AMERICAN FRIENDS OF SHALVA ISRAEL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
American Friends of Shalva Israel, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of American Friends of Shalva Israel, Inc., (the "Organization"), which comprise the statements of financial position as of December 31, 2016 and 2015, 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

The Organization's 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 Organization'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 Organization'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 Shalva Israel, Inc. as of December 31, 2016 and 2015, 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.

EisnerAmper LLP

New York, New York
July 13, 2017

AMERICAN FRIENDS OF SHALVA ISRAEL, INC.

Statements of Financial Position

	December 31, 2016	December 31, 2015
ASSETS		
Cash	**$ 237,393**	$ 187,769
Pledges receivable, net	**4,189,679**	5,188,944
Investments	**20,001**	562,910
Prepaid expenses and other assets	**90,487**	10,400
Property and equipment, net	**1,603**	2,405
	$ 4,539,163	$ 5,952,428
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued expenses and other liabilities	**$ 56,706**	$ 42,123
Deferred revenue	**513,011**	233,882
Note payable	**1,270,000**	
Annuity payable	**7,496**	8,438
Total liabilities	**1,847,213**	284,443
Commitments (Notes L)		
Net assets:		
Unrestricted (deficit) (Note J)	**(1,497,729)**	71,300
Temporarily restricted	**4,189,679**	5,596,685
Total net assets	**2,691,950**	5,667,985
	$ 4,539,163	$ 5,952,428

See notes to financial statements.

AMERICAN FRIENDS OF SHALVA ISRAEL, INC.

Statements of Activities

	Year Ended December 31,					
	2016			2015		
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
Support and revenue:						
Contributions (including donated services of $93,533 in 2016 and $105,563 in 2015)	**$ 3,149,453**	**$ 1,160,012**	**$ 4,309,465**	$ 521,006	$ 3,779,849	$ 4,300,855
Special events (net of direct benefit to donors of $660,691 in 2016 and $855,687 in 2015)	**3,383,399**		**3,383,399**	2,097,907		2,097,907
Interest and dividends income	**3,414**		**3,414**	5,476		5,476
Total support and revenue before net assets released from restrictions	**6,536,266**	**1,160,012**	**7,696,278**	2,624,389	3,779,849	6,404,238
Net assets released from restrictions	**2,567,018**	**(2,567,018)**	**0**	3,736,746	(3,736,746)	0
Total support and revenue	**9,103,284**	**(1,407,006)**	**7,696,278**	6,361,135	43,103	6,404,238
Expenses:						
Program services	**9,459,125**		**9,459,125**	5,612,497		5,612,497
Supporting services:						
Management and general	**612,840**		**612,840**	612,746		612,746
Fund-raising	**600,348**		**600,348**	597,875		597,875
Total supporting services	**1,213,188**		**1,213,188**	1,210,621		1,210,621
Total expenses	**10,672,313**		**10,672,313**	6,823,118		6,823,118
Change in net assets	**(1,569,029)**	**(1,407,006)**	**(2,976,035)**	(461,983)	43,103	(418,880)
Net assets, beginning of year	**71,300**	**5,596,685**	**5,667,985**	533,283	5,553,582	6,086,865
Net assets, end of year	**$ (1,497,729)**	**$ 4,189,679**	**$ 2,691,950**	$ 71,300	$ 5,596,685	$ 5,667,985

See notes to financial statements.

AMERICAN FRIENDS OF SHALVA ISRAEL, INC.

Statements of Functional Expenses

	Year Ended December 31, 2016					2015				
	Program Services	Management and General	Fund-Raising	Direct Benefit to Donors	Total Expenses	Program Services	Management and General	Fund-Raising	Direct Benefit to Donors	Total Expenses
Advocacy (lecture fees paid, Note F)	**$ 96,000**				**$ 96,000**	$ 104,000				$ 104,000
Provision for bad debt		**$ 71,846**			**71,846**		$ 119,646			119,646
Computer maintenance		**27,620**			**27,620**		32,735			32,735
Credit card processing fees			**$ 69,472**		**69,472**			$ 96,217		96,217
Depreciation		**802**			**802**		801			801
Grants to Shalva Israel	**9,290,260**				**9,290,260**	5,435,000				5,435,000
Equipment rental and maintenance		**15,559**			**15,559**		12,227			12,227
Events			**58,607**		**58,607**			80,145		80,145
Insurance		**9,563**			**9,563**		8,310			8,310
Interest		**23,989**			**23,989**					
Investment expenses							4,123			4,123
Professional and consulting fees		**164,779**	**41,839**		**206,618**		137,985	25,500		163,485
Office and other expense		**32,709**			**32,709**		23,158			23,158
Payroll tax	**5,503**	**11,495**	**26,657**		**43,655**	5,874	15,894	23,512		45,280
Postage and delivery			**40,048**		**40,048**			39,854		39,854
Rent		**105,903**			**105,903**		62,998			62,998
Salaries	**67,362**	**140,704**	**326,325**		**534,391**	67,623	182,987	270,693		521,303
Telephone			**22,250**		**22,250**			21,561		21,561
Travel		**7,871**	**15,150**		**23,021**		11,882	40,393		52,275
	9,459,125	**612,840**	**600,348**		**10,672,313**	5,612,497	612,746	597,875		6,823,118
Direct benefit to donors				**$ 660,691**	**660,691**				$ 855,687	855,687
	$ 9,459,125	**$ 612,840**	**$ 600,348**	**$ 660,691**	**$11,333,004**	$ 5,612,497	$ 612,746	$ 597,875	$ 855,687	$ 7,678,805

See notes to financial statements.

AMERICAN FRIENDS OF SHALVA ISRAEL, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2016	**2015**
Cash flows from operating activities:		
Change in net assets	**$ (2,976,035)**	$ (418,880)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	**802**	801
Provision for allowance for bad debts	**71,846**	119,646
Changes in:		
Pledges receivable, net	**927,419**	(3,835)
Prepaid expenses and other assets	**(80,087)**	8,300
Accrued expenses and other liabilities	**14,583**	(4,821)
Deferred revenue	**279,129**	136,614
Annuity payable	**(942)**	(475)
Net cash used in operating activities	**(1,763,285)**	(162,650)
Cash flows from investing activities:		
Purchases of investments	**(20,719)**	(102)
Proceeds from sales of investments	**563,628**	5,602
Net cash provided by investing activities	**542,909**	5,500
Cash flows from financing activities:		
Proceeds from note	**2,150,000**	
Repayment of note	**(880,000)**	
Net cash provided by financing activities	**1,270,000**	
Net change in cash	**49,624**	(157,150)
Cash, beginning of year	**187,769**	344,919
Cash, end of year	**$ 237,393**	$ 187,769
Supplemental disclosure of cash flow information:		
Donated services	**$ 93,533**	$ 105,563
Interest paid	**$ 23,989**	

See notes to financial statements.

Note A - Organization and Summary of Significant Accounting Policies

[1] Organization:

American Friends of Shalva Israel Inc. (the "Organization") is a not-for-profit corporation exempt under Section 501(c)(3) of the Internal Revenue Code. It was formed on July 30, 2007 under the not-for-profit statutes of the State of Delaware. The Organization commenced operations on November 1, 2009 and is a successor organization to American Friends of Shalva, Inc., an Ohio not-for-profit organization. The mission and purposes of both organizations are identical.

The Organization was established for the primary purpose of raising funds to provide grants to support the annual operations of Shalva - The Israel Association to Relieve the Handicapped Child and Family, an Israeli not-for-profit organization ("Shalva Israel"). In connection with the construction of the Shalva Israel's National Children's Center in Jerusalem, Israel (the "New Center"), the Organization has also raised funds in a capital campaign to assist in the cost of such construction (the "Capital Campaign").

[2] Basis of accounting:

The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, support and revenue and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

[4] Investments:

Investments in money-market accounts, are reported at their fair values in the accompanying statements of financial position.

Investment transactions are recorded on a trade-date basis. The earnings from dividends and interest are recognized when earned.

Investment expenses, as reported in the accompanying statement of functional expenses for 2015, include the investment-manager and custodial fees. No such amounts are reported for 2016.

Donated securities are recorded at their estimated fair values on the dates of donation. The Organization's policy is to sell donated securities immediately, and, accordingly, for purposes of the accompanying statements of cash flows, donated securities received and sold in the same year are reported in the changes in net assets shown in operating activities.

[5] Property and equipment:

Property and equipment are stated at their costs on the dates of acquisition or at their fair values on their dates of donation. Minor costs or repairs and maintenances are expenses as incurred. Depreciation is provided using the straight-line method over estimated useful lives of 2-3 years for computer hardware/software and 5-7 years for furniture and equipment, for items with an original cost of $2,000 or greater.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Property and equipment: (continued)

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of December 31, 2016 and 2015, respectively, and, in the opinion of management, there were no impairments. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[6] Net assets:

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

(i) Unrestricted:

Unrestricted net assets represent those resources that are not subject to donor restrictions and are available for current operations.

(ii) Temporarily restricted:

Temporarily restricted net assets represent those resources that have been restricted by donors for specific purposes and/or by the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

[7] Revenue recognition:

(i) Contributions and pledges:

Contributions to the Organization are recognized as revenue upon the receipt of cash, other assets or of unconditional pledges. Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. Net assets are released from restrictions through the satisfaction of the restricted purposes specified by the donor or the occurrence of other events.

The majority of the pledges receivable represent amounts promised to the Capital Campaign.

(ii) Special events:

The Organization sponsors special events that comprise both contributions and direct benefits to donors. The contribution portion is recognized based upon the receipt of cash or other assets. The direct benefit to donors' portion received in advance of the events is deferred until the day of the event.

(iii) Donated services:

For recognition of donated services in the financial statements, such services must (i) create or enhance non-financial assets and (ii) typically need to be acquired if not provided by donation. Additionally, recognition of donated services must (i) require specialized skills and (ii) be provided by individuals possessing these skills. Donated services are recorded as support at their estimated fair value at the dates of donation and are reported as unrestricted support. Donated services are reported as both contributions and offsetting expenses in the accompanying statements of activities.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Grants awarded to Shalva Israel:

The Organization awards grants to Shalva Israel that provides multi-faceted programs for mentally and physically challenged children, and respite services for the families of these children. These awards are recorded as expenses at the time they become unconditional, which is usually when they are awarded.

[9] Functional allocation of expenses:

The cost of providing various programs and other activities have been summarized in the schedule of functional expenses. Costs have been allocated among the programs and supporting services based on analysis of personnel time and utilization of related activities. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization.

[10] Income tax uncertainties:

The Organization follows the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, relating to accounting and reporting for uncertainty in income taxes. Because of the Organization's general tax-exempt status, ASC Topic 740 has not had, and is not expected to have, a material impact on the Organization's financial statements.

[11] New accounting pronouncement:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will amend financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) the presentation of operating cash flows. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Organization will adopt ASU 2016-14 when it becomes effective.

[12] Subsequent events:

The Organization considers the accounting treatments, and the related disclosures in the current-year's financial statements, that may be required as the result of all events or transactions that occur after the year-end through July 13, 2017, the date on which the financial statements were available to be issued.

NOTE B - INVESTMENTS

At December 31, 2016 and 2015, investments consisted of money market funds with a cost of $20,001 and $562,910, respectively, which approximated their fair values at each year end.

The FASB's ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for those investments, or similar investments, at the reporting date.

NOTE B - INVESTMENTS (CONTINUED)

Level 2: Valuations are based on (i) quoted prices for those investments, or similar investments, in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 2 assets include those investments for which a model was derived for valuation.

Level 3: Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued.

The Organization's investments are classified as Level 1 for both 2016 and 2015.

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer would be reported at the beginning of the reporting period. There were no transfers among levels during 2016 and 2015.

NOTE C - PLEDGES RECEIVABLE

At each year-end, pledges receivable were estimated to be due as follows:

	December 31,	
	2016	**2015**
Less than one year	**$ 1,703,524**	$ 1,922,508
One to five years	**2,838,927**	3,570,667
	4,542,451	5,493,175
Reduction for contributions due in excess of one year, at a 2% discount rate	**(171,074)**	(194,379)
	4,371,377	5,298,796
Allowance for uncollectible contributions	**(181,698)**	(109,852)
	$ 4,189,679	$ 5,188,944

AMERICAN FRIENDS OF SHALVA ISRAEL, INC.

Notes to Financial Statements
December 31, 2016 and 2015

NOTE D - PROPERTY AND EQUIPMENT

At each year-end, property and equipment consisted of the following:

	December 31, 2016	December 31, 2015
Furniture and equipment	**$ 54,075**	$ 54,075
Computer hardware and software	**4,007**	4,007
	58,082	58,082
Less accumulated depreciation	**(56,479)**	(55,677)
	$ 1,603	$ 2,405

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

At each year-end, temporarily restricted net assets consisted of the following:

	December 31, 2016	December 31, 2015
Time-restricted	**$ 92,159**	$ 624,218
Capital Campaign	**4,097,520**	4,972,467
Total	**$ 4,189,679**	$ 5,596,685

Net assets released from restrictions during 2016 and 2015 were for the following:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Time-restricted	**$ 802,435**	$ 580,886
Capital Campaign	**1,660,518**	3,155,860
Total	**$ 2,462,953**	$ 3,736,746

NOTE F - RELATED-PARTY TRANSACTIONS

[1] During 2016 and 2015, advocacy expenses of $96,000 and $104,000, respectively, consisted of fees paid to a company for lectures presented on topics related to individuals with severe disabilities. A founder and the director of Shalva Israel performed these services for the company.

[2] The Organization received donated legal services for the years ended December 31, 2016 and 2015 of $93,533 and $105,563, respectively, rendered by a law firm, which has a partner who is a member of the Board of Directors.

NOTE G - ANNUITY PAYABLE

The Organization uses the actuarial method of recording charitable gift annuities. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a contribution in the appropriate net assets category. Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses. The actuarial liability is based on the present value of future payments, discounted at 4.2% over estimated lives using the Internal Revenue Service's 90CM mortality table.

The Organization's gift annuity obligation at December 31, 2016 and 2015 was $7,496 and $8,438, respectively. Annual estimated payments to be made subsequent to December 31, 2016 are as follows:

Year Ending December 31,	Amount
2017	$ 1,256
2018	1,256
2019	1,256
2020	1,256
2021	1,256
Thereafter	1,216
Total	$ 7,496

Payments made to the beneficiaries during both 2016 and 2015 were $1,256, respectively.

NOTE H - NOTE PAYABLE

In August 2016, the Organization entered into a term loan agreement with First Republic Bank, in the amount of $2,150,000, bearing interest, payable monthly, at 4.00% per annum, and due August 2019. The term loan was used as an advance to fund program activity against future cash payments on outstanding pledges for the Capital Campaign. Through the term of the loan, principal payments are due, at a level sufficient to reduce the outstanding principal balance to $1,650,000 by August 31, 2017, and to $900,000 by August 31, 2018. As collateral for the borrowings under the loan agreement, one Board member entered into a letter of credit agreement, on behalf of the Organization, for $1,000,000, and two other Board members entered into limited guarantee agreements. As of December 31, 2016, the loan balance was $1,270,000. Subsequent to year-end, the loan was paid in full.

NOTE I - CONCENTRATION OF REVENUE

During 2016, the Organization received from three donors contributions aggregating $3,250,000 for the Capital Campaign (which amount represented approximately 42% of the Organization's total support and revenue for that year). As of December 31, 2016, pledges receivable balances from four donors was approximately $2,900,000 (representing approximately 69% of the pledges receivable as of December 31, 2016).

During 2015, the Organization received from one donor a contribution aggregating $1,000,000 for the Capital Campaign (which amount represented approximately 15% of the Organization's total support and revenue for that year). As of December 31, 2015, pledges receivable balances from four donors was approximately $3,300,000 (representing approximately 64% of the pledges receivable as of December 31, 2015).

NOTE J - FUNDING OF THE ORGANIZATION

As of December 31, 2016, the Organization had a deficit in unrestricted net assets of $1,497,729 as a result of its grant-making to Shalva Israel. The Organization's Board of Directors and donors continues to fund the Organization as needed, so as to maintain the necessary asset level for the required grant making.

NOTE K - CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash-equivalent accounts deposited in a high-credit-quality financial institution. The balances of which, from time to time, may be in excess of federally insured limits. However, management believes that the Organization has no significant risk of loss on any of these accounts that would be due to the failure of the financial institutions.

NOTE L - COMMITMENTS

[1] Leases:

The Organization leases office space and office equipment under operating lease agreements expiring through December 31, 2018. The future minimum annual rental payments to be made under the lease agreements, in each of the years subsequent to December 31, 2016, are as follows:

Year Ending December 31,	Amount
2017	$ 94,800
2018	98,400
Total	$ 193,200

[2] Other contracts:

In the normal course of business, the Organization enters into contracts for profession and other services, which are typically renewable on a year-to year basis.