# Alexander Muss Institute for Israel Education, Inc.

## Consolidated Financial Statements
Year Ended December 31, 2017

# Alexander Muss Institute for Israel Education, Inc.

Consolidated Financial Statements
Year Ended December 31, 2017

## Contents

BDO

Tel: 212-885-8000
Fax: 212-697-1299
www.bdo.com

100 Park Avenue
New York, NY, 10017

# Independent Auditor's Report

To the Board of Governors of
Alexander Muss Institute for Israel Education, Inc.

We have audited the accompanying consolidated financial statements of Alexander Muss Institute for Israel Education, Inc. ("AMIIE"), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alexander Muss Institute for Israel Education, Inc. as of December 31, 2017, 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.

BDO USA, LLP

May 30, 2018

# Alexander Muss Institute for Israel Education, Inc.

## Consolidated Statement of Financial Position

| *December 31, 2017* | |
|---|---|
| **Assets** | |
| **Current:** | |
| Cash and cash equivalents | $ 5,736,578 |
| Investments (Note 5) | 117,759 |
| Contributions receivable | 94,585 |
| Prepaid expenses and other assets | 61,062 |
| Inventory | 21,026 |
| Tuition receivable | 626,264 |
| Beneficial Interest in Jewish National Fund, current portion (Note 4) | 1,179,056 |
| **Total Current Assets** | 7,836,330 |
| **Beneficial Interest in Jewish National Fund, Less Current Portion** | 10,591,302 |
| **Land Held For Investment** | 17,710 |
| **Fixed Assets, Net (Note 6)** | 4,839,552 |
| **Total Assets** | $23,284,894 |
| **Liabilities and Net Assets** | |
| **Current Liabilities:** | |
| Accounts payable and accrued expenses | $ 3,136,952 |
| Deferred income | 1,456,358 |
| **Total Liabilities** | 4,593,310 |
| **Commitments and Contingencies** | |
| **Net Assets:** | |
| Unrestricted | 5,941,951 |
| Temporarily restricted | 12,628,674 |
| Permanently restricted | 120,959 |
| **Total Net Assets** | 18,691,584 |
| **Total Liabilities and Net Assets** | $23,284,894 |

*See accompanying notes to consolidated financial statements.*

# Alexander Muss Institute for Israel Education, Inc.

## Consolidated Statement of Activities

*Year ended December 31, 2017*

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Tuition and fees | $ 9,241,327 | $ - | $ - | **$ 9,241,327** |
| Less: Financial aid awards | (1,103,582) | - | - | **(1,103,582)** |
| **Net Tuition and Fees** | 8,137,745 | - | - | **8,137,745** |
| Contributions | 749,137 | 557,897 | - | **1,307,034** |
| Change in value of beneficial interest in net assets held by Jewish National Fund | - | 259,292 | - | **259,292** |
| Investment income | 15,068 | - | - | **15,068** |
| Other revenue | 162,164 | - | - | **162,164** |
| Net assets released from restrictions and reclassifications | 1,009,324 | (1,009,324) | - | **-** |
| **Total Revenue** | 10,073,438 | (192,135) | - | **9,881,303** |
| **Expenses:** | | | | |
| Program services: | | | | |
| Education | 9,877,576 | - | - | **9,877,576** |
| Supporting services: | | | | |
| Management and general | 583,682 | - | - | **583,682** |
| Fundraising | 155,304 | - | - | **155,304** |
| **Total Expenses** | 10,616,562 | - | - | **10,616,562** |
| **Gain on Foreign Currency Translation** | 1,084 | - | - | **1,084** |
| **Change in Net Assets** | (542,040) | (192,135) | - | **(734,175)** |
| **Net Assets, Beginning of Year** | 6,483,991 | 12,820,809 | 120,959 | **19,425,759** |
| **Net Assets, End of Year** | **$ 5,941,951** | **$12,628,674** | **$120,959** | **$18,691,584** |

*See accompanying notes to consolidated financial statements.*

# Alexander Muss Institute for Israel Education, Inc.

## Consolidated Statement of Cash Flows

| *Year ended December 31, 2017* | |
|---|---|
| **Cash Flows From Operating Activities:** | |
| Change in net assets | $ (734,175) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 600,996 |
| Net appreciation in fair value of investments | (12,699) |
| Change in value of beneficial interest in net assets held by Jewish National Fund | (259,292) |
| Changes in assets and liabilities: | |
| Contributions receivable | (21,763) |
| Inventory | (842) |
| Prepaid expenses and other assets | (404,729) |
| Beneficial interest in net assets held by Jewish National Fund | 1,086,260 |
| Accounts payable and accrued expenses | 310,891 |
| Deferred income | (140,443) |
| **Net Cash Provided By Operating Activities** | 424,204 |
| **Cash Flows From Investing Activities:** | |
| Proceeds from sale of investments | 5,529 |
| Purchase of fixed assets | (384,972) |
| **Net Cash Used in Investing Activities** | (379,443) |
| **Net Increase in Cash and Cash Equivalents** | 44,761 |
| **Cash and Cash Equivalents - Beginning of Year** | 5,691,817 |
| **Cash and Cash Equivalents - End of Year** | $5,736,578 |

*See accompanying notes to consolidated financial statements.*

## 1. Nature of Organization

Alexander Muss Institute for Israel Education, Inc. ("AMIIE") provides an Israel educational experience to students. This experience brings 4,000 years of Israel's history to life.

AMIIE d/b/a Alexander Muss High School in Israel, or AMHSI, is a Section 501(c)(3) Florida not-for-profit organization registered to do business in New York and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code"). AMIIE is also exempt from state and local income taxes.

On January 30, 2014, AMIIE's by-laws were amended and restated authorizing Jewish National Fund ("JNF") Board of Directors to appoint all members of the AMIIE Board of Governors (see Note 3).

On April 27, 1998, the American Seminar in Israel Ltd. (the "Seminar"), a property-holding company associated with AMIIE - Israeli Branch, entered into voluntary liquidation. According to the Memorandum of Association of the Seminar, upon its liquidation it is obliged to give or to transfer the assets remaining after satisfaction of all its debts and liabilities to some other institution having objectives similar to the objectives of the Seminar, such institution to be determined by the Members of the Seminar. The Members of the Seminar have resolved to approve the transfer by the liquidator of the Seminar without consideration of all the assets of the Seminar to AMIIE - Israeli Branch. The Seminar was liquidated on December 31, 2006.

The Seminar's assets, recorded on its books at a value of $562,051 (cost of $1,214,599 less accumulated depreciation of $652,548), were transferred to AMIIE - Israeli Branch at a nominal value of $1.

## 2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AMIIE and the Seminar (collectively, the "School"). All intercompany balances and transactions have been eliminated in consolidation.

## 3. Summary of Significant Accounting Policies

### *(a) Basis of Presentation*

The consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

### *(b) Financial Statement Presentation*

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based in the existence or absence of donor-imposed restrictions. This requires that the amounts for each of the classes of net assets, permanently restricted, temporarily restricted and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

Net asset classifications are defined as follows:

**Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

**Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to the stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities.

**Permanently Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

### *(c) Cash and Cash Equivalents*

Cash equivalents are defined as highly liquid financial instruments with original maturities of three months or less from the date or purchase.

### *(d) Financial Instruments and Fair Value*

Accounting Standards Codification ("ASC") 820, "Fair Value Measurement," establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the School would use in pricing the School's asset or liability based on independently derived and observable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of the School are traded. The School estimates the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers for each investment based on best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 - Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly.

Level 3 - Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

### *(e) Inventory*

Inventory, which consists of books and supplies, is stated at the lower of cost or market. Cost is determined by the first-in, first-out ("FIFO") method.

### *(f) Beneficial Interest in JNF*

The School follows the provisions of ASC 958, "Not-for-Profit Entities." ASC 958 requires that a specified beneficiary (the School) recognize its rights to the assets held by a recipient organization (JNF) when the recipient organization raises or holds contributions on behalf of the specified beneficiary.

### (g) *Fixed Assets, Net*

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. The current estimated useful lives are as follows:

| | |
|---|---|
| Building and building improvements | 5 - 25 years |
| Furniture, fixtures and equipment | 3 - 25 years |

Leasehold improvements are depreciated over the shorter of their useful lives or the remainder of the lease period.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

### (h) *Impairment of Long-Lived Assets*

The Organization follows the provisions of ASC 360-10-35, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires the School to review long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. For the year ended December 31, 2017, there have been no such losses.

### (i) *Tuition and Fees/Deferred Income*

Tuition and fees are recognized during the period (i.e., session) to which they pertain. The portion of tuition and fees collected in advance is reflected as deferred income until earned, which is generally within one year.

### (j) *Contributions*

Contributions, including unconditional promises to give (pledges), are reported as revenues in the period received or pledged at their net realizable value. Unconditional promises to give, which are to be received after one year, are discounted using an appropriate discount rate (credit adjusted) commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided in the net asset class in which the contribution receivable resides based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent receipts and historical information. Receivables are charged to bad debt when they are deemed to be uncollectible based upon a periodic review of the accounts by management. The School writes off any amounts that are no longer considered to be recoverable, and any payments subsequently received on such receivables are recorded as income in the period received. As of December 31, 2017, contributions receivable of $94,585 are expected to be collected within one year.

Contributions with purpose or time restrictions are reported as increases in temporarily restricted net assets and subsequently released when the restrictions on which they depend are met. Contributions subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in permanently restricted net assets.

Conditional promises to give and intentions to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met

### *(k) Functional Expenses*

The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program and supporting services benefited.

### *(l) Use of Estimates*

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

### *(m) Concentrations of Credit Risk*

Cash and cash equivalents and investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could affect the School's consolidated financial statements. The School maintains its cash in various bank deposit accounts that, at times, may exceed federally insured limits; however, the School does not anticipate nonperformance by these financial institutions.

### *(n) Income Taxes*

The School qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Code and as a non-profit corporation in New York State. Accordingly, no provision for federal or state income taxes is required. The School has been determined by the Internal Revenue Service ("IRS") not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for 2017.

The School adopted the provisions of ASC 740, "Accounting for Uncertainty in Income Taxes." Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will not be sustained. The implementation of ASC 740 had no impact on the School's consolidated financial statements. The School does not believe there are any material uncertain tax positions and, accordingly, it will recognize any liability for unrecognized tax benefits. The School has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the School has filed IRS Form 990 tax returns, as required, and all other applicable returns in jurisdictions when it is required. For the year ended December 31, 2017, there was no interest or penalties recorded or included in the consolidated statement of activities. The School is subject to routine audits by taxing authorities.

### *(o) Foreign Currency Translation*

Foreign currency is translated in accordance with ASC 830, "Foreign Currency Matters." Under the provisions of ASC 830, the local currency used in the School's foreign operations is considered to be the functional currency of these operations. Assets and liabilities denominated in New Israeli Shekels

("NIS") are translated to U.S. dollars ("USD") using the exchange rate in effect at the date of the statement of financial position. Revenues, expenses, gains and losses are translated using the average exchange rate for the year. Gains or losses on foreign currency translation are recognized in the accompanying consolidated financial statements.

The cumulative foreign currency translation gain is included in unrestricted net assets.

### *(p) Accounting Pronouncements Issued But Not Yet Adopted*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB also issued ASU 2015-14, which deferred the effective date for the School until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Accounting for Leases," which applies a right-of-use ("ROU") model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. In addition, lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The amendments are effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of the pending adoption of ASU 2016-02.

In August 2016, the FASB issued ASU 2016-14, "Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities." The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions," (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the School's consolidated financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

## 4. Beneficial Interest in Net Assets Held By Jewish National Fund

In September 2013, an agreement was entered into between JNF and the School (the "Agreement") that amended the School's by-laws effective January 30, 2014, authorizing JNF's Board of Directors to appoint all members of the AMIIE Board of Governors. The provisions of the Agreement further established the creation of a new $5 million fund with funds received from the Chair of the AMIIE Board (the "Muss Fund") and a separate matching fund of $5 million pledged from JNF (the "JNF Fund"). The funds are held and administered by JNF and restricted for the administration and operation of AMHSI for specific purposes as outlined in the Agreement. As of December 31, 2017, the Muss Fund and JNF Fund totaled $5,591,302 and $5,000,000, respectively.

Because JNF has oversight over the School and holds significant resources that must be used for their benefit, JNF and AMIIE are considered to be financially interrelated under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-20. In accordance with this guidance, JNF records an asset and contribution revenue when it receives assets from a donor on behalf of the School and the School records its respective interest in the net assets of JNF and the changes in its interest using a method similar to the equity method of accounting. As of December 31, 2017, the School has recorded a beneficial interest in net assets held by JNF of $11,770,358 on the accompanying consolidated statement of financial position. Additionally, the School received additional funds of approximately $986,000 from JNF during 2017 that are included as part of contributions revenue in the accompanying consolidated statement of activities.

## 5. Investments

Investments held by the School as of December 31, 2017 consist of funds managed by the Greater Miami Jewish Federation ("GMJF"). Such non-exchange traded investments are carried at fair value as determined by GMJF and are categorized as Level 3 within the fair value hierarchy.

The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value, absent readily available market values.

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

The table below sets forth a summary of changes in fair value of Level 3 assets for the year ended December 31, 2017.

| *Year ended December 31, 2017* | |
|---|---|
| Balance, beginning of year | $110,589 |
| Sales | (5,529) |
| Net appreciation (depreciation) in fair value of investments | 12,699 |
| Balance, end of year | $117,759 |

Investment income for the year ended December 31, 2017 consists of the following:

| *Year ended December 31, 2017* | |
|---|---|
| Interest and dividends | $11,499 |
| Net appreciation in fair value of investments | 1,200 |
| | $12,699 |

## 6. Fixed Assets, Net

At December 31, 2017, fixed assets consisted of the following:

| *December 31, 2017* | |
|---|---|
| Building and building improvements | $ 9,478,456 |
| Furniture, fixtures and equipment | 349,452 |
| | 9,827,908 |
| Less: Accumulated depreciation | (4,988,356) |
| | $ 4,839,552 |

## 7. Temporarily Restricted Net Assets

At December 31, 2017, temporarily restricted net assets were restricted for the following purposes and time:

| *December 31, 2017* | |
|---|---|
| Goldstein Building | $ 170,000 |
| Scholarships | 688,316 |
| Beneficial interest in net assets of JNF | 11,770,358 |
| | $12,628,674 |

During 2017, net assets in the amount of $1,009,324 were released from restrictions principally in support of scholarships, capital projects and beneficial interest in net assets held by JNF.

## 8. Endowment Funds

### *General*

The School's endowment consists of donor-restricted endowment funds established principally for the award of scholarships for participants for Israel programs and the acquisition of educational technology. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

### *Interpretation of Relevant Law*

AMIIE is a Florida State not-for-profit corporation operating with its principal office located in the State of New York. AMIIE is subject to the enacted Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"), which set forth the standards under which endowment funds generally are to be managed, accumulated and appropriated for expenditure but consistent with explicit donor restrictions or stipulations where they exist. AMIIE classifies as permanently restricted net assets, unless otherwise stipulated by the donor: (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to its permanent endowment and (c) accumulations to its permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds.

The remaining portion of the donor-restricted endowment fund not classified in permanently restricted net assets is classified as temporarily restricted net assets until such amounts are appropriated for expenditure by AMIIE in a manner consistent with the uses, benefits, purposes and duration for which the endowment is established and the standard of prudence prescribed by FUPMIFA.

In accordance with FUPMIFA, AMIIE considers the following factors in making a determination to appropriate for expenditure or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return on endowment investments; general economic conditions; the possible effects of inflation and deflation; other resources of AMIIE; and the investment policy of AMIIE.

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

The objective of the School is to maintain over a period of time the value of the amounts contributed. To this end, the endowment funds are managed by GMJF and are invested for total return in a diversified portfolio of stocks, bonds and alternative investments so as to prudently achieve long-term return objectives. The School's endowment funds spending policy is to disburse annually an amount equal to 5% of a fund's average year-end balances for the prior three calendar years. As a measure of prudence, no such disbursements were made in 2017 given the losses sustained by these funds in prior periods due to market conditions.

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

*December 31, 2017*

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted funds | $(3,200) | $- | $120,959 | $117,759 |

The endowment consists of funds managed by the Greater Miami Jewish Federation ("GMJF"). Such nonexchange-traded investments are carried at fair value as determined by GMJF and are categorized as Level 3 within the fair value hierarchy.

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

*Year ended December 31, 2017*

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $(10,370) | $- | $120,959 | $110,589 |
| Investment return | 12,699 | - | - | 12,699 |
| Appropriation of endowment net assets for expenditure - spending policy | (5,529) | - | - | (5,529) |
| Endowment net assets, end of year | $ (3,200) | $- | $120,959 | $117,759 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor requires the School to retain as a fund of permanent duration. In accordance with US GAAP, cumulative deficiencies of this nature are charged to unrestricted net assets and totaled $(3,200) as of December 31, 2017. Subsequent investment earnings on such funds which restore the fair value of individual endowment funds back to their original corpus value are reported in unrestricted net assets, with earnings in excess of this amount reported in temporarily restricted net assets.

## 9. Subsequent Events

The School evaluated its December 31, 2017 consolidated financial statements for subsequent events through May 30, 2018, the date the consolidated financial statements were available to be issued. The School is not aware of any material subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.