

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017



LUTZ AND CARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
American Friends of ALYN Hospital, Inc.

We have audited the accompanying financial statements of American Friends of ALYN Hospital, Inc. (a nonprofit 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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 Friends of ALYN Hospital, 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.

Lotz + Carr, LLP

New York, New York
August 30, 2019

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents (Notes 1b and 9)	\$ 142,447	\$ 394,959
Unconditional promises to give - without donor restrictions (Note 1e)	63,032	49,430
Prepaid expenses and other assets	10,332	28,063
Investments (Notes 1c, 1d and 5)	4,385,932	4,847,972
Website costs (Notes 1i and 6)	885	6,195
Security deposit	29,231	29,231
Beneficial interests in remainder trusts (Notes 1d and 7)	<u>716,270</u>	<u>724,961</u>
Total Assets	<u><u>\$5,348,129</u></u>	<u><u>\$6,080,811</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses (Note 11)	\$ 678,695	\$ 42,480
Grants payable to ALYN (Note 1f)	-	44,494
Total Liabilities	<u>678,695</u>	<u>86,974</u>
Commitment (Note 8)		
Net Assets (Deficit)		
Without Donor Restrictions	<u>(896,836)</u>	<u>420,904</u>
With Donor Restrictions		
Time and purpose restrictions	716,270	722,933
Perpetual in nature (Notes 3 and 4)	<u>4,850,000</u>	<u>4,850,000</u>
Total With Donor Restrictions	<u>5,566,270</u>	<u>5,572,933</u>
Total Net Assets	<u>4,669,434</u>	<u>5,993,837</u>
Total Liabilities and Net Assets	<u><u>\$5,348,129</u></u>	<u><u>\$6,080,811</u></u>

See notes to financial statements.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Changes in Net Assets Without Donor Restrictions		
Revenue and Support		
Contributions (Note 1e)	\$2,680,183	\$2,404,996
Net investment income (loss) (Notes 1c and 5)	<u>(244,860)</u>	<u>651,618</u>
Total Revenue and Support	<u>2,435,323</u>	<u>3,056,614</u>
Expenses		
Program Services	<u>2,916,096</u>	<u>2,592,545</u>
Supporting Services		
Management and general	469,389	302,950
Fundraising	<u>365,550</u>	<u>187,833</u>
Total Supporting Services	<u>834,939</u>	<u>490,783</u>
Total Expenses	<u>3,751,035</u>	<u>3,083,328</u>
Decrease in Net Assets Without Donor Restrictions	(1,315,712)	(26,714)
Changes in Net Assets With Donor Restrictions		
Change in value of beneficial interests in remainder trusts (Notes 1d and 7)	<u>(8,691)</u>	<u>11,428</u>
Decrease in net assets	(1,324,403)	(15,286)
Net assets, beginning of year	<u>5,993,837</u>	<u>6,009,123</u>
Net Assets, End of Year	<u><u>\$4,669,434</u></u>	<u><u>\$5,993,837</u></u>

See notes to financial statements.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017					
	Program Services	Supporting Services		Total Expenses	Program Services	Supporting Services		Total Expenses		
		Management and General	Fundraising	Total		Management and General	Fundraising	Total	Total Expenses	
Grants to ALYN	\$2,143,595	\$ -	\$ -	\$ -	\$2,143,595	\$ -	\$ -	\$ -	\$2,205,100	
Salaries, payroll taxes and benefits	607,166	310,266	243,307	553,573	1,160,739	288,538	148,541	116,041	264,582	553,120
Professional fees	2,500	59,651	2,500	62,151	64,651	125	36,374	125	36,499	36,624
Advertising and marketing	68,240	-	7,079	7,079	75,319	23,537	-	3,574	3,574	27,111
Occupancy	40,998	21,287	16,557	37,844	78,842	38,813	20,153	15,674	35,827	74,640
Office expenses	38,107	19,786	15,389	35,175	73,282	28,923	15,018	11,681	26,699	55,622
Educational materials	10,205	-	10,206	10,206	20,411	3,372	-	3,372	3,372	6,744
Event expenses	2,524	-	7,572	7,572	10,096	1,376	-	4,127	4,127	5,503
Computer expenses	-	15,204	-	15,204	15,204	-	16,652	-	16,652	16,652
Website expenses	-	79	79	158	158	-	13,781	13,782	27,563	27,563
Insurance	-	20,652	-	20,652	20,652	-	17,941	-	17,941	17,941
Travel	-	16,074	-	16,074	16,074	-	16,609	-	16,609	16,609
Equipment leasing and maintenance	-	3,317	-	3,317	3,317	-	4,769	-	4,769	4,769
On-line fundraising fees	-	-	61,746	61,746	61,746	-	-	18,342	18,342	18,342
Board activities	-	205	-	205	205	-	4,283	-	4,283	4,283
Miscellaneous	-	1,434	-	1,434	1,434	-	7,395	-	7,395	7,395
Amortization	2,761	1,434	1,115	2,549	5,310	2,761	1,434	1,115	2,549	5,310
Total Expenses	\$2,916,096	\$ 469,389	\$ 365,550	\$834,939	\$3,751,035	\$2,592,545	\$ 302,950	\$ 187,833	\$490,783	\$3,083,328

See notes to financial statements.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$(1,324,403)	\$ (15,286)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Amortization	5,310	5,310
Change in value of beneficial interests in remainder trusts	8,691	(11,428)
Realized gains on sales of investments	(69,187)	(77,247)
Unrealized (gains) losses on investments	433,162	(465,627)
(Increase) decrease in:		
Unconditional promises to give	(13,602)	38,461
Prepaid expenses and other assets	17,731	(4,979)
Increase (decrease) in:		
Accounts payable and accrued expenses	636,215	(3,870)
Grants payable to ALYN	(44,494)	14,854
Net Cash Used By Operating Activities	<u>(350,577)</u>	<u>(519,812)</u>
Cash Flows From Investing Activities		
Purchase of investments	(673,078)	(1,205,162)
Proceeds from sale of investments	771,143	1,749,800
Net Cash Provided By Investing Activities	<u>98,065</u>	<u>544,638</u>
Net increase (decrease) in cash and cash equivalents	(252,512)	24,826
Cash and cash equivalents, beginning of year	<u>394,959</u>	<u>370,133</u>
Cash and Cash Equivalents, End of Year	<u>\$ 142,447</u>	<u>\$ 394,959</u>

See notes to financial statements.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

American Friends of ALYN Hospital, Inc. ("AFAH") is a not-for-profit organization that exists solely to educate Americans about and provide support to The ALYN-Woldenberg Family Hospital/Pediatric and Adolescent Rehabilitation Center ("ALYN"), Jerusalem, Israel. ALYN, Israel's only rehabilitation center for physically handicapped children and adolescents, provides all of the medical and paramedical services necessary for successful rehabilitation in one facility. The financial statements include the accounts of its New York headquarters and its affiliated United States Chapters. Grants to ALYN are made at the discretion of the AFAH Board of Directors.

b - Cash and Cash Equivalents

For purposes of the statements of cash flows, AFAH considers all highly liquid instruments, purchased with a maturity of three months or less, to be cash equivalents, except for short-term investments being managed within the investment account.

c - Investments

AFAH reflects investments at fair value in the statements of financial position. Unrealized gains and losses on investments are reflected in the statements of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income that is limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions are met in the same fiscal year in which the gains and income are recognized.

d - Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-based measurement. Generally accepted accounting principles establish a framework for measuring fair value which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those the market participants would use in pricing the asset based on market data obtained from sources independent of AFAH. Unobservable inputs reflect AFAH's assumptions about the inputs market participants would use in pricing the asset developed based on the best information available in the circumstances. Fair value measurements are categorized into three levels as follows:

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

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

d - Fair Value Measurements (continued)

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following provides information on the fair value of the AFAH's assets by level within the fair value hierarchy as of December 31:

	<u>2018</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Mutual funds, equity and fixed income	\$4,385,063	\$4,385,063	\$ -	\$ -
State of Israel bond	869	869	-	-
Beneficial interests in remainder trusts	<u>716,270</u>	<u>-</u>	<u>-</u>	<u>716,270</u>
Total Assets	<u>\$5,102,202</u>	<u>\$4,385,932</u>	<u>\$ -</u>	<u>\$716,270</u>
	<u>2017</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Mutual funds, equity and fixed income	\$4,847,137	\$4,847,137	\$ -	\$ -
State of Israel bond	835	835	-	-
Beneficial interests in remainder trusts	<u>724,961</u>	<u>-</u>	<u>-</u>	<u>724,961</u>
Total Assets	<u>\$5,572,933</u>	<u>\$4,847,972</u>	<u>\$ -</u>	<u>\$724,961</u>

The following summarizes the changes in fair value of AFAH's Level 3 assets for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$724,961	\$713,533
Increase (decrease) in value of beneficial interests in remainder trusts	<u>(8,691)</u>	<u>11,428</u>
Balance, End of Year	<u>\$716,270</u>	<u>\$724,961</u>

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****d - Fair Value Measurements (continued)**

Fair value for the beneficial interests in remainder trusts are determined by calculating the present value of the future distributions expected to be received, using a discount rate.

e - Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to AFAH, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

AFAH uses the allowance method to determine uncollectible promises to give. The allowance, if any, is based on prior years' experience and management's analysis of specific promises made. Promises to give are due within one year.

f - Grants Payable to ALYN

Grants are accrued at the time authorized.

g - Financial Statement Presentation

The financial statements of AFAH have been prepared in accordance with U.S. generally accepted accounting principles, which require AFAH to report information regarding its financial position and activities according to the following net asset classifications:

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 AFAH. These net assets may be used at the discretion of AFAH's management and Board of Directors.

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 AFAH or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

h - Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017****Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

- i - Website
Website costs are capitalized and are being amortized using the straight-line method over the estimated useful life of the asset.
- j - Tax Status
American Friends of ALYN Hospital, Inc. is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.
- k - Subsequent Events
AFAH has evaluated subsequent events through August 30, 2019, the date that the financial statements are considered available to be issued.
- l - Functional Allocation of Expenses
The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Expenses are applied directly to programs where applicable or allocated on a reasonable and consistent basis. A substantial portion of AFAH's expenses are directly related to program activities. The expenses that are allocated include general office expenses, park maintenance, salaries, payroll taxes and employee benefits which are allocated based on employee time and effort.
- m - Recent Accounting Pronouncement
In 2018, AFAH adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958), 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) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; (d) modifying the presentation of underwater endowment funds and related disclosures; (e) requiring that donor-restricted contributions related to long-lived assets be released from restriction only when the assets are placed in service; and (f) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. As permitted under the ASU in the year of adoption, AFAH opted to not disclose liquidity and availability information, and to not present an analysis of expenses by function and nature, for 2017.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

m - Recent Accounting Pronouncement (continued)

The net asset reclassifications resulting from the adoption of ASU 2016-14 as of December 31, 2017 and 2016 are summarized as follows:

	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net Assets Classifications December 31, 2017			
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As Previously Presented:			
Unrestricted	\$418,876	\$ -	\$ 418,876
Temporarily restricted	-	724,961	724,961
Permanently restricted	-	<u>4,850,000</u>	<u>4,850,000</u>
Net Assets, as Previously Presented	418,876	5,574,961	5,993,837
Reclassifications to Implement ASU 2016-14:			
Underwater endowment deficit	<u>2,028</u>	<u>(2,028)</u>	<u>-</u>
Net Assets, as Reclassified	<u>\$420,904</u>	<u>\$5,572,933</u>	<u>\$5,993,837</u>
ASU 2016-14 Classifications			
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net Assets Classifications December 31, 2016			
<hr/>			
As Previously Presented:			
Unrestricted	\$445,590	\$ -	\$ 445,590
Temporarily restricted	-	713,533	713,533
Permanently restricted	-	<u>4,850,000</u>	<u>4,850,000</u>
Net Assets, as Previously Presented	445,590	5,563,533	6,009,123
Reclassifications to implement ASU 2016-14:			
Underwater endowment deficit	<u>264</u>	<u>(264)</u>	<u>-</u>
Net Assets, as Reclassified	<u>\$445,854</u>	<u>\$5,563,269</u>	<u>\$6,009,123</u>

n - Prior Year Information

Certain 2017 amounts have been reclassified for comparative purposes.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 2 - Information Regarding Liquidity and Availability

AFAH operates with a balanced budget for each fiscal year based on the revenues expected to be available to fund anticipated expenses. A substantial portion of annual revenue is comprised of contribution revenue raised during the current year, and revenue from other sources earned during the year. AFAH considers general expenditures to consist of all expenses related to its ongoing program activities, and the expenses related to general and administrative and fundraising activities undertaken to support those services.

AFAH regularly monitors liquidity to meet its operating needs and other commitments and obligations, while seeking to maximize the investment of its available funds. Management prepares regular cash flow projections to determine liquidity needs, and has a policy to maintain liquid financial assets on an ongoing basis sufficient to cover ninety days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

AFAH's financial assets as of December 31, 2018 and those available within one year to meet cash needs for general expenditures are summarized as follows:

Financial Assets at Year End:	
Cash and cash equivalents	\$ 142,447
Unconditional promises to give	63,032
Investments	<u>4,385,932</u>
Total Financial Assets	4,591,411
Less: Amounts not Available to be Used within One Year:	
Net Assets with donor restrictions, subject to expenditure for specific purposes or passages of time	(716,270)
Net Assets with donor restrictions for endowment, subject to spending policy and appropriation	<u>(4,850,000)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$ -</u>

In addition to these financial assets available within one year, AFAH maintains a donor-restricted endowment valued at \$4,385,931 at December 31, 2018. The endowment is invested under the direction of the Finance Committee. Amounts in excess of \$4,850,000 could be made available to meet cash needs for general expenditures at the discretion of the Board of Directors.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 3 - Restrictions on Assets

a - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2018	2017
Operating		
Subject to passage of time	\$ 716,270	\$ 722,933
Endowment in perpetuity	4,850,000	4,850,000
Total Net Assets With Donor Restrictions	\$5,566,270	\$5,572,933

Net Assets With Donor Restrictions - Subject to Passage of Time

Net assets with donor restrictions subject to expenditure for passage of time consist of beneficial interests in remainder trusts at December 31, 2018 and 2017.

b - Net Assets With Donor Restrictions - Perpetual in Nature

Net assets with donor restrictions perpetual in nature represent an endowment from The Woldenberg Foundation and in accordance with donor restrictions is required to be maintained in perpetuity.

Note 4 - Endowment Funds

AFAH's restricted endowment was funded by a contribution from the Woldenberg Foundation. 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.

Consistent with New York State Not-for-Profit Corporation Law and the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), AFAH classifies as net assets with donor restrictions, perpetual in nature, (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions perpetual in nature is classified as net assets with donor restrictions subject to the passage of time or purpose until those amounts are appropriated for expenditure by AFAH.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 4 - Endowment Funds (continued)

AFAH has a policy of appropriating for distribution each year an amount equal to the investment earnings and realized and unrealized gains and losses earned on its invested funds.

The fair value of assets associated with individual donor restricted endowment funds may fall below the level required to be retained as a fund of perpetual duration. Deficiencies of this nature were \$(464,068) and \$(2,028) as of December 31, 2018 and 2017, respectively. AFAH has made transfers to operations in excess of the original terms of the endowment.

As of December 31, AFAH's invested endowment fund composition, by type of fund and net asset classification, are summarized as follows:

	<u>With Donor Restrictions</u>		
	<u>Investment Income Above (Below) Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Donor-restricted endowment fund, 2018	<u>\$(464,068)</u>	<u>\$4,850,000</u>	<u>\$4,385,932</u>
Donor-restricted endowment fund, 2017	<u>\$ (2,028)</u>	<u>\$4,850,000</u>	<u>\$4,847,972</u>

Changes in the AFAH's endowment fund for the years ended December 31 are summarized as follows:

	<u>2018</u>		
	<u>Investment Income Above (Below) Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Endowment funds, beginning of year	\$ (2,028)	\$4,850,000	\$4,847,972
Investment Return:			
Investment loss	(215,444)	-	(215,697)
Appropriations for use in operations	<u>(246,596)</u>	<u>-</u>	<u>(246,343)</u>
Endowment Funds, End of Year	<u>\$(464,068)</u>	<u>\$4,850,000</u>	<u>\$4,385,932</u>

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 4 - Endowment Funds (continued)

	2017		
	Investment Income Above (Below) Original Gift Amount	Investment in Perpetuity	Total
Endowment funds, beginning of year	\$ (264)	\$4,850,000	\$4,849,736
Investment Return:			
Investment income	682,065	-	682,065
Appropriations for use in operations	<u>(683,829)</u>	<u>-</u>	<u>(683,829)</u>
Endowment Funds, End of Year	<u>\$ (2,028)</u>	<u>\$4,850,000</u>	<u>\$4,847,972</u>

AFAH has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that AFAH must hold in perpetuity, or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the AFAH's spending policy while assuming a moderate level of investment risk. AFAH expects its endowment funds, over time, to provide an average rate of return of approximately 5% - 6% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, AFAH relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). AFAH targets a diversified asset allocation of investments in mutual funds to achieve its long-term return objectives.

As of July 31, 2019, the fair value of the endowment fund was approximately \$4,915,000.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 5 - Investments

Investments consist of the following at December 31:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mutual Funds:				
Equity	\$2,490,888	\$2,611,996	\$2,538,120	\$3,039,438
Fixed income	1,247,537	1,190,909	1,281,608	1,252,296
Inflation hedges	202,328	187,211	202,717	205,270
Hedged strategies	231,346	231,824	229,846	238,324
Cash and cash equivalents	<u>163,123</u>	<u>163,123</u>	<u>111,809</u>	<u>111,809</u>
	4,335,222	4,385,063	4,364,100	4,847,137
State of Israel Bond	<u>500</u>	<u>869</u>	<u>500</u>	<u>835</u>
	<u>\$4,335,722</u>	<u>\$4,385,932</u>	<u>\$4,364,600</u>	<u>\$4,847,972</u>

The following schedule summarizes net investment income (loss) for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest, dividends and capital gain distributions	\$ 148,278	\$139,191
Realized gains	69,187	77,247
Unrealized gains (losses)	(433,162)	465,627
Investment fees	<u>(29,163)</u>	<u>(30,447)</u>
Net Investment Income (Loss)	<u>\$(244,860)</u>	<u>\$651,618</u>

Note 6 - Website Costs

A summary of website costs at December 31, is as follows:

	<u>Life</u>	<u>2018</u>	<u>2017</u>
Website redesign	3 years	\$15,930	\$15,930
Less: Accumulated amortization		<u>(15,045)</u>	<u>(9,735)</u>
		<u>\$ 885</u>	<u>\$ 6,195</u>

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 7 - Beneficial Interests in Remainder Trusts

AFAH is the beneficiary of two charitable remainder unitrusts under which AFAH will receive the designated principal and income of the trusts upon the death of the donors which will then be used for AFAH's operations. The trusts' assets are held by the respective trustees.

Note 8 - Commitment and Contingency

a - AFAH entered into a lease for its New York office expiring April 30, 2023. Minimum annual rentals under the agreement are as follows:

<u>Year Ending December 31,</u>	
2019	\$71,409
2020	73,016
2021	74,658
2022	76,338
Thereafter, through April 2023	26,019

b - The Organization's 2017 990 is currently under audit by the Internal Revenue Service.

Note 9 - Concentration of Credit Risk

AFAH maintains its cash and cash equivalents at financial institutions located in New York. The cash balances up to certain limits are insured by the Federal Insurance Corporation.

Note 10 - Pension Plan

AFAH maintains a 401(k) plan for all eligible employees. AFAH determines at its sole discretion how much, if any, it will make as an employer contribution. Total contributions of \$44,771 and \$11,444 were made for the years ended December 31, 2018 and 2017, respectively.

AMERICAN FRIENDS OF ALYN HOSPITAL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017****Note 11 - Separation Agreement**

AFAH's former Executive Director's (the "ED") employment ended on December 31, 2018. In consideration of the ED signing a separation agreement and complying with its terms, AFAH agreed to pay severance to the ED in the amount of \$600,000 to be paid over a thirty-six month period beginning in January 2019. As of December 31, 2018, \$600,000 has been accrued and is included in accounts payable and accrued expenses, as well as 2018 salaries expense in the accompanying financial statements.