American Society of the University of Haifa

Independent Auditor's Report and Financial Statements

June 30, 2019

BKD
CPAs & Advisors

American Society of the University of Haifa
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Contents

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Independent Auditor's Report

Board of Directors
American Society of the University of Haifa
New York, New York

We have audited the accompanying financial statements of American Society of the University of Haifa, which comprise the statement of financial position as of June 30, 2019 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Society of the University of Haifa as of June 30, 2019, 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 States of America.

Emphasis of Matters

As described in *Note 13* to the financial statements, in 2019, American Society of the University of Haifa adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*.

As discussed in *Note 12* to the financial statements, the beginning of the year net assets were restated to correct a misstatement.

Our opinion is not modified with respect to these matters.

BKD, LLP

New York, New York
May 27, 2020

American Society of the University of Haifa
Statement of Financial Position
June 30, 2019

Assets

Cash and cash equivalents	$	1,507,823
Remainder interest in charitable annuities		675,732
Contributions receivable - net		15,702,307
Prepaid expenses and other assets		70,816
Property and equipment - net		18,342
Total assets	$	17,975,020

Liabilities and Net Assets

Liabilities		
Accounts and accrued expenses payable	$	142,597
Grants payable - University of Haifa		4,000,000
Deferred rent		25,532
Total liabilities		4,168,129
Net Assets		
Without donor restrictions		6,343,350
With donor restrictions		7,463,541
Total net assets		13,806,891
Total liabilities and net assets	$	17,975,020

American Society of the University of Haifa

Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	$ 6,688,145	$ 4,465,749	$ 11,153,894
Support from the University of Haifa	2,600,000	-	2,600,000
Interest income (loss)	1,681	-	1,681
Change in value of remainder interest in charitable annuity trust	-	(40,095)	(40,095)
Net assets released from restriction	5,534,093	(5,534,093)	-
Total revenues, gains and other support	14,823,919	(1,108,439)	13,715,480
Expenses			
Program service			
Research and education	9,543,849	-	9,543,849
Supporting services			
Management and general	595,161	-	595,161
Fundraising	1,724,227	-	1,724,227
Total supporting services	2,319,388	-	2,319,388
Total expenses	11,863,237	-	11,863,237
Change in Net Assets	2,960,682	(1,108,439)	1,852,243
Net Assets, Beginning of Year as Previously Reported	2,556,441	9,398,207	11,954,648
Adjustments Applicable to Prior Years *(Note 12)*	826,227	(826,227)	-
Balance, Beginning of Year as Restated	3,382,668	8,571,980	11,954,648
Net Assets, End of Year	$ 6,343,350	$ 7,463,541	$ 13,806,891

American Society of the University of Haifa

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Service	Supporting Services		
	Research and Education	Management and General	Fundraising	Total
Grants to the University of Haifa	$ 8,961,363	$ -	$ -	$ 8,961,363
Grants - others	512,170	-	-	512,170
Salaries	36,651	268,774	916,277	1,221,702
Employee benefits and payroll taxes	5,961	43,716	149,033	198,710
Professional fees	-	248,087	365,468	613,555
Travel	14,940	-	84,657	99,597
Occupancy	3,057	22,416	76,420	101,893
Advertising	-	-	72,169	72,169
Office expenses	726	5,320	18,138	24,184
Equipment rental	68	499	1,703	2,270
Printing and publications	-	-	4,540	4,540
Telephone	205	1,504	5,126	6,835
Postage	81	591	2,015	2,687
Computer maintenance	152	1,113	13,825	15,090
Dues and subscriptions	100	731	2,492	3,323
Insurance	100	731	2,493	3,324
Depreciation and amortization	79	579	1,973	2,631
Event production	1,802	-	4,153	5,955
Miscellaneous and gifts	150	1,100	3,745	4,995
Conferences and meetings	6,244	-	-	6,244
Total expenses reported by function on the statement of activities	$ 9,543,849	$ 595,161	$ 1,724,227	$ 11,863,237

American Society of the University of Haifa

Statement of Cash Flows

Year Ended June 30, 2019

Operating Activities	
Change in net assets	$ 1,852,243
Items not requiring (providing) operating cash flows	
Contribution of remainder interest in charitable gift annuity	(130,839)
Change in value of remainder interest in charitable annuity trust	40,095
Depreciation and amortization	2,631
Changes in	
Contributions receivable	(636,815)
Prepaid expenses and other assets	(8,412)
Accounts and accrued expenses payable	121,348
Grants payable - University of Haifa	(1,883,506)
Deferred rent	(7,774)
Net cash used in operating activities	(651,029)
Investing Activities	
Purchase of fixed assets	(13,948)
Net cash used in investing activities	(13,948)
Net Change in Cash and Cash Equivalents	(664,977)
Cash and Cash Equivalents, Beginning of Year	2,172,800
Cash and Cash Equivalents, End of Year	$ 1,507,823

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

American Society of the University of Haifa (ASUH) increases visibility and financial support for the University of Haifa to ensure its continued excellence in academic research, education and communal activities. ASUH cultivates relationships and serves as a vital connection between the university and its friends, alumni, and partner institutions in the United States. ASUH is a not-for-profit corporation which is tax-exempt under Internal Revenue Code (IRC) Section 501(c)(3).

ASUH is funded primarily by contributions from the general public.

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 included highly liquid instruments with maturities of three months or less when acquired. At June 30, 2019, cash equivalents consisted primarily of money market accounts.

At June 30, 2019, ASUH's cash accounts exceeded federally insured limits by approximately $1,272,000.

Allowance for Doubtful Accounts

ASUH's management determines whether an allowance for uncollectibles should be provided for contributions receivable. Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions, subsequent receipts and historical information. Contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Interest is not charged or recorded on overdue receivables. Management has determined that an allowance for doubtful accounts is not necessary at June 30, 2019.

Property and Equipment

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

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

Computer equipment, software and office furniture	5-7 years
Leasehold improvements	7 years

Long-Lived Asset Impairment

ASUH evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability, and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended June 30, 2019.

Net Assets

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

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

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

Contributions

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

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

Nature of the Gift	Value Recognized
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

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

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

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets with donor restrictions and then released.

Leases

Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Operating lease payments are charged to equipment and auto leases expense. Operating lease expense is recorded on the straight-line basis over the life of the lease, unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property, in which case that basis shall be used. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense. In 2019, all leases were classified as operating leases.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the separate statement of functional expenses. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the payroll allocation and other methods.

Grants to the University of Haifa and Others

Grants to the University of Haifa in Israel are recorded pursuant to authorization by the Board of Directors of ASUH. In addition, ASUH periodically awards grants to other entities with similar missions as ASUH. These grants are recorded upon approval of the Board.

Note 2: Contributions Receivable

Contributions receivable have been recorded in these financial statements at present value. Those receivables that are payable in more than one year have been discounted to their present value using a discount rate of 2 percent in 2019. The receivables are due as follows:

	With Donor Restrictions
Due within one year	$ 13,891,961
Due in one to five years	1,915,231
	15,807,192
Less discount to present value	(104,885)
Net realizable value	$ 15,702,307

Note 3: Property and Equipment

	Cost	Accumulated Depreciation and Amortization	Net Book
Computer equipment, office furniture and software	$ 54,638	$ 40,552	$ 14,086
Leasehold improvements	5,121	865	4,256
Total	$ 59,759	$ 41,417	$ 18,342

Note 4: Lease Commitments

ASUH leases premises in New York City which expires August 31, 2021. In addition, ASUH has a lease for a copy machine that expires in 2020. Total expense for 2019 was $104,163 for all leases.

In October 2019, ASUH agreed to a new five-year lease in New York City. The terms of the agreement were such that ASUH did not have to begin paying rent until the premises were ready. ASUH moved into the new office space in December 2019 and, therefore, they began paying rent effective December 1 2019, with the lease expiring November 30, 2024.

The minimum future lease payments are as follows:

2020	$	178,321
2021		221,839
2022		227,385
2023		233,069
2024		238,896
Thereafter		100,562
Total	$	1,200,072

Note 5: Concentrations

Approximately 68 percent of all contributions and 79 percent of contributions receivable were received from three donors in 2019.

Note 6: Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purpose and for periods after June 30, 2019:

Support of research and education programs	$	6,787,809
Time restrictions		675,732
	$	7,463,541

During the current year, net assets were released from restriction for the following:

Support of research and education programs	$	5,534,093
Total	$	5,534,093

Endowment Funds

General

ASUH had one donor-restricted endowment fund established to provide income to fund its future establishment of Chair position. 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. ASUH had $900,000 held in a permanently restricted endowment fund. As of June 30, 2018, these funds were held as cash. In 2019, the donor released the permanent nature of the restriction.

Note 7: Remainder Interest In Charitable Gift Annuity

In 2019, a donor purchased charitable gift annuities from a third party and named ASUH as the remainderman after the charitable gift annuities expire. The remainder interests will be remitted to ASUH.

Note 8: Grant Payable – University of Haifa

ASUH approved a grant to be paid over time. The remaining payments under the grant of $4,000,000 are due to be paid out in 2020.

Note 9: Support from the University of Haifa

The University of Haifa provides for annual support to cover a portion of management and general and fundraising expenses of ASUH. For the year ended June 30, 2019, $2,600,000 has been reflected in these financial statements as support from the University of Haifa.

Note 10: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

Cash and cash equivalents	$ 1,507,823
Remainder interest in charitable annuities	675,732
Contributions receivable - net	15,702,307
Total	17,885,862
Net assets with donor restrictions	(7,463,541)
Financial assets available to meet cash needs for general expenditures within one year	$ 10,422,321

The financial assets of ASUH without donor restrictions are available for general expenditures.

ASUH manages its liquidity and reserves following two guiding principles: operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs. ASUH monitors its future cash flows, liquidity and reserves on a monthly basis.

Note 11: Subsequent Events

Subsequent events have been evaluated through May 27, 2020, which is the date the financial statements were available to be issued.

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of ASUH. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief and Economic Security Act*. On April 30, 2020, ASUH received a federal grant in the amount of $474,900 pursuant to the Paycheck Protection Program. The loan is due two years from the date of the first disbursement under the loan and has a fixed interest rate of 1 percent per year. A portion of the loan may be forgiven; however, as of the date of this report, any amount of forgiveness is unable to be determined.

Note 12: Restatement of Prior Year's Financial Statements

The beginning of the year net assets have been restated to properly reflect net assets with and without donor restrictions. As a result of the changes, the previously reported 2018 change in net assets with donor restrictions decreased by $9,550,504 from $5,759,325 to ($3,791,179). The previously reported 2018 change in net asset without donor restrictions increased from $2,563,432 to $12,113,936. The following financial statement line items as of July 1, 2018 were affected by the correction:

	As Restated	As Previously Reported	Effect of Change
Statement of activities			
Net assets without donor restrictions, beginning of year	$ 3,382,668	$ 2,556,441	$ 826,227
Net assets with donor restrictions, beginning of year	8,571,980	9,398,207	(826,227)

Note 13: Change in Accounting Principle

In 2019, ASUH adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statements of Financial Position

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

Statements of Activities and Functional Expenses

- Expenses are reported by both nature and function in one location.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

- Amounts and purposes of governing board designations and appropriations as of the end of the period are disclosed. ASUH does not have any governing board designations in 2019.

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

Note 14: Future Changes in Accounting Principles

Accounting for Grants and Contributions

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

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

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. ASUH is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.