

AMERICAN FRIENDS OF NISHMAT, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED JUNE 30, 2012

AMERICAN FRIENDS OF NISHMAT, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
American Friends of Nishmat, Inc.

We have audited the accompanying statement of financial position of American Friends of Nishmat, Inc. (the "Organization") as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Friends of Nishmat, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DDK & Company LLP

February 6, 2013

AMERICAN FRIENDS OF NISHMAT, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2012

ASSETS

Cash and cash equivalents	\$ 361,368
Contributions receivable, net	1,590,201
Other receivables	20,518
Prepaid expenses	999
Property and equipment, net	591
Security deposit	<u>4,385</u>
 Total assets	 <u><u>\$ 1,978,062</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	<u>\$ 273</u>
 Commitments and Contingencies	
 Net Assets	
Unrestricted	387,588
Temporarily restricted	<u>1,590,201</u>
 Total net assets	 <u>1,977,789</u>
 Total liabilities and net assets	 <u><u>\$ 1,978,062</u></u>

AMERICAN FRIENDS OF NISHMAT, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
<i>Revenue, Gains and Support</i>			
Contributions			
Education	\$ 966,143	\$ 33,654	\$ 999,797
Capital campaign	100,000	-	100,000
Special events, net of direct costs of \$12,040	277,160	-	277,160
Other campaigns	345,936	-	345,936
Donated rent	10,000	-	10,000
Donated services	1,500	-	1,500
Realized loss on investment in marketable securities, net	(49,277)	-	(49,277)
Interest and dividend income	120	-	120
Net assets released from restrictions:			
Capital improvements in the Nishmat campus in Israel	297,500	(297,500)	-
Educational and other related purposes	109,458	(109,458)	-
	<u>2,058,540</u>	<u>(373,304)</u>	<u>1,685,236</u>
Total revenue, gains and support			
<i>Expenses and Losses</i>			
Program services	1,900,028	-	1,900,028
Supporting services:			
General and administrative	132,558	-	132,558
Special events	69,931	-	69,931
Fundraising	64,789	-	64,789
	<u>2,167,306</u>	<u>-</u>	<u>2,167,306</u>
Total expenses			
Change in net assets	(108,766)	(373,304)	(482,070)
Net assets at beginning of year	496,354	1,963,505	2,459,859
Net assets at end of year	<u>\$ 387,588</u>	<u>\$ 1,590,201</u>	<u>\$ 1,977,789</u>

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

AMERICAN FRIENDS OF NISHMAT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012

	Supporting Services				Total
	Program Services	General and Administrative	Special Events	Fundraising	
Expenses					
Program grants	\$ 1,038,501	-	-	-	\$ 1,038,501
Capital grants	398,329	-	-	-	398,329
Research grants	80,347	-	-	-	80,347
Educational programs	100,226	-	-	-	100,226
Salaries	166,988	61,229	19,482	30,614	278,313
Payroll taxes and employee benefits	30,209	11,077	3,524	5,538	50,348
Advertising and public relations	-	-	-	1,880	1,880
Catering and site rental	-	-	28,381	-	28,381
Computer expenses	-	7,078	-	-	7,078
Finance charges	-	668	-	-	668
Insurance	-	4,693	-	-	4,693
Occupancy	10,000	32,236	-	-	42,236
Office expense	10,755	6,453	2,151	2,151	21,510
Postage and shipping	-	3,603	18,016	14,413	36,032
Printing and publications	-	1,120	5,602	4,481	11,203
Professional services	37,574	16,103	-	-	53,677
Telephone	2,740	913	457	457	4,567
Travel	19,719	2,091	3,585	4,482	29,877

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

AMERICAN FRIENDS OF NISHMAT, INC.
STATEMENT OF FUNCTIONAL EXPENSES (Continued)
Year Ended June 30, 2012

	Supporting Services				Total
	Program Services	General and Administrative	Special Events	Fundraising	
Expenses (Continued)					
Depreciation	-	1,747	-	-	1,747
Provision for doubtful accounts	-	(18,000)	-	-	(18,000)
Miscellaneous	4,640	1,547	773	773	7,733
	1,900,028	132,558	81,971	64,789	2,179,346
Less: Direct costs of special events	-	-	12,040	-	12,040
Total expenses, net of direct costs of special events	<u>\$ 1,900,028</u>	<u>\$ 132,558</u>	<u>\$ 69,931</u>	<u>\$ 64,789</u>	<u>\$ 2,167,306</u>

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

AMERICAN FRIENDS OF NISHMAT, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2012

Cash Flows From Operating Activities

Decrease in net assets	\$ (482,070)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Provision for doubtful accounts	(18,000)
Depreciation	1,747
Realized loss on investment in marketable securities, net	49,277
Changes in operating assets and liabilities:	
Contributions receivable, net	139,544
Other receivables	3,944
Prepaid expenses	7,308
Security deposit	2,115
Accounts payable and accrued expenses	<u>(4,455)</u>
Net cash used in operating activities	<u>(300,590)</u>

Cash Flows From Investing Activities

Proceeds from sale of marketable securities	<u>303,723</u>
Net cash provided by investing activities	<u>303,723</u>
Net increase in cash and cash equivalents	3,133
Cash and cash equivalents at beginning of year	<u>358,235</u>
Cash and cash equivalents at end of year	<u><u>\$ 361,368</u></u>

AMERICAN FRIENDS OF NISHMAT, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

American Friends of Nishmat, Inc. (the "Organization") was formed in 1990 to promote gender equality in education, encourage high level learning for women, assist women in leadership roles and enhance educational and professional opportunities for disadvantaged women. In addition, the Organization gives financial support to institutions where women can study full time, at advanced levels, including, but not limited to, the Nishmat Institute in Israel.

The Organization was formed exclusively for one or more of the purposes as specified in Section 501(c)(3) of the Internal Revenue Code, including making distributions to other organizations that qualify as exempt under Section 501(c)(3) of the Internal Revenue Code.

The Organization's primary sources of support are individual and foundation contributions.

Basis of Accounting

The Organization's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; accordingly, the financial statements reflect all material receivables, payables, and other liabilities.

Basis of Presentation

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 - 605, Revenue Recognition, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The financial statement presentation is in conformity with FASB ASC 958, "Not-for-Profit Entities" which requires the Organization to report information regarding its financial position according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

AMERICAN FRIENDS OF NISHMAT, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of Presentation *(Continued)*

Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- 1) Unrestricted net assets include assets, revenues and gains that are available for support of the Organization's general operations.
- 2) Temporarily restricted net assets include contributions that are donor restricted for uses which have not yet been fulfilled either in time or by purpose. When a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization has \$1,590,201 in temporarily restricted net assets at June 30, 2012.
- 3) Permanently restricted net assets represent endowments which are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income be used for specified or general purposes. The Organization has no permanently restricted net assets at June 30, 2012.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with an original maturity of three months or less.

Marketable Securities

Marketable securities consist of equity securities which are measured at fair market value based on quoted market prices. Realized gains and losses are included in the change in net assets.

Contributions

Contributions, including unconditional promises to give, are recorded in the period received at fair value which is net of estimated uncollectible amounts. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated by the donor for future periods or are restricted by the donor for specified purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

A donor restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected, or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released

AMERICAN FRIENDS OF NISHMAT, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contributions *(Continued)*

from restrictions. Permanently restricted net assets include the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity and only the income from the investments thereof is expended for either general purposes or a purpose specified by the donor.

The Organization provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collection experience and a review of the current status of unconditional promises to give. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change.

Property and Equipment

Property and equipment are stated at cost, less depreciation. The cost of additions and improvements is capitalized and expenditures for repairs and maintenance are expensed as incurred. Fully depreciated assets are retained in property and depreciation accounts until they are removed from service. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are included in operations. Depreciation of property and equipment is accounted for on the straight-line method over the estimated useful lives of the assets.

Donated Assets

Donated marketable securities and other non-cash donations, if any, are recorded as contributions at their estimated fair value at the date of the donation.

Income Taxes

The Organization is a not-for-profit organization that is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code; the Organization is also exempt from state and local income taxes. Accordingly, no provision for income taxes has been made in the financial statements.

The Organization has concluded that there are no uncertain tax positions that would require recognition in the financial statements. If the Organization was to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes. The Organization's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based upon ongoing analyses of tax laws, regulations and interpretations thereof as well as others factors. Generally, federal, state and local authorities may examine the Organization's tax returns for three years from the date of filing; consequently, income tax returns for years prior to 2008 are no longer subject to examination by tax authorities.

AMERICAN FRIENDS OF NISHMAT, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based on management's judgment.

Advertising

In accordance with FASB ASC 720, advertising costs of \$1,880 for the year ended June 30, 2012 were expensed as incurred.

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, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Fair Values of Financial Instruments

The carrying amounts of cash and cash equivalents, short-term contributions receivable, other receivables, prepaid expenses, accounts payable and accrued expenses approximate fair values because of the short maturities of those instruments.

Long-term unconditional promises to give: The fair value of promises to give that are due in more than one year is estimated by discounting the future cash flows using a current risk free rate of return based on the yield of a U.S. Treasury security with a maturity date similar to the expected collection period.

The Organization has implemented FASB ASC 820-10, "Fair Value Measurements and Disclosures." FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted observable quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

AMERICAN FRIENDS OF NISHMAT, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsequent Events

Management has evaluated subsequent events or transactions occurring through February 6, 2013, the date the financial statements were available to be issued.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

As of June 30, 2012, promises to give were scheduled to be received as follows:

<u>Years Ending June 30,</u>	<u>Educational and other Related Purposes</u>	<u>Capital Improvements in the Nishmat Campus in Israel</u>	<u>Total</u>
2013	\$ 193,143	\$ 412,500	\$ 605,643
2014	35,000	275,000	310,000
2015	-	275,000	275,000
2016	-	275,000	275,000
2017	-	275,000	275,000
	<u>228,143</u>	<u>1,512,500</u>	<u>1,740,643</u>
Less: Allowance for doubtful accounts	2,000	-	2,000
Less: Discount to present value	<u>1,346</u>	<u>147,096</u>	<u>148,442</u>
Present value of receivable, net	<u>\$ 224,797</u>	<u>\$ 1,365,404</u>	<u>\$ 1,590,201</u>

Promises to give and grant receivables due in more than one year are reflected at the present value of estimated future cash flows using discount rates from 4% to 6%.

AMERICAN FRIENDS OF NISHMAT, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

NOTE 3 - PROPERTY AND EQUIPMENT

Major classes of property and equipment are as follows:

	Estimated Useful Lives - Years	Amount
Office equipment	5	\$ 26,735
Less: Accumulated depreciation		26,144
Property and equipment, net		\$ 591

Related depreciation expense for the year ended June 30, 2012 was \$1,747.

NOTE 4 - EMPLOYEE BENEFIT PLANS

The Organization's retirement plan provides retirement benefits for its salaried senior faculty members in Israel. Premiums are based on the employees' salaries. The related expense was \$5,249 for the year ended June 30, 2012.

In December 2009, the Organization implemented a 403(b) retirement plan for its U.S. employees that allows eligible participants to contribute up to 20% of their salary. The Organization does not match funds withheld unless otherwise specified in the employee's contract. There was no 403(b) expense for the year ended June 30, 2012.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

Pledges receivable for capital improvements in the Nishmat campus in Israel for the periods after June 30, 2012	\$ 1,365,404
Pledges receivable for educational and other related purposes for the periods after June 30, 2012	224,797
	\$ 1,590,201

Net assets released from restrictions for capital improvements in the Nishmat campus in Israel were \$297,500 and for educational and other related purposes were \$109,458, totaling \$406,958 for the year ended June 30, 2012.

The majority of temporarily restricted net assets as of June 30, 2012 consist of amounts remaining from the funds raised through a Capital Campaign during 2008.

AMERICAN FRIENDS OF NISHMAT, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2012

NOTE 6 - LEASE

In November 2006, the Organization entered into a five-year operating lease agreement, which expired on October 31, 2011, for office space located in Manhattan, New York. In August 2011, the Organization signed a five-year operating lease agreement for new office space commencing on September 1, 2011. The lease for new office space requires monthly rental payments according to an escalating rent schedule, and is secured by a deposit of \$4,385. Approximate future minimum annual rental payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 24,000
2014	25,000
2015	25,000
2016	26,000
2017	<u>4,000</u>
	<u>\$ 104,000</u>

Rent expense, including utilities, totaled \$32,236 for the year ended June 30, 2012.

NOTE 7 - RISKS AND UNCERTAINTIES

Cash Equivalents

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of FDIC uninsured cash and cash equivalents. The Organization maintains its accounts primarily in one bank located in New York City. As of June 30, 2012, the bank balances were in excess of federally insured amounts by approximately \$131,000.

Economic Dependency

The Organization had contributions from 25 board members that accounted for approximately 19% of total contributions and a contribution from one other donor representing approximately 12% of the total contributions for the year ended June 30, 2012.

Pledges receivable from six board members represented approximately 88% of total unconditional promises to give as of June 30, 2012 which included a pledge receivable from one donor of approximately 87%, see Note 2.