest these funds in cash and cash equivalents to ensure the corpus of the fund. Interest earned in relation to the endowment funds is recorded as unrestricted upon expenditure for the program for which the endowment fund was established. Interest earned in relation to the endowment funds of AMIT whose restriction is satisfied in the year of restriction is classified as unrestricted in the financial statements.

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## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

## NOTE 11 - RESTRICTED NET ASSETS (continued)

**Permanently Restricted Net Assets (continued)****Funds with Deficiencies**

AMIT does not have any funds with deficiencies.

At December 31, 2015, permanently restricted net assets consist of the following endowment funds:

	<u>AMIT USA</u>	<u>AMIT Israel</u>	<u>Total</u>
Renovations and expansion in educational institutions in Israel	\$ <u>200,000</u>	\$ <u>283,077</u>	\$ <u>483,077</u>

At December 31, 2014, permanently restricted net assets consist of the following endowment funds:

	<u>AMIT USA</u>	<u>AMIT Israel</u>	<u>Total</u>
Renovations and expansion in educational institutions in Israel	\$ <u>200,000</u>	\$ <u>284,359</u>	\$ <u>484,359</u>

**Changes in Endowment Net Assets for the Year Ended December 31, 2015**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds - beginning of year		\$ 484,359	\$ 484,359
Investment income (loss)		(1,289)	(1,289)
Gain on foreign currency translation		7	7
Appropriated for expenditures	_____	_____	_____
Endowment funds - end of year	\$ <u>-</u>	\$ <u>483,077</u>	\$ <u>483,077</u>

-continued-

## AMIT CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

## NOTE 11 - RESTRICTED NET ASSETS (continued)

Permanently Restricted Net Assets (continued)Changes in Endowment Net Assets for the Year Ended December 31, 2014

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds - beginning of year		\$ 520,402	\$ 520,402
Investment income (loss)	\$ 1,289	(1,681)	(392)
Loss on foreign currency translation		(34,362)	(34,362)
Appropriated for expenditures	<u>(1,289)</u>	<u>          </u>	<u>(1,289)</u>
Endowment funds - end of year	<u>\$ -</u>	<u>\$ 484,359</u>	<u>\$ 484,359</u>

## 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.

## NOTE 13 - RESTATEMENT

The opening balance net asset classes were restated to reflect \$2,307,136 of net assets which were previously reflected as temporarily restricted for time and purpose to be reflected as unrestricted net assets.



## AMIT CHILDREN, INC. AND AFFILIATE

## SCHEDULE 1

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

	<u>AMIT USA</u>	<u>AMIT Israel</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,908,384	\$ 23,593,333		\$ 26,501,717
Investments	5,807,810	13,062,821		18,870,631
Certificates of deposit	25,468			25,468
Contributions receivable	1,857,481			1,857,481
Receivables - net		5,846,923	\$ (855,897)	4,991,026
Prepaid expenses and other assets	71,201	1,930,513		2,001,714
Fixed assets - net	<u>5,324,937</u>	<u>23,597,692</u>	<u>(2,416,828)</u>	<u>26,505,801</u>
Total assets	<u>\$ 15,995,281</u>	<u>\$ 68,031,282</u>	<u>\$ (3,272,725)</u>	<u>\$ 80,753,838</u>
<b>LIABILITIES AND NET ASSETS</b>				
Liabilities				
Accounts payable and accrued expenses	\$ 964,802	\$ 22,558,205	\$ (855,897)	\$ 22,667,110
Deferred revenue	51,408	3,395,385		3,446,793
Loans payable		991,282		991,282
Accrued severance, vacation and sick payable	3,077	1,145,641		1,148,718
Gift annuity and charitable remainder trust obligations	<u>597,323</u>			<u>597,323</u>
Total liabilities	<u>1,616,610</u>	<u>28,090,513</u>	<u>(855,897)</u>	<u>28,851,226</u>
Net assets				
Unrestricted	11,450,529	39,294,615	(2,416,828)	48,328,316
Temporarily restricted	2,728,142	363,077		3,091,219
Permanently restricted	<u>200,000</u>	<u>283,077</u>		<u>483,077</u>
Total net assets	<u>14,378,671</u>	<u>39,940,769</u>	<u>(2,416,828)</u>	<u>51,902,612</u>
Total liabilities and net assets	<u>\$ 15,995,281</u>	<u>\$ 68,031,282</u>	<u>\$ (3,272,725)</u>	<u>\$ 80,753,838</u>

See independent auditor's report.

AMIT CHILDREN, INC. AND AFFILIATE  
CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2015

SCHEDULE 2

	AMIT USA				AMIT Israel				Eliminations	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		
Revenues, gains (losses) and other support										
Tuition fees and government support					\$ 137,915,722			\$ 137,915,722		\$ 137,915,722
Contributions	\$ 7,796,731	\$ 1,517,215		\$ 9,313,946	10,304,897			10,304,897	\$ (7,859,567)	\$ 11,759,276
Special events income	\$ 2,266,534									
Direct costs of special events	(1,292,141)			974,393						974,393
Legacies and bequests	1,093,755			1,093,755						1,093,755
In-kind contributions	9,900			9,900						9,900
Investment income (loss)	(29,543)			(29,543)	90,722		\$ (1,289)	89,433		59,890
Other revenue	45,142			45,142	1,261,340			1,261,340		1,306,482
Net assets released from restrictions	1,200,843	(1,200,843)			299,742	\$ (299,742)				
Total revenues, gains (losses) and other support	11,091,221	316,372		11,407,593	149,872,423	(299,742)	(1,289)	149,571,392	(7,859,567)	153,119,418
Expenses										
Program services										
Israel projects	9,567,340			9,567,340	140,087,887			140,087,887	(7,984,354)	141,670,873
Public information and education	1,302,827			1,302,827						1,302,827
AMIT Children magazine	184,826			184,826						184,826
Total program services	11,054,993			11,054,993	140,087,887			140,087,887	(7,984,354)	143,158,526
Supporting services										
Management and general	1,041,272			1,041,272	5,257,732			5,257,732		6,299,004
Fund raising	737,217			737,217	630,669			630,669		1,367,886
Total supporting services	1,778,489			1,778,489	5,888,401			5,888,401		7,666,890
Total expenses	12,833,482			12,833,482	145,976,288			145,976,288	(7,984,354)	150,825,416
Change in net assets before other changes	(1,742,261)	316,372		(1,425,889)	3,896,135	(299,742)	(1,289)	3,595,104	124,787	2,294,002
Actuarial change in split-interest agreements	(23,824)	(25,818)		(49,642)						(49,642)
Bad debt loss from uncollectible pledges		(200,000)		(200,000)						(200,000)
Gain (loss) on foreign currency translation	(51)			(51)	51,301	1,537	7	52,845		52,794
Change in net assets	(1,766,136)	90,554		(1,675,582)	3,947,436	(298,205)	(1,282)	3,647,949	124,787	2,097,154
Net assets - beginning of year, as previously stated	10,909,529	4,944,724	\$ 200,000	16,054,253	35,347,179	661,282	284,359	36,292,820	(2,541,615)	49,805,458
Restatement (Note 13)	2,307,136	(2,307,136)								
Net assets - beginning of year, restated	13,216,665	2,637,588	200,000	16,054,253	35,347,179	661,282	284,359	36,292,820	(2,541,615)	49,805,458
Net asset - end of year	\$ 11,450,529	\$ 2,728,142	\$ 200,000	\$ 14,378,671	\$ 39,294,615	\$ 363,077	\$ 283,077	\$ 39,940,769	\$ (2,416,828)	\$ 51,902,612

See independent auditor's report.

## STATEMENT OF FUNCTIONAL EXPENSES - AMIT USA

YEAR ENDED DECEMBER 31, 2015

	Program Services				Supporting Services		Direct Cost of Special Events	Total
	Israel Projects	Public Information and Education	AMIT Children Magazine	Total Israel Programming	Management and General	Fund Raising		
Salaries	\$ 541,745	\$ 501,114	\$ 119,635	\$ 1,162,494	\$ 654,608	\$ 440,168		\$ 2,257,270
Payroll taxes and employee benefits	74,634	69,037	16,482	160,153	90,183	60,641		310,977
Total salaries and related expenses	616,379	570,151	136,117	1,322,647	744,791	500,809		2,568,247
Grants for Israel projects and programs	7,859,567			7,859,567				7,859,567
Awards and certificates	2,248	2,081		4,329		1,829		6,158
Catering, venue and entertainment							\$ 1,108,639	1,108,639
Cleaning and rubbish removal	3,625	3,353	801	7,779	4,380	2,945		15,104
Computer services	12,668	20,435	2,797	35,900	15,307	10,293		61,500
Dues and subscriptions	5,236	4,843	1,156	11,235	6,327	4,254		21,816
Equipment rental and repairs	12,960	11,988	2,862	27,810	15,660	10,530		54,000
Fees	53,373	22,880	5,462	81,715	12,922	20,097		114,734
Insurance	9,866	9,126	2,179	21,171	11,922	8,016		41,109
Investment management fees					53,571			53,571
Occupancy	74,005	68,455	16,343	158,803	89,423	60,129		308,355
Office supplies	7,204	6,664	1,591	15,459	8,705	5,853		30,017
Photography	2,243	2,075	495	4,813	2,710	1,822	82,928	92,273
Postage	66,356	66,269		132,625	1,469	990	4,040	139,124
Printing	83,375	83,313		166,688		679	32,127	199,494
Professional fees	11,203		11,834	23,037	64,118	36,305		123,460
Public relations and advertising	215,350	348,425		563,775				563,775
Security	939	868	207	2,014	1,134	763		3,911
Telephone	9,796	9,061	2,163	21,020	11,837	7,959		40,816
Travel and transportation	48,101	44,539	819	93,459	4,483	39,136		137,078
Miscellaneous	20,416	28,301		48,717	36,851	24,808	64,407	174,783
Depreciation	452,430			452,430	9,233			461,663
Total expenses	9,567,340	1,302,827	184,826	11,054,993	1,094,843	737,217	1,292,141	14,179,194
Less expenses deducted directly from revenue on the statement of activities								
Direct cost of special events							(1,292,141)	(1,292,141)
Investment management fees					(53,571)			(53,571)
Total expenses (Schedule 2)	\$ 9,567,340	\$ 1,302,827	\$ 184,826	\$ 11,054,993	\$ 1,041,272	\$ 737,217	\$ -	\$ 12,833,482

See independent auditor's report.