

**Friends of Yemin Orde, Inc.
Financial Statements
December 31, 2018 and 2017**



Friends of Yemin Orde

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JOHN T SQUIRE (Retired)
SUSAN A LEMKIN (Retired)
BART J LANMAN CPA CFP®
ROBERT J KOPERA CPA
LISA M BLACKMORE CPA MBA
ALISON J OLSEN CPA
TRACY M MOREY CPA

SQUIRE, LEMKIN + COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS
111 ROCKVILLE PIKE
SUITE 475
ROCKVILLE MARYLAND 20850
301 424 6800 TELEPHONE
301 424 6892 FACSIMILE
EMAIL SUPPORT@MYCPAS.COM
WWW.MYCPAS.COM

INDEPENDENT AUDITORS' REPORT

Board of Directors
Friends of Yemin Orde, Inc.
Bethesda, MD

We have audited the accompanying financial statements of Friends of Yemin Orde, Inc., a not-for-profit organization, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of Yemin Orde, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Adjustment

As discussed in Note 16 to the financial statements, the 2017 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Sygnise, Leland & Co., LLP

June 18, 2019

FRIENDS OF YEMIN ORDE, INC.

STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31,	
ASSETS	2018	2017 (RESTATED)
CURRENT ASSETS:		
Cash and cash equivalents:		
Checking and savings accounts	\$ 1,722,114	\$ 2,895,122
Held as foreign currency	463,349	-
Total cash and cash equivalents	\$ 2,185,463	\$ 2,895,122
Pledges and grants receivable, current net	3,417,036	4,249,039
Prepaid expenses	5,187	81,449
TOTAL CURRENT ASSETS	\$ 5,607,686	\$ 7,225,610
PROPERTY AND EQUIPMENT, NET	\$ 448,316	\$ 456,822
OTHER ASSETS:		
Pledges and grants receivable, non-current net	\$ 3,461,220	\$ 4,248,965
Investments	13,823,573	14,181,681
Deposits	3,543	3,543
TOTAL OTHER ASSETS	\$ 17,288,336	\$ 18,434,189
TOTAL ASSETS	\$ 23,344,338	\$ 26,116,621
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,195	\$ 2,300
Deferred rent	-	5,747
Deferred revenue	-	100,000
TOTAL LIABILITIES	\$ 2,195	\$ 108,047
NET ASSETS:		
Without donor restrictions:		
Undesignated	\$ 1,943,298	\$ 3,225,203
Board designated endowment and other funds	7,290,191	7,250,095
Accumulated currency translation adjustments	5,012	-
Total without donor restrictions	\$ 9,238,501	\$ 10,475,298
With donor restrictions	14,103,642	15,533,276
TOTAL NET ASSETS	\$ 23,342,143	\$ 26,008,574
TOTAL LIABILITIES AND NET ASSETS	\$ 23,344,338	\$ 26,116,621

The accompanying notes are an integral part of these financial statements.

FRIENDS OF YEMIN ORDE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31,

	2018			2017 (RESTATED)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT:						
Contributions, grants, and pledges	\$ 1,371,959	\$ 5,123,146	\$ 6,495,105	\$ 1,629,165	\$ 9,127,466	\$ 10,756,631
Awards dinner:						
Gross revenue	1,134,270	-	1,134,270	-	-	-
Less, direct expenses	(418,917)	-	(418,917)	-	-	-
Other revenue and support:						
Interest and investment (loss) income, net of fees	(265,701)	(273,712)	(539,413)	737,710	817,701	1,555,411
Foreign currency gain	5,012	-	5,012	-	-	-
Net assets released from donor restrictions	6,279,068	(6,279,068)	-	6,758,078	(6,758,078)	-
TOTAL REVENUE AND SUPPORT	<u>\$ 8,105,691</u>	<u>\$ (1,429,634)</u>	<u>\$ 6,676,057</u>	<u>\$ 9,124,953</u>	<u>\$ 3,187,089</u>	<u>\$ 12,312,042</u>
EXPENSES:						
PROGRAM SERVICES:						
Support for Yemin Orde Youth Village	\$ 4,453,347	\$ -	\$ 4,453,347	\$ 3,673,687	\$ -	\$ 3,673,687
Grants to Village Way Education Initiatives	3,219,161	-	3,219,161	3,414,977	-	3,414,977
TOTAL PROGRAM SERVICES	<u>\$ 7,672,508</u>	<u>\$ -</u>	<u>\$ 7,672,508</u>	<u>\$ 7,088,664</u>	<u>\$ -</u>	<u>\$ 7,088,664</u>
SUPPORTING SERVICES:						
General and administrative	\$ 1,009,424	\$ -	\$ 1,009,424	\$ 376,280	\$ -	\$ 376,280
Fundraising	659,396	-	659,396	592,165	-	592,165
TOTAL SUPPORTING SERVICES	<u>\$ 1,668,820</u>	<u>\$ -</u>	<u>\$ 1,668,820</u>	<u>\$ 968,445</u>	<u>\$ -</u>	<u>\$ 968,445</u>
TOTAL EXPENSES	<u>\$ 9,341,328</u>	<u>\$ -</u>	<u>\$ 9,341,328</u>	<u>\$ 8,057,109</u>	<u>\$ -</u>	<u>\$ 8,057,109</u>
CHANGE IN NET ASSETS BEFORE PROVISION FOR INCOME TAXES	\$ (1,235,637)	\$ (1,429,634)	\$ (2,665,271)	\$ 1,067,844	\$ 3,187,089	\$ 4,254,933
PROVISION FOR INCOME TAXES	<u>(1,160)</u>	<u>-</u>	<u>(1,160)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS AFTER PROVISION FOR INCOME TAXES	<u>\$ (1,236,797)</u>	<u>\$ (1,429,634)</u>	<u>\$ (2,666,431)</u>	<u>\$ 1,067,844</u>	<u>\$ 3,187,089</u>	<u>\$ 4,254,933</u>
NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	\$ 10,475,298	\$ 15,533,276	\$ 26,008,574	\$ 9,226,573	\$ 12,346,187	\$ 21,572,760
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,881</u>	<u>-</u>	<u>180,881</u>
NET ASSEST, BEGINNING OF THE YEAR AS RESTATED	<u>\$ 10,475,298</u>	<u>\$ 15,533,276</u>	<u>\$ 26,008,574</u>	<u>\$ 9,407,454</u>	<u>\$ 12,346,187</u>	<u>\$ 21,753,641</u>
NET ASSETS, END OF YEAR	<u>\$ 9,238,501</u>	<u>\$ 14,103,642</u>	<u>\$ 23,342,143</u>	<u>\$ 10,475,298</u>	<u>\$ 15,533,276</u>	<u>\$ 26,008,574</u>

The accompanying notes are an integral part of these financial statements.

FRIENDS OF YEMIN ORDE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Grants:				
Yemin Orde Youth Village support	\$ 4,442,722	\$ -	\$ -	\$ 4,442,722
Village Way Education Initiatives support	3,219,161	-	-	3,219,161
Total grants	<u>\$ 7,661,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,661,883</u>
Personnel costs:				
Salaries	\$ -	\$ 242,743	\$ 364,115	\$ 606,858
Benefits	-	5,778	17,603	23,381
Retirement	-	3,800	5,701	9,501
Payroll taxes	-	17,356	26,035	43,391
Total personnel costs	<u>\$ -</u>	<u>\$ 269,677</u>	<u>\$ 413,454</u>	<u>\$ 683,131</u>
Other expenses:				
Accounting and auditing	\$ -	\$ 30,650	\$ -	\$ 30,650
Advertising, marketing and communications	-	11,378	17,066	28,444
Bad debt	-	542,008	-	542,008
Bank service charges	-	6,881	10,321	17,202
Computer and network maintenance	-	2,572	3,858	6,430
Depreciation and amortization	10,625	530	-	11,155
Dues and subscriptions	-	852	1,277	2,129
Equipment purchase	-	757	1,135	1,892
Insurance	-	3,280	4,919	8,199
Licenses and permits	-	2,593	-	2,593
Office supplies	-	1,744	2,616	4,360
Postage and shipping	-	2,809	4,214	7,023
Printing and reproduction	-	8,059	12,089	20,148
Professional fees	-	64,680	97,019	161,699
Regional expenses	-	7,349	11,023	18,372
Rent	-	20,475	30,712	51,187
Software license	-	2,446	3,668	6,114
Special events and programs	-	2,892	4,337	7,229
Telephone and internet	-	3,326	4,990	8,316
Travel and entertainment	-	24,466	36,698	61,164
Total other expenses	<u>\$ 10,625</u>	<u>\$ 739,747</u>	<u>\$ 245,942</u>	<u>\$ 996,314</u>
TOTAL EXPENSES	<u><u>\$ 7,672,508</u></u>	<u><u>\$ 1,009,424</u></u>	<u><u>\$ 659,396</u></u>	<u><u>\$ 9,341,328</u></u>

The accompanying notes are an integral part of these financial statements.

FRIENDS OF YEMIN ORDE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Grants:				
Yemin Orde Youth Village support	\$ 3,662,915	\$ -	\$ -	\$ 3,662,915
Village Way Education Initiatives support	3,414,977	-	-	3,414,977
Total grants	<u>\$ 7,077,892</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,077,892</u>
Personnel costs:				
Salaries	\$ -	\$ 190,789	\$ 354,322	\$ 545,110
Benefits	-	1,350	5,402	6,752
Retirement	-	3,040	5,646	8,686
Payroll taxes	-	13,677	25,399	39,076
Total personnel costs	<u>\$ -</u>	<u>\$ 208,855</u>	<u>\$ 390,769</u>	<u>\$ 599,624</u>
Other expenses:				
Accounting and auditing	\$ -	\$ 28,900	\$ -	\$ 28,900
Advertising, marketing and communications	-	6,529	12,125	18,654
Bad debt	-	27,274	-	27,274
Bank service charges	-	4,785	8,886	13,671
Computer and network maintenance	-	1,898	3,526	5,424
Depreciation and amortization	10,772	-	-	10,772
Dues and subscriptions	-	403	749	1,152
Equipment purchase	-	350	650	1,000
Insurance	-	1,978	3,672	5,650
Licenses and permits	-	2,805	-	2,805
Office supplies	-	1,184	2,200	3,384
Postage and shipping	-	2,160	4,012	6,172
Printing and reproduction	-	8,277	15,372	23,649
Professional fees	-	34,074	63,279	97,353
Regional expenses	-	3,923	7,286	11,209
Rent	-	18,363	34,102	52,465
Software license	-	2,029	3,767	5,796
Special events and programs	-	2,278	4,230	6,508
Telephone and internet	-	2,638	4,898	7,536
Travel and entertainment	-	17,577	32,642	50,219
Total other expenses	<u>\$ 10,772</u>	<u>\$ 167,425</u>	<u>\$ 201,396</u>	<u>\$ 379,593</u>
TOTAL EXPENSES	<u>\$ 7,088,664</u>	<u>\$ 376,280</u>	<u>\$ 592,165</u>	<u>\$ 8,057,109</u>

The accompanying notes are an integral part of these financial statements.

FRIENDS OF YEMIN ORDE, INC.

STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,	
	2018	2017 (RESTATED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,666,431)	\$ 4,254,933
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	11,155	10,772
Unrealized losses (gains) on investments	1,178,019	(1,203,187)
Realized gains on sales of investments	(391,040)	(142,417)
Donated investments	(160,044)	(553,953)
Change in allowance for doubtful accounts	60,000	-
Change in present value discount	(3,434)	60,766
Original donor-restricted gift required to be maintained in perpetuity by donor	(62,587)	(21,000)
Decrease (increase) in assets:		
Pledges and grants receivable	1,563,182	(2,167,859)
Prepaid expenses	76,262	(77,171)
Increase (decrease) in liabilities:		
Accounts payable	(105)	(31,414)
Deferred rent	(5,747)	(4,343)
Deferred revenue	(100,000)	100,000
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (500,770)	\$ 225,127
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	\$ (2,649)	\$ -
Purchases and reinvested earnings of investments	(5,002,541)	(2,733,902)
Proceeds from sales of investments	4,733,714	3,046,851
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	\$ (271,476)	\$ 312,949
CASH FLOWS FROM FINANCING ACTIVITIES:		
Original donor-restricted gift required to be maintained in perpetuity by donor	\$ 62,587	\$ 21,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 62,587	\$ 21,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (709,659)	\$ 559,076
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,895,122	2,336,046
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,185,463	\$ 2,895,122

The accompanying notes are an integral part of these financial statements.

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 1. **Organization and Significant Accounting Policies**

Organization - Friends of Yemin Orde, Inc. (FYO) was incorporated in the United States of America on December 28, 1990 as a not-for-profit organization. FYO provides grants for support of the programs and activities of the Yemin Orde Wingate Youth Village (the Youth Village), located in Hof Ha Carmel, Israel, and the Village Way Educational Initiatives (VWEI). Both the Youth Village and VWEI are non-governmental organizations in Israel and have not been consolidated in the accompanying financial statements. The programs of FYO are as follows:

Support for Yemin Orde Youth Village - The Youth Village is located on 77 acres atop Mount Carmel in northern Israel. The Youth Village provides a home, a safe haven, and an education to more than 400 at-risk immigrant children from around the world. Through a deeply sensitive approach to living and learning, and a dedicated staff and team of professionals, these formerly traumatized children's lives are transformed. They develop self-esteem and leadership skills and learn to live in wholeness: healthy, capable, and strong. The Youth Village also includes a high school, an art and music center, a modern computer center, a central dining room, library, eco-farm, and sports facilities.

Grants to Village Way Educational Initiatives - VWEI is an independent organization created in 2006 to extend Yemin Orde's unique methodology, called the Village Way, to transform other youth villages and public high schools in Israel serving at-risk youth. Facilitators provide resources, workshops, teacher training and interventions to empower educators throughout Israel. VWEI has reached 18,500 children and 2,300 staff members in 49 educational communities. In addition VWEI provides resources for two Pre-Military Leadership Programs - one for men and one for women in Northern Israel.

Basis of Accounting - The accompanying financial statements are presented on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of Presentation - Net assets, revenue, gains, and losses are classified based on the existence or absence of contributions with donor-imposed restrictions. Accordingly, net assets are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of FYO, management and the board of directors. Board designated endowment funds are classified as net assets without donor restrictions.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of FYO, or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 1. **Organization and Significant Accounting Policies** (Continued)

The bylaws of FYO include a variance provision whereby FYO will determine in its sole discretion which grant requests from the Youth Village and VWEI to fund. Based on this provision, all contributions and assets not classified as donor restricted are classified as without donor restrictions. Receipts of unconditional promises to give with payments due in future periods are reported as donor restricted support unless the donor provides explicit stipulations that the pledged funds are to be used to support activities of the current period. Expenses are reported as decreases in net assets without donor restrictions. When a time or purpose restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

Cash and Cash Equivalents - FYO considers all cash, money market funds, foreign currency, and other highly liquid investments which are to be used for current operations, and which have an original maturity of three month or less, to be cash and cash equivalents.

During 2018, FYO changed the cash and cash equivalent accounting policy. All other highly liquid instruments, which are to be used for the long-term purposes of FYO, are now considered investments, rather than cash and cash equivalents. The policy has been applied retrospectively to both years presented on these financial statements.

Foreign Currency Translation - During the year ended December 31, 2018, FYO opened a bank account which maintains funds in Israeli Shekels (ILS). This is the only asset or liability maintained in the foreign currency. The account is translated at year-end exchange rates. Translation adjustments for such assets and liabilities are accumulated separately in unrestricted net assets and the accumulated unrealized gain was \$5,012 as of December 31, 2018. Gains and losses from foreign currency translation for the period are included in the statement of activities.

Property and Equipment - Property and equipment purchases with a useful life of greater than one year and an acquisition value exceeding \$2,000 are recorded at cost and depreciated using the straight line method over an estimated useful life ranging between three and five years. Property and equipment donations are recorded at fair value on the date of donation. Leasehold improvements are recorded at cost and amortized over the lesser of the useful life or the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses when incurred. FYO also purchased land in Zichron Yaacov, Israel and constructed a building. The building is being depreciated over an estimated useful life of 40 years.

Investments - Investments are recorded at fair value based on quoted market prices when available. Interest, dividends, unrealized and realized gains (losses) are netted with investment fees and are included in interest and investment income, in the accompanying statements of activities. Interest and investment income are recorded as revenue when earned.

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 1. **Organization and Significant Accounting Policies** (Continued)

Fair Value Measurements - FYO complies with the provisions of FASB ASC 820, *Fair Value Measurement and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances the disclosure requirements for fair value measurements. FYO accounts for a significant portion of its financial statements at fair value or considers fair value in their measurement.

Risks and Uncertainties - FYO invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. 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 and that such changes could materially affect the amounts reported in the accompanying financial statements.

At times during the year, FYO maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation limits. FYO has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash.

Contributions, Grants, and Pledges Receivable - Contributions and grants, including unconditional promises to give pledges, are recorded as revenue in the year notification is received from the donor. Sponsorships and Annual gala fees are recorded as revenue when the event occurs.

Contributions of property or contributions for the purchase or renovations of property, which are received without donor stipulations for how long the contributed assets must be used for, are reported as support without donor restrictions. Contributions of long-lived assets with donor-imposed time restrictions are reported as donor restricted support. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash, including stock, are recorded at their estimated fair value at the date of the gift.

Pledges and grants receivable are stated at their net realizable present value. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Accretion of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restriction, if any, on the contributions. The allowance for doubtful accounts is determined based upon annual review of account balances, including the age of the balance and historical experience with the donor. The allowance for doubtful accounts for each of the years ended December 31, 2018 and 2017 was \$60,000 and \$0, respectively.

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 1. **Organization and 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The expenses that are allocated include the following:

<u>Expenses</u>	<u>Method of Allocation</u>
Personnel costs	Time and effort
Advertising, marketing, and communications	Time and effort
Bank service charges	Time and effort
Computer and network maintenance	Time and effort
Dues and subscriptions	Time and effort
Equipment purchase	Time and effort
Insurance	Time and effort
Office supplies	Time and effort
Postage and shipping	Time and effort
Printing and reproduction	Time and effort
Professional fees	Time and effort
Regional expenses	Time and effort
Rent	Time and effort
Software licenses	Time and effort
Special events and programs	Time and effort
Telephone and internet	Time and effort
Travel and entertainment	Time and effort

Tax-Exempt Status - FYO is a 501(c)(3) organization that is exempt from Federal income taxes under the provisions of the Internal Revenue Code Section 501(a), except for income unrelated to their exempt purpose. FYO is classified as an organization that is not a private foundation and qualifies for charitable contribution deductions. For the year ended December 31, 2018, FYO had unrelated business income tax expenses of \$1,160, as a result of a tax law change which taxed transportation benefits as unrelated business income. There was no provision for income taxes required for the year ended December 31, 2017 since FYO had no taxable income from unrelated business activities.

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 1. **Organization and Significant Accounting Policies** (Continued)

Accounting for Uncertain Tax Positions - FYO complies with the accounting standard on accounting for uncertainty in income taxes which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. FYO's management has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. For the years ended December 31, 2018 and 2017, no unrecognized tax provision or benefit exists in the accompanying financial statements. Generally, FYO is no longer subject to income tax examinations by the United States federal, state, or local tax authorities for years ended before December 31, 2015.

New Accounting Pronouncement - On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Net assets previously reported as unrestricted are now reported as without donor restriction, net assets previously reported as temporarily restricted and permanently restricted are now reported as with donor restriction and investment fees are netted against investment revenue on the Statement of Activities. FYO, has adjusted the presentation of these statements accordingly, and the ASU has been applied retrospectively to all periods presented.

Note 2. **Pledges and Grants Receivable** - Pledges and grants receivable reflect commitments made to FYO by individuals and foundations. Pledges and grants with payments that are to be received in future years have been discounted to their present value using an effective interest rate of 1.85% and 0.85% as of December 31, 2018 and 2017, respectively. The discount is based on the average daily treasury yield curve rates for the respective years.

Pledges and grants receivable as of December 31, 2018 and 2017 are expected to be received as follows:

<u>Years Ending December 31,</u>	<u>2018</u>	<u>2017</u>
2018	\$ --	\$ 4,249,039
2019	3,477,036	2,304,191
2020	2,158,370	770,358
2021	755,000	630,000
2022	140,000	140,000
2023	120,000	120,000
Thereafter	<u>360,000</u>	<u>360,000</u>
Totals	\$ 7,010,406	\$ 8,573,588
Present value discount	(72,150)	(75,584)
Allowance for doubtful accounts	<u>(60,000)</u>	--
Net pledges and grants receivable	<u>\$ 6,878,256</u>	<u>\$ 8,498,004</u>

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 2. **Pledges and Grants Receivable** (Continued)

Pledges receivable recorded in the statements of financial position as of December 31, 2018 and 2017 are as follows:

	2018	2017
Current portion	\$ 3,417,036	\$ 4,249,039
Noncurrent portion	3,461,220	4,248,965
Total pledges and grants receivable	\$ 6,878,256	\$ 8,498,004

Note 3. **Conditional Pledges** - FYO received grants that contain donor conditions. Since these grants represent conditional promises to give, they are not recorded as grant revenue until donor conditions are met.

As of December 31, the conditional grants and related conditions are as follows:

	Condition	2018	2017
Conditional pledges:			
Program support	Matching	\$ 2,721,596	\$ 3,764,042

Note 4. **Property and Equipment** - Property and equipment as of December 31, 2018 and 2017, consists of the following:

	2018	2017
Furniture and equipment	\$ 4,848	\$ 10,855
Property in Israel:		
Building	425,000	425,000
Land	132,800	132,800
Totals	\$ 562,648	\$ 568,655
Less, Accumulated depreciation	(114,332)	(111,833)
Total property and equipment	\$ 448,316	\$ 456,822

Note 5. **Investments** - Investments consist of the following as of December 31, 2018 and 2017:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and equivalents	\$ 869,008	\$ 869,008	\$ 1,471,777	\$ 1,471,777
Stocks	5,700,747	6,937,748	5,584,345	7,891,606
Corporate bonds	1,218,814	1,178,878	1,035,534	1,009,730
Government bonds	2,825,355	2,807,195	1,326,866	1,312,751
Publicly traded partnerships & REITs	777,930	650,372	696,086	601,698
Mutual funds:				
Equity	362,907	347,008	360,346	362,544
Fixed income	255,442	239,156	261,426	251,142
Exchange traded funds:				
Equity	796,698	794,208	1,250,613	1,280,433
Totals	\$ 12,806,901	\$ 13,823,573	\$ 11,986,993	\$ 14,181,681

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 5. **Investments** (Continued)

Included in interest and investment income are the following:

	2018	2017
Interest and dividends, net of fees	\$ 247,566	\$ 209,807
Unrealized (losses) gains on investments	(1,178,019)	1,203,187
Realized gains on investments	391,040	142,417
Total interest and investment (loss) income	\$ (539,413)	\$ 1,555,411

Note 6. **Fair Value Measurements** - FYO has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the statements of financial position are categorized based on the inputs to valuation techniques as follows:

- Level 1 These are investments where values are based on unadjusted quoted prices for identical assets in an active market that FYO has the ability to access.

- Level 2 These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the investments.

- Level 3 These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Investments recorded in the statements of financial position are categorized as follows as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Stocks	\$ 6,937,748	\$ --	\$ --	\$ 6,937,748
Corporate bonds	1,178,878	--	--	1,178,878
Government bonds	2,807,195	--	--	2,807,195
Publicly traded				
Partnerships & REITs	650,372	--	--	650,372
Mutual funds	586,164	--	--	586,164
Exchange traded funds	794,208	--	--	794,208
Subtotals	\$12,954,565	\$ --	\$ --	\$ 12,954,565
Cash and equivalents				869,008
Totals				\$ 13,823,573

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 6. **Fair Value Measurements** (Continued)

Investments recorded in the statements of financial position are categorized as follows as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Stocks	\$ 7,891,606	\$ --	\$ --	\$ 7,891,606
Corporate bonds	1,009,730	--	--	1,009,730
Government bonds	1,312,751	--	--	1,312,751
Publicly traded				
partnerships & REITs	601,698	--	--	601,698
Mutual funds	613,686	--	--	613,686
Exchange traded funds	1,280,433	--	--	1,280,433
Subtotals	\$ 12,709,904	\$ --	\$ --	\$ 12,709,904
Cash and equivalents				1,471,777
Totals				\$ 14,181,681

The following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy:

Cash and cash equivalents - Comprised of cash, money market funds, and accrued interest which are valued at their fair market value. Such investments are classified within Level 1 of the valuation hierarchy.

Mutual Funds, Exchange Traded Funds, Publicly Traded Partnerships, REITs, and Stocks - Comprised of securities that are listed on a national market or exchange and are valued at the last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

Corporate and Government Bonds - Consist of corporate bonds, government bonds and notes, and U.S. Treasury notes which are generally valued at the most recent price of the equivalent quoted price for such securities. Debt securities, which are actively traded, are classified within Level 1 of the valuation hierarchy.

Note 7. **Net Assets With Donor Restrictions** - Net assets with donor restrictions were composed of the following as of December 31:

	2018	2017
Time restricted pledges:		
Village Way Educational Initiatives	\$ 4,607,429	\$ 4,497,810
Youth Village and general support	1,958,659	2,362,480
Purpose restricted pledges:		
Capital projects	806,870	1,476,851
Scholarship funds	15,000	--
Endowment	6,715,684	7,196,135
Totals	\$ 14,103,642	\$ 15,533,276

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 8. **Board Designated Net Assets** - Board-designated net assets include funds set aside by the Board of Directors (the Board) of FYO for endowment purposes and special projects. The Board designated endowment funds are not donor restricted endowment funds; they constitute the proceeds of gifts without donor restrictions and investment income that has been designated by the Board for the long-term purposes of the organization. Board designated net assets are currently not subject to any spending limits, distribution requirement, or the like.

Board designated net assets consists of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Endowment funds	\$ 5,568,044	\$ 6,026,699
Future reserves	<u>1,722,147</u>	<u>1,223,396</u>
Totals	<u>\$ 7,290,191</u>	<u>\$ 7,250,095</u>

Note 9. **Endowments** - FYO's endowments consist of donor-restricted endowment funds, funds designated by the Board of Directors to function as endowments, and temporarily restricted accumulated earnings on these funds. As required under accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Massachusetts Uniform Management Institutional Funds Act (MA UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, FYO classifies as donor restricted net assets required to be maintained in perpetuity (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual 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.

In accordance with UPMIFA, FYO considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of FYO and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and,
- Investment policies of FYO.

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 9. **Endowments** (Continued)

Endowment net asset composition by type of fund as of December 31, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 5,568,044	\$ --	\$ 5,568,044
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	--	5,438,855	5,438,855
Accumulated investment gains	--	1,276,829	1,276,829
Totals	<u>\$ 5,568,044</u>	<u>\$ 6,715,684</u>	<u>\$ 12,283,728</u>

Changes in endowment net assets for the year ended December 31, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at December 31, 2017	\$ 6,026,699	\$ 7,196,135	\$ 13,222,834
Contributions	--	62,587	62,587
Interest and dividends, net of fees	105,207	125,621	230,828
Net depreciation	(334,437)	(399,333)	(733,770)
Appropriated for operations	(229,425)	(269,326)	(498,751)
Balance at December 31, 2018	<u>\$ 5,568,044</u>	<u>\$ 6,715,684</u>	<u>\$ 12,283,728</u>

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 6,026,699	\$ --	\$ 6,026,699
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	--	5,376,268	5,376,268
Accumulated investment gains	--	1,819,867	1,819,867
Totals	<u>\$ 6,026,699</u>	<u>\$ 7,196,135</u>	<u>\$ 13,222,834</u>

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 9. **Endowments** (Continued)

Changes in endowment net assets for the year ended December 31, 2017 is as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Balance at December 31, 2016	\$ 5,564,393	\$ 6,621,400	\$ 12,185,793
Contributions	--	21,000	21,000
Interest and dividends, net of fees	92,690	110,299	202,989
Net appreciation	594,476	707,403	1,301,879
Appropriated for operations	<u>(224,860)</u>	<u>(263,967)</u>	<u>(488,827)</u>
Balance at December 31, 2017	<u>\$ 6,026,699</u>	<u>\$ 7,196,135</u>	<u>\$ 13,222,834</u>

Commingling and Retention of Assets - Endowment assets may be commingled with the other assets and investments held by FYO. The Investment Committee may dispose of any asset received by it, giving proper credit to any appropriate special fund for the proceeds, or may retain assets in the form in which contributed or acquired.

Investment Return Objectives, Risk Parameters and Strategies. FYO has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes stocks, corporate bonds, government bonds, publicly traded partnerships, real estate investment trusts, mutual funds, and exchange trade funds, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Therefore, FYO expects its endowment assets, over time, to produce an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. FYO has a policy of appropriating for distribution each year of 4% of its endowment fund's average fair value of the prior three calendar year-ends preceding the fiscal year in which the distribution is planned. In establishing this policy, FYO considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. FYO expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually, which is consistent with FYO's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 9. **Endowments** (Continued)

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors of FYO has interpreted MA UMIFA to permit spending from underwater endowments in accordance with prudent measures required under law

Note 10. **Lease Commitment** - In September 2013, FYO entered into a lease agreement for office space in Bethesda, MD, which ended on December 31, 2018. During 2018, the lease was extended until February 28, 2021. The lease extension calls for lease payments of \$4,015 per month, and includes two months free rent. FYO is also responsible for operating expenses each month.

As of December 31, 2018, the future minimum base lease obligations are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 40,148
2020	48,178
2021	<u>8,030</u>
Total	<u>\$ 96,356</u>

Note 11. **Line of Credit** - FYO has a \$5,000,000 uncommitted, demand revolving line of credit which is secured by FYO's investment accounts, with options for variable and fixed rate advances. The line of credit was agreed upon in December 2012 and does not have a specific term or duration, and can be terminated at the bank's discretion. The line of credit is subject to certain restrictive covenants. Interest is accrued at various rates depending on duration and type (fixed or variable) of advance, but is generally based on LIBOR plus a percentage spread. There was no outstanding balance under the line of credit as of December 31, 2018 and 2017.

Note 12. **Contributions and Grants Paid Directly to Yemin Orde (Unaudited)** - In addition to the total commitments received by FYO, approximately \$459,938 and \$116,988 (cash basis) was raised by FYO on behalf of the Youth Village. These funds were sent directly to the Youth Village during the years ended December 31, 2018 and 2017, respectively. Such contributions received directly by the Youth Village are not included in the accompanying financial statements but are recognized as credits towards the grants disbursed by FYO to the Youth Village.

Note 13. **Retirement** - FYO has a Simple Investment Retirement Account (Simple IRA) plan for all employees with annual compensation of at least \$5,000. FYO matches employee contributions up to 3% of the employee's salary, up to maximum of \$6,000 per year.

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 14. **Availability and Liquidity** - The following represents FYO's financial assets at December 31, 2018 and 2017:

	2018	2017
Financial assets at year end:		
Cash and cash equivalents	\$ 2,185,463	\$ 2,895,122
Pledges and grants receivable, current net	3,417,036	4,249,039
Investments	<u>13,823,573</u>	<u>14,181,681</u>
Total current financial assets	<u>\$ 19,426,072</u>	<u>\$ 21,325,842</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	\$ 14,103,642	\$ 15,533,276
Less net assets with purpose restrictions to be met in less than a year	(3,477,036)	(5,672,913)
Board-designated net assets	<u>7,275,228</u>	<u>7,250,095</u>
	<u>\$ 17,901,834</u>	<u>\$ 17,110,458</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,524,238</u>	<u>\$ 4,215,384</u>

FYO regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. FYO has various sources of liquidity at its disposal, including cash and cash equivalents, grants and contributions receivable, and investments.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Note 15. **Reclassifications** - Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Note 16. **Prior Period Adjustment** - In 2018, undeposited funds were recorded as cash equivalents and recognized as revenue in the incorrect period. Accordingly, FYO has restated its results for the affected years. The effect of the restatement was to increase the change in net assets for 2017 by \$24,549. Unrestricted net assets at the beginning of 2017 were increased by \$180,881 for the effects of the restatement in 2016.

FRIENDS OF YEMIN ORDE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017 (RESTATED)

Note 16. **Prior Period Adjustment** (Continued)

The correction is due to inconsistent recording of cash receipts for pledge payments dated prior to year-end but received after year-end between development and accounting records. FYO records contributions on the cash basis throughout the year and performs a year end adjustment using the development records to convert the accounting records to the accrual basis. Development records included the year end payments as decreases in the pledges receivable balance but accounting records showed the year end payments in the subsequent year. The inconsistency caused a misstatement in the revenue recognized during the year-end accrual conversion.

The effect of the restatement on the change in unrestricted net assets and financial position as of and for the years ended December 31, 2017 is as follows:

	As Previously Reported	Restatement Adjustment	Prior Period Restated
Statement of Financial Position, December 31, 2017:			
Cash and cash equivalents	\$ 2,689,692	\$ 205,430	\$ 2,895,122
Unrestricted net assets	3,019,773	205,430	3,225,203
Statement of Activities, December 31, 2017:			
Contributions, grants, and pledges	\$ 10,732,082	\$ 24,549	\$ 10,756,631
Change in unrestricted net assets	4,230,384	24,549	4,254,933

Note 17. **Subsequent Events** - In preparing these financial statements, FYO has evaluated events and transactions for potential recognition or disclosure through June 18, 2019, the date the financial statements were available to be issued.