Financial Statements Together with
Report of Independent Certified Public Accountants

# THE BIRTHRIGHT ISRAEL FOUNDATION

For the year ended December 31, 2018, with comparative information for the year ended December 31, 2017

# THE BIRTHRIGHT ISRAEL FOUNDATION

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# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
**The Birthright Israel Foundation:**

We have audited the accompanying financial statements of The Birthright Israel Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

## Management's responsibility for the financial statements

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

## Auditor's responsibility

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

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

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

Opinion

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

**Report on 2017 summarized comparative information**

We have previously audited the Foundation's 2017 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 22, 2018. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

New York, New York
June 27, 2019

## THE BIRTHRIGHT ISRAEL FOUNDATION
### Statement of Financial Position
**As of December 31, 2018, with comparative information as of December 31, 2017**

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 18,027,149 | $ 21,311,142 |
| Cash held in escrow (Note 5) | 815,469 | 242,267 |
| Contributions receivable - net (Note 3) | 39,349,129 | 12,521,750 |
| Prepaid expenses and other assets | 389,673 | 716,442 |
| Investments (Note 4) | 1,001,562 | 29,005 |
| Fixed assets - net (Note 6) | 1,569,280 | 274,095 |
| Total assets | $ 61,152,262 | $ 35,094,701 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | $ 1,899,408 | $ 1,321,189 |
| Due to BRI International | 1,400,295 | 772,879 |
| Accounts payable - shared services (Note 11) | 101,456 | 6,809 |
| Accrued severance | 35,031 | 231,846 |
| Deferred revenue | - | 168,200 |
| Capital leases payable | - | 26,627 |
| Obligations to annuitants | 142,612 | 126,986 |
| Deferred rent | 380,500 | 68,113 |
| Total liabilities | 3,959,302 | 2,722,649 |
| NET ASSETS (Note 9) | | |
| Net assets without donor restrictions | | |
| Undesignated | 10,592,391 | 13,742,414 |
| Board designated | 4,500,000 | 4,500,000 |
| Total net assets without donor unrestrictions | 15,092,391 | 18,242,414 |
| Net assets with donor restrictions | 42,100,569 | 14,129,638 |
| Total net assets | 57,192,960 | 32,372,052 |
| Total liabilities and net assets | $ 61,152,262 | $ 35,094,701 |

*The accompanying notes are an integral part of this financial statement.*

# THE BIRTHRIGHT ISRAEL FOUNDATION
## Statement of Activities
**For the year ended December 31, 2018, with comparative information as of December 31, 2017**

| | 2018 | | | |
|---|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** | **2017** |
| REVENUES AND OTHER SUPPORT | | | | |
| Contributions | $ 72,024,643 | $ 24,402,417 | $ 96,427,060 | $ 96,834,324 |
| Special events - net | 5,599,962 | 18,800,500 | 24,400,462 | - |
| Interest | 278,890 | - | 278,890 | 74,225 |
| Realized and unrealized loss on securities | (63,629) | - | (63,629) | (250) |
| Net assets released from restrictions (Note 9) | 15,231,986 | (15,231,986) | - | - |
| Total revenues and other support | 93,071,852 | 27,970,931 | 121,042,783 | 96,908,299 |
| EXPENSES | | | | |
| Program expenses | | | | |
| Educational trips (Note 7) | 80,000,597 | - | 80,000,597 | 78,929,396 |
| Post programming | 352,517 | - | 352,517 | 1,093,454 |
| Total program services | 80,353,114 | - | 80,353,114 | 80,022,850 |
| Supporting services | | | | |
| Management and general | 3,477,772 | - | 3,477,772 | 4,233,465 |
| Fundraising | 12,390,989 | - | 12,390,989 | 9,546,678 |
| Total supporting services | 15,868,761 | - | 15,868,761 | 13,780,143 |
| Total expenses | 96,221,875 | - | 96,221,875 | 93,802,993 |
| Change in net assets | (3,150,023) | 27,970,931 | 24,820,908 | 3,105,306 |
| Net assets - beginning of year | 18,242,414 | 14,129,638 | 32,372,052 | 29,266,746 |
| Net assets - end of year | $ 15,092,391 | $ 42,100,569 | $ 57,192,960 | $ 32,372,052 |

*The accompanying notes are an integral part of this financial statement.*

# THE BIRTHRIGHT ISRAEL FOUNDATION
## Statement of Functional Expenses
### For the year ended December 31, 2018, with comparative information as of December 31, 2017

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Program Services | | | Supporting Services | | | | |
| | Educational Trips | Post Programming | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total | 2017 |
| Salaries and fringe benefits | $ - | $ 167,055 | $ 167,055 | $ 2,135,580 | $ 6,641,726 | $ 8,777,306 | $ 8,944,361 | $ 7,813,909 |
| Grants | 80,000,597 | - | 80,000,597 | - | - | - | 80,000,597 | 79,479,396 |
| Professional fees | - | 143,185 | 143,185 | 510,506 | 982,702 | 1,493,208 | 1,636,393 | 1,550,373 |
| Direct Marketing | - | - | - | - | 2,374,299 | 2,374,299 | 2,374,299 | 1,965,163 |
| Travel | - | 39 | 39 | 132,119 | 318,643 | 450,762 | 450,801 | 332,919 |
| Conferences and meetings | - | - | - | 66,487 | 415,111 | 481,598 | 481,598 | 571,733 |
| Equipment rental and maintenance | - | - | - | 21,269 | 132,283 | 153,552 | 153,552 | 60,072 |
| Supplies and office expenses | - | - | - | 18,684 | 22,329 | 41,013 | 41,013 | 36,732 |
| Communications | - | - | - | 90,893 | 6,603 | 97,496 | 97,496 | 90,868 |
| Advertising | - | - | - | 8,937 | 63,515 | 72,452 | 72,452 | 65,787 |
| Postage and delivery | - | - | - | 19,758 | 41,032 | 60,790 | 60,790 | 49,273 |
| Dues and subscriptions | - | - | - | 17,891 | 5,589 | 23,480 | 23,480 | 8,042 |
| Printing and production | - | - | - | 1,572 | 164,619 | 166,191 | 166,191 | 139,342 |
| Computer maintenance | - | 6,798 | 6,798 | 66,442 | 204,210 | 270,652 | 277,450 | 266,494 |
| Insurance | - | 2,227 | 2,227 | 23,925 | 73,719 | 97,644 | 99,871 | 86,072 |
| Occupancy | - | 28,017 | 28,017 | 256,487 | 628,448 | 884,935 | 912,952 | 935,125 |
| Depreciation | - | 5,196 | 5,196 | 55,838 | 167,757 | 223,595 | 228,791 | 176,168 |
| Bank charges | - | - | - | 33,998 | 128,094 | 162,092 | 162,092 | 149,843 |
| State registrations and filing fees | - | - | - | 12,541 | 15 | 12,556 | 12,556 | 7,129 |
| Miscellaneous | - | - | - | 4,845 | 20,295 | 25,140 | 25,140 | 18,553 |
| | $ 80,000,597 | $ 352,517 | $ 80,353,114 | $ 3,477,772 | $ 12,390,989 | $ 15,868,761 | $ 96,221,875 | $ 93,802,993 |

*The accompanying notes are an integral part of this financial statement.*

## THE BIRTHRIGHT ISRAEL FOUNDATION
### Statement of Cash Flows
**For the year ended December 31, 2018, with comparative information as of December 31, 2017**

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 24,820,908 | $ 3,105,306 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities | | |
| Depreciation | 228,791 | 176,168 |
| Donated securities | (930,215) | (881,067) |
| Realized (loss) gain on donated securities | (3,467) | 820 |
| Loss on disposal of fixed assets | 31,729 | - |
| Decrease (increase) in assets | | |
| Contributions receivable | (26,827,379) | 3,404,525 |
| Prepaid expenses and other assets | 326,769 | (358,096) |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | 578,219 | 171,348 |
| Due to BRI International | 627,416 | 772,879 |
| Accounts payable - shared services | 94,647 | (4,436) |
| Accrued severance | (196,815) | (372,494) |
| Deferred revenue | (168,200) | 168,200 |
| Deferred compensation | - | (161,319) |
| Obligations to annuitants | 15,626 | (8,401) |
| Deferred rent | 312,387 | (90,387) |
| Net cash (used in) provided by operating activities | (1,089,584) | 5,923,046 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash held in escrow | (573,202) | (2,231) |
| Purchase of fixed assets | (1,582,332) | (177,868) |
| Purchase of investments | (972,557) | - |
| Proceeds from sale of investments | 933,682 | 862,595 |
| Net cash (used in) provided by investing activities | (2,194,409) | 682,496 |
| Net (decrease) increase in cash and cash equivalents | (3,283,993) | 6,605,542 |
| Cash and cash equivalents - beginning of year | 21,311,142 | 14,705,600 |
| Cash and cash equivalents - end of year | $ 18,027,149 | $ 21,311,142 |
| Cash paid during the year for interest | $ 704 | $ 1,049 |

*The accompanying notes are an integral part of this financial statement.*

## 1. NATURE OF ORGANIZATION

The Birthright Israel Foundation (the "Foundation") was incorporated on December 10, 1999. It was formed to support the education of members of the Jewish community outside of Israel about Judaism, to strengthen the understanding of their heritage, and to foster stronger bonds between the Jews of the Diaspora and the State of Israel. In furtherance of these purposes, the Foundation provides funding to enable individuals aged 18-32 to participate in an educational peer-group trip to Israel.

The Foundation is funded primarily by contributions from public charities, private foundations and the general public.

The Foundation is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES BASIS OF PRESENTATION

### Basis of Presentation

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes classified as "net assets without donor restrictions" and "net assets with donor restrictions";
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information on liquidity;
- Presenting investment return net of external and direct internal investment expenses; and
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The Foundation classifies its net assets in the following categories:

#### Net Assets Without Donor Restriction

Represent net assets which are not restricted by donors. Net assets without donor restrictions are funds that are fully available, at the discretion of the Board of Directors and management, for the

Foundation to utilize in any of its programs or supporting services. Net assets without donor restrictions may be designated for specific purposes by the Foundation's Board of Directors or may be limited by legal requirements or contractual agreements with outside parties.

**Net Assets With Donor Restriction**

Represent net assets which are subject to donor-imposed restrictions whose use is restricted by time and/or purpose. A portion of the Foundation's net assets with donor restrictions are subject to donor-imposed restrictions that require the Foundation to use or expend the gifts as specified, based on purpose or passage of time. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, such net assets are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

Another portion of net assets with donor restrictions stipulates that the corpus of the gifts be maintained in perpetuity, but allow for the expenditure of net investment income and gains earned on the corpus for either specified or unspecified purposes.

**Fair Value Measurements**

The Foundation measures fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The Foundation also prioritizes, within the measurement of fair value, the use of market based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and significant to overall fair value measurement.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Foundation's management. The Foundation considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Foundation's perceived risk of that instrument.

**Valuation of Investments**

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities, certain U.S. government and sovereign obligations, and certain money market securities. The Foundation does not adjust the quoted price for such instruments, even in situations, if applicable, where the Foundation holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include certain U.S. government and sovereign obligations, most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, state, municipal and provincial obligations, most physical commodities and certain loan commitments and investments that qualify for use of the net asset value ("NAV") practical expedient. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include private equity and real estate investments, certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less liquid mortgage securities (backed by either commercial or residential real estate). When observable prices are not available for such securities, the Foundation uses one or more valuation techniques (e.g., the market approach, the income approach or the cost approach), as applicable. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

State of Israel Bonds are generally stated at cost, which approximate fair value. As of December 31, 2018, the Organization invested in State of Israel Bonds of $46,113 which was included in investments on the statement of financial position.

**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.

**Cash Held in Escrow**

Cash held in escrow includes collateral set aside for a letter of credit on the Foundation's lease agreements (Note 4).

**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-free interest rates, inclusive of applicable credit adjusted 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 met.

**Allowance for Doubtful Accounts**

The Foundation determines whether an allowance for uncollectibles should be provided for contributions and accounts receivable. Such estimates are based on management's assessment of the aged basis of its receivables and other sources, current economic conditions, subsequent receipts and historical information. Pledges and accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

**Fixed Assets**

Fixed assets and leasehold improvements with a cost of $1,000 or greater and estimated useful lives of more than one year are capitalized. Capitalized assets are depreciated and amortized on the straight-line method over the estimated useful life of the assets.

**Donated Securities**

Donated securities are recorded at their fair values the date they are received.

**Deferred Rent**

Certain operating leases contain escalation clauses for base rentals. Accordingly, the Foundation has recorded the straight-line effects of such escalations and recognized a deferred rent liability within the accompanying statement of financial position of $380,500 as of December 31, 2018.

**Advertising**

The Foundation uses advertising to promote its programs and events. The production costs of advertising are expensed as funds are disbursed and are presented in the accompanying statement of functional expenses. For the year ended December 31, 2018, the Foundation had advertising costs of $72,452.

**Functional Allocation of Expenses**

The costs of providing the Foundation's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Use of Estimates**

The preparation of financial statements in conformity with US GAAP 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.

**Concentration of Credit Risk**

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist primarily of cash and cash equivalents. The Foundation maintains its cash and cash equivalents with creditworthy, high-quality financial institutions. At certain times, the Foundation's cash account balances may exceed federally insured limits. However, the Foundation has not experienced, nor does it anticipate, any losses with respect to such bank balances. For the year ended December 31, 2018, the Foundation received approximately 29% of its contribution revenue from one source.

**Income Taxes**

The Foundation follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Foundation has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

**Reclassifications**

Certain reclassifications of prior year amounts have been made to conform to the current year presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the fiscal 2018 financial statements.

**Subsequent Events**

Subsequent events have been evaluated through June 27, 2019, which is the date the financial statements were issued. The Foundation is not aware of any subsequent events that would require additional disclosure.

## 3. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net, represent promises to pay from various sources. Amounts due in more than one year have been discounted using a discount rate of 2%.

| | |
|---|---|
| Past due | $ 822,038 |
| 2019 | 11,818,000 |
| 2020 | 11,206,425 |
| 2021 | 7,896,666 |
| 2022 | 7,330,000 |
| 2023 | 2,194,000 |
| | 41,267,129 |
| Less: discount to present value | 1,116,000 |
| Less: allowance for uncollectible contributions | 802,000 |
| | $ 39,349,129 |

For the year ended December 31, 2018, nine donors comprised 79% of the total gross contributions receivable balance.

## 4. INVESTMENTS

Investments at December 31, 2018 are classified as follows:

| | Cost | Fair Value |
|---|---|---|
| Cash and cash equivalents | $ 27,059 | $ 27,059 |
| Equities | 180,021 | 170,930 |
| Equity securities | | |
| Domestic | 542,727 | 510,960 |
| International | 263,067 | 246,500 |
| Foreign bonds | 46,113 | 46,113 |
| | $ 1,058,987 | $ 1,001,562 |

Included within total investments are charitable gift annuity fund investments totaling $86,436.

Following are major categories of investments measured within the fair value hierarchy at December 31, 2018:

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| Equities | $ 170,930 | $ - | $ 170,930 |
| Equity securities | | | |
| Domestic | 510,960 | - | 510,960 |
| International | 246,500 | - | 246,500 |
| Foreign bonds | - | 46,113 | 46,113 |
| | $ 928,390 | $ 46,113 | 974,503 |
| Cash and cash equivalents held for investment, at cost | | | 27,059 |
| Total | | | $ 1,001,562 |

## 5. LEASE COMMITMENTS

In June, 2018, the Foundation signed a 15 years and 9 months lease, which commenced in December 2018, for new office space. The lease will expire September 30, 2034. Approximately 24% of the space is occupied and reimbursed by Birthright Israel North America (“BRINA”) under a shared services agreement. The shared services agreement is a month to month, short term sublease.

There are letters of credit outstanding for both the expired and current leases, totaling $815,469, which have been collateralized by an interest-bearing money market account at December 31, 2018, and are included within cash held in escrow on the accompanying statement of financial position. $244,511, representing the LOC on the expired lease was released March 1, 2019.

The Foundation also rents office space for several of its regional personnel with short-term leases less than two years.

The future minimum lease payments for all leases as of December 31, 2018 are as follows:

| | |
|---|---|
| 2019 | $ 755,910 |
| 2020 | 1,148,109 |
| 2021 | 1,141,500 |
| 2022 | 1,141,500 |
| Thereafter | 14,982,188 |
| | $ 19,169,207 |

The lease agreement provides for nine months of free rent in the first year. Four of those months were relinquished in exchange for leasehold improvements provided by the landlord. The free rent is being amortized over the life of the lease. The net rent expense for the year ended December 31, 2018 totaled $1,011,496 and is included within occupancy expenses on the accompanying statement of functional expenses.

## 6. FIXED ASSETS, NET

Fixed assets net consisted of the following:

| | Cost | Accumulated Depreciation | Net | Estimated Useful Lives |
|---|---|---|---|---|
| Furniture and fixtures | $ 400,994 | $ 28,642 | $ 372,352 | 5-7 years |
| Computers and computer systems | 201,694 | 103,388 | 98,306 | 3 years |
| Server | 89,368 | 8,937 | 80,431 | 5 years |
| Security equipment | 63,960 | 6,396 | 57,564 | 5 years |
| Video and telephone equipment | 78,730 | 70,857 | 7,873 | 5 years |
| Leasehold improvements | 985,608 | 32,854 | 952,754 | 10 years |
| | $ 1,820,354 | $ 251,074 | $ 1,569,280 | |

Depreciation expense for the year ended December 31, 2018 was $228,791.

## 7. GRANTS

The Foundation awards grants to organizations and individuals that implement its missions and goals. In 2018, the Foundation awarded and transferred $80,000,597 to Birthright Israel International.

## 8. PENSION PLAN

The Foundation offers a defined contribution plan for eligible employees. The Foundation's contributions equal 5% of the employee's eligible compensation. Participants are fully vested after 3 years of service. Pension expense for the year ended December 31, 2018 totaled $335,900.

## 9. NET ASSETS

The Foundation's net assets without donor restrictions is comprised of undesignated and Board designated amounts for the following purposes at December 31, 2018:

| | |
|---|---|
| Undesignated | $ 10,592,391 |
| Board designated endowment | 4,500,000 |
| Total net assets without donor restrictions | $ 15,092,391 |

The Foundation's net assets with donor restrictions at December 31, 2018 are available for the following purposes:

| | |
|---|---|
| Subject to expenditure for specified purposes | |
| Restricted as to purpose (Excel and trip enhancements) | $ 264,940 |
| Restricted as to time and purpose | 1,486,500 |
| | 1,751,440 |
| Subject to time restrictions - multi-year pledges | 39,349,129 |
| Endowment funds | 1,000,000 |
| Total net assets with donor restrictions | $ 42,100,569 |

Net assets with donor restriction in the amount of $15,231,986 were released from time and purpose restrictions during the year ended December 31, 2018.

## 10. ENDOWMENT FUNDS

The Foundation maintains several donor-restricted funds the purposes of which are to provide support principally for trip enhancements and ancillary programs. In classifying such funds for financial statement purposes as either net assets with donor restrictions or net assets without donor restrictions, the Board of Directors looks to the explicit direction of the respective donor and provisions of applicable New York state law.

**Interpretation of Law**

The Board of Directors of the Foundation has interpreted New York Prudent Management of Institutional Funds Act ("NYPMIFA") as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary, except in those cases where the law allows appropriation for spending of the original gift amounts. As a result of this interpretation, the Board classifies as net assets with donor restrictions (a) the original value of the gifts donated to its donor-restricted endowment, (b) the original value of subsequent gifts to its donor-restricted endowment, and (c) accumulations of investment returns to donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. The remaining portion of its donor-restricted endowment fund includes the accumulated unspent earnings on the donor-restricted endowment funds that remains within net assets with donor restrictions until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by NYPMIFA.

**Investment Strategy**

As of December 31, 2018, all foundation investments were directed by the Investment Committee of the Board, elected by the Board in accordance with the By-Laws, and consisting of Directors with certain non-Director advisors in a non-voting capacity. This Committee meets periodically to discuss the performance of the investments and to choose, direct and review the results of investment managers and consultants appointed by the Committee. Investment managers are chosen by the Committee and directed to invest funds in a combination of common stocks, convertible corporate bonds, intermediate and long-term bonds, U.S. government obligations and otherwise as the Committee deems appropriate. Performance is measured by yearly percentage growth of the investments. Investment consultants may be selected from time to time by the Committee at its sole discretion to oversee investment activity and measure the performance of the investment managers. All fees are paid from earnings on the investments. Should fees and the annual spending draw exceed the total annual earnings on the funds, the payments are made from the accumulated gains of the funds. To reduce the risk of wide swings in fair value from year-to-year, and the risk of incurring large losses because of concentrated positions, the endowment is invested in a diversified portfolio including equity securities and mutual funds.

**Spending Policy**

The Board, in compliance with the applicable state regulations, will appropriate as much of net appreciation as is prudent considering the Foundation's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. Under the Foundation's spending policy, 4% of the adjusted average fair value of certain investments measured at December 31 of each of the twelve quarters immediately preceding is made available on each January 1 to support current operations of the Foundation.

Following is a reconciliation of the activity in the endowment fund portion of the investments for the year ended December 31, 2018:

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
|---|---|---|---|
| Donor restricted endowment fund payments | $ - | $ 400,000 | $ 400,000 |
| Board designated endowment funds | 500,000 | - | 500,000 |
| Total endowment fund investments | $ 500,000 | $ 400,000 | $ 900,000 |

## 11. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets available within one-year of the statement of financial position date for general expenditures are as follows:

| | |
|---|---|
| Cash and cash equipments | $ 18,027,149 |
| Contributions receivable - net | 12,388,704 |
| Prepaid expenses and other assets | 389,673 |
| Investments | 1,001,562 |
| | 31,807,088 |
| Less: | |
| Contractual, legal or donor-imposed restrictions | |
| Liabilities due within one year | 3,436,190 |
| Amounts subject to expenditure for specified purpose | 1,751,440 |
| Amounts invested for charitable gift annuities | 86,435 |
| Amounts invested for donor restricted endowments | 400,000 |
| Pledges for endowment purposes | 200,000 |
| Total amounts unavailable for general expenditures within one year | 5,874,065 |
| Board designations: | |
| Funds functioning as endowments | 500,000 |
| Board designated cash | 4,000,000 |
| Total amounts unavailable to management without Board approval | 4,500,000 |
| Total financial assets available within one year after Board designations | $ 21,433,023 |

The Foundation is primarily supported by contributions (both with and without donor restriction) and federation support. Because donor restrictions require resources to be used in a particular manner or in future periods, the Foundation maintains sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general operations, liabilities and other obligations require. In addition, the Foundation invests cash in excess of daily requirements in short-term investments. From time to time, the Board designates a portion of any operating surplus for particular or future uses; total Board-designated funds were $4,500,000 as of December 31, 2018. In the event of financial distress or an immediate liquidity need resulting from events outside general operations, the Foundation's Board may draw upon these Board-designated funds. The Foundation could also draw an additional $5,000,000 on its line of credit (as further discussed in Note 12).

## 12. LINE OF CREDIT

On January 29, 2019, the Foundation entered into a $5 million revolving line of credit note secured by the Foundation's pledges, which will renew annually at the bank's discretion. Amounts borrowed under this facility bear interest based at an adjusted LIBOR rate (LIBOR plus 2.122%), adjusted monthly. No amounts have been borrowed under this credit facility.

## 13. RELATED PARTY TRANSACTIONS

Accounts payable - shared services represents shared services of amounts due to BRINA which shares space and common goals but are not consolidated with the financial statements of the Foundation, as the criteria for consolidation under US GAAP has not been met as of December 31, 2018 (Note 1).