

**ORT AMERICA, INC.**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

**ORT AMERICA, INC.**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
ORT America, Inc.

We have audited the accompanying financial statements of ORT America, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the local regions and chapters-at-large, which statements reflect total assets of \$350,211 at December 31, 2015, and total revenues of \$2,095,555 for the year then ended. These financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it related to the amounts included for local regions and chapters-at-large, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the

(Continued)

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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2015, 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.

A handwritten signature in black ink that reads "Friedman LLP". The signature is written in a cursive, flowing style.

November 9, 2016

**ORT AMERICA, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2015**

**ASSETS**

Cash and cash equivalents	\$ 3,673,911
Investments, at fair value	10,412,021
Investments in real estate partnerships, at cost	389,675
Contributions receivable, net	
Anieres Program	9,312,049
Other	2,090,010
Due from WAOF	1,028,647
Prepaid expenses and other assets	386,847
Beneficial interests in perpetual trusts held by third parties	1,484,442
Property and equipment, net	147,564
	\$ 28,925,166

**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts payable and accrued expenses	\$ 1,141,909
Accrued pension payable	3,629,725
Accrued postretirement benefit costs	530,857
Employees' severance payable	101,184
Grants payable - World ORT	
Anieres Program	9,310,971
Other	818,547
Split-interest agreement obligations	1,670,163
	17,203,356

Commitments and contingencies

**Net assets**

Unrestricted	(1,042,576)
Temporarily restricted	7,652,408
Permanently restricted	5,111,978
	11,721,810
	\$ 28,925,166

See notes to financial statements.

**ORT AMERICA, INC.**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED DECEMBER 31, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, public support and other support</b>				
Contributions	\$ 7,732,084	\$ 155,328	\$ 157,055	\$ 8,044,467
Grant income	2,501,164	-	-	2,501,164
Membership dues	372,632	-	-	372,632
Legacies	2,543,841	500,000	-	3,043,841
Investment loss	(26,187)	(31,463)	-	(57,650)
Income from real estate partnerships	-	395,796	-	395,796
Change in value of split-interest agreements	-	(136,026)	-	(136,026)
Special events	134,011	165,156	-	299,167
Gain on sale of property	941,085	-	-	941,085
Miscellaneous	308,327	-	-	308,327
Net assets released from restrictions	677,007	(677,007)	-	-
Total revenue, public support and other support	15,183,964	371,784	157,055	15,712,803
<b>Expenses</b>				
Program services				
ORT schools and grants	7,521,173	-	-	7,521,173
National activities	4,211,454	-	-	4,211,454
Communications and marketing	643,821	-	-	643,821
Total program services	12,376,448	-	-	12,376,448
Supporting services				
Management and general	1,474,304	-	-	1,474,304
Fund-raising	732,423	-	-	732,423
Total supporting services	2,206,727	-	-	2,206,727
Total expenses before other items	14,583,175	-	-	14,583,175
<b>Change in net assets before other items</b>	600,789	371,784	157,055	1,129,628
Other items				
Pension and other postretirement-related charges other than net periodic costs	(902,292)	-	-	(902,292)
<b>Change in net assets</b>	(301,503)	371,784	157,055	227,336
<b>Net assets</b>				
Beginning of year	(741,073)	7,280,624	4,954,923	11,494,474
End of year	\$ (1,042,576)	\$ 7,652,408	\$ 5,111,978	\$ 11,721,810

See notes to financial statements.

**ORT AMERICA, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED DECEMBER 31, 2015**

	Program Services				Supporting Services			
	ORT Schools and Grants	National Activities	Communications and Marketing	Total	Management and General	Fund-Raising	Total	Total
Salaries	\$ 130,748	\$ 1,707,824	\$ 175,253	\$ 2,013,825	\$ 550,030	\$ 194,100	\$ 744,130	\$ 2,757,955
Payroll taxes and employee benefits	34,782	454,320	46,621	535,723	146,320	51,635	197,955	733,678
<b>Total salaries and related expenses</b>	<b>165,530</b>	<b>2,162,144</b>	<b>221,874</b>	<b>2,549,548</b>	<b>696,350</b>	<b>245,735</b>	<b>942,085</b>	<b>3,491,633</b>
Custody account expense and filing fees	-	-	-	-	31,782	-	31,782	31,782
Telephone	765	21,823	1,278	23,866	2,249	3,464	5,713	29,579
Supplies	1,190	19,591	1,989	22,770	3,479	5,695	9,174	31,944
Printing and publications	422	47,717	99,716	147,855	1,777	628	2,405	150,260
Professional and consulting fees	15,888	262,001	58,833	336,722	115,222	23,585	138,807	475,529
Postage and shipping fees	1,201	19,635	42,225	63,061	3,512	1,520	5,032	68,093
Occupancy	33,071	368,610	55,290	456,971	96,715	41,855	138,570	595,541
Travel	1,133	60,577	1,895	63,605	4,425	15,219	19,644	83,249
Meetings, conferences and events	1,461	379,351	2,476	383,288	7,017	19,362	26,379	409,667
Computer system and maintenance	13,488	104,880	22,551	140,919	39,446	17,071	56,517	197,436
Local regions and chapters-at-large	52,696	538,666	105,391	696,753	286,898	333,739	620,637	1,317,390
Insurance	3,523	46,022	4,723	54,268	14,822	5,231	20,053	74,321
Equipment rentals and purchases	3,050	48,810	5,100	56,960	10,438	3,860	14,298	71,258
Legal fees	-	-	-	-	32,803	-	32,803	32,803
Bad debt	-	-	-	-	72,079	-	72,079	72,079
Depreciation and amortization	1,979	15,383	3,309	20,671	5,787	2,505	8,292	28,963
Miscellaneous expenses	8,599	116,244	17,171	142,014	36,174	12,954	49,128	191,142
Unrelated business income tax	-	-	-	-	13,329	-	13,329	13,329
<b>Subtotal</b>	<b>303,996</b>	<b>4,211,454</b>	<b>643,821</b>	<b>5,159,271</b>	<b>1,474,304</b>	<b>732,423</b>	<b>2,206,727</b>	<b>7,365,998</b>
Overseas and domestic program grants	7,217,177	-	-	7,217,177	-	-	-	7,217,177
<b>Total expenses</b>	<b>\$ 7,521,173</b>	<b>\$ 4,211,454</b>	<b>\$ 643,821</b>	<b>\$ 12,376,448</b>	<b>\$ 1,474,304</b>	<b>\$ 732,423</b>	<b>\$ 2,206,727</b>	<b>\$ 14,583,175</b>

See notes to financial statements.

**ORT AMERICA, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2015**

<b>Cash flows from operating activities</b>	
Change in net assets	\$ 227,336
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	33,497
Net realized and unrealized loss on investments	131,915
Net realized and unrealized loss on beneficial interests in perpetual trusts held by third parties	28,393
Write-off of investments in real estate partnerships	60,556
Gain on sale of property	(941,085)
Disposal of property and equipment	25,833
Change in value of split-interest agreements	136,026
Bad debt expense	48,119
Provision for uncollectable accounts	21,999
Change in present value of contributions receivable	(47,925)
Pension and other retirement charges other than net periodic costs	902,292
Changes in assets and liabilities	
Contributions receivable, Anieres Program	1,436,000
Contributions receivable, other	(326,730)
Due from WAOF	157,990
Other receivable	375,000
Prepaid expenses and other assets	(95,689)
Beneficial interests in perpetual trusts held by third parties	56,486
Accounts payable and accrued expenses	(280,047)
Accrued pension payable	(907,312)
Accrued postretirement benefit costs	(3,174)
Employees' severance payable	(62,658)
Grants payable, World ORT, Anieres Program	(1,349,943)
Grants payable, World ORT	(284,846)
<b>Net cash used in operating activities</b>	<b>(657,967)</b>
<b>Cash flows from investing activities</b>	
Purchases of investments	(1,411,888)
Purchase of property and equipment	(7,054)
Proceeds from sale of investments	1,288,986
Proceeds from sale of property	941,085
<b>Net cash provided by investing activities</b>	<b>811,129</b>
<b>Cash flows from financing activities</b>	
Split-interest agreement obligation payments	(30,382)
<b>Net increase in cash and cash equivalents</b>	<b>122,780</b>
Cash and cash equivalents, beginning of year	3,551,131
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,673,911</b>

See notes to financial statements.

## ORT AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 1 - NATURE OF ORGANIZATION

ORT America, Inc. (“ORT” or the “Organization”) was incorporated in New York in 1969. ORT comprises one of the largest nongovernmental education and training organizations in the world, raising funds for a network of ORT schools and programs in the United States and around the world. ORT’s worldwide operations help more than 300,000 students and beneficiaries of the programs each year in Israel, Latin America, the former Soviet Union and other countries. In the United States, over 20,000 students and beneficiaries of the programs are served by Bramson ORT College in New York, Chicago ORT Technical College and the Los Angeles ORT Technical College. Since its founding in 1880, ORT’s programs have been providing individuals with the ability to help themselves by launching successful careers in science, technology and other disciplines.

ORT is funded primarily by contributions from the general public.

#### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of Accounting and Presentation**

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

The Organization’s net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions into the following three categories:

Unrestricted: Unrestricted net assets are not subject to donor-imposed stipulation.

Temporarily Restricted: Net assets subject to donor-imposed stipulation that may or will be met, either by action of the Organization and/or the passage of time.

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. Temporarily restricted contributions received and expended in the same fiscal year are included as unrestricted revenues.

Permanently Restricted: Net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization. Generally, the donor of these assets would permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Consistent with the terms of the New York Prudent Management of Institutional Funds Act (“NYPMIFA”), those earnings will initially be classified as temporarily restricted in the accompanying statement of activities, pending appropriation by the Board of Directors.

## ORT AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Cash and Cash Equivalents**

Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations. For financial reporting purposes, ORT considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents, with the exception of cash that is managed as part of ORT's long-term investment strategy.

##### **Investments and Investment Income**

Investments are stated at fair value. ORT invests in various investment securities, which are exposed to various risks such as interest rate, market and credit risks.

##### **Investment in Real Estate Partnerships**

The Organization has an interest in five real estate partnerships, which is recognized on the cost basis of accounting.

##### **Contributions and Contributions Receivable**

Contributions are recognized when a donor makes a promise to give to the Organization and that promise is in substance unconditional. Conditional promises to give are recognized as contributions when substantially all conditions are met. Contributions received are measured at their fair value and reported as an increase in net assets at net realizable value. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved. Amortization of the discount is included in contributions revenue.

The Organization provides for losses on contributions receivable using the allowance method, which is based on experience, collection history, and other circumstances that may affect the donor's ability to meet its obligations. It is the policy of the Organization to charge off uncollectible contributions receivable when management determines that the receivable will not be collected.

## ORT AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **Contributions and Contributions Receivable** (Continued)

Legacies are recorded as revenue at the time that an unassailable right to the gift has been established by the probate court and the proceeds are measurable in amount. The related legacies receivable are included in the statement of financial position as part of contributions receivable.

Grant income is recorded as revenue when received.

##### **Property and Equipment**

Property and equipment are stated at cost at the dates of acquisition or their fair values at the dates of donation. Improvements are capitalized while repair and maintenance costs are expensed when incurred. Furniture and equipment are depreciated on the straight-line method over their estimated economic useful lives of five years, while leasehold improvements are amortized over the shorter of the terms of the leases or the asset life.

##### **Risks and Uncertainties**

ORT invests in marketable securities including equities, money funds and corporate and government debt as well as mutual funds that invest in various types of debt and equity securities. Such investments are subject to various risks including liquidity, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in market conditions in the near term could materially affect the value of investments reported in the financial statements.

##### **Fair Value Measurements**

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Under GAAP, the three levels of the fair value hierarchy are described as follows:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect management's own assumptions.

## ORT AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **Functional Allocation of Expenses**

The costs of providing ORT's programs and supporting services have been summarized on a functional basis. Some costs are directly charged to each service area as they are clearly identified as program services or supporting services. Indirect costs are allocated to the different programs and supporting service areas benefited, as determined by management.

Program services are categorized as follows:

- a. ORT schools and grants - these are remittances and expenses related to the different international and domestic schools and projects;
- b. National activities - these are the events and programs that generate awareness and funds to support the mission of the Organization other than ORT schools and grants;
- c. Communications and marketing - this department works simultaneously with national activities and events. It takes care of all publications, promotions and strategies in delivering and making known ORT's mission, programs and activities.

Supporting services are categorized as follows:

- a. Management and general - these expenses relate to oversight, management and administration.
- b. Fundraising - these expenses relate to business development, and maintenance and engagement of donors of major gifts, planned giving and community campaigns.

##### **Income Taxes**

ORT is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is classified as a publicly supported organization as described in Section 509(a).

##### **Subsequent Events**

These financial statements were approved by management and available for issuance on November 9, 2016.

## ORT AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 3 - CONTRIBUTIONS RECEIVABLE, ANIERES PROGRAM

The Organization facilitated a donation agreement between a donor and World ORT (ORT's worldwide operations) whereby the donor will make a contribution of \$1,472,000 to World ORT's Anieres Program (the "Program") each calendar year from 2013 through and including 2021. An additional \$736,000 will be contributed by the donor during the life of the Program or in the last contribution payment for the Program but in all events before December 31, 2022, given all the conditions as defined in the agreement will be met during the life of the Program. Management has determined that the likelihood of World ORT not meeting the conditions in the agreement is remote and therefore the contribution shall be considered an unconditional promise to give. Based on the donor's ability to pay and the Organization's past experience with the donor, management has determined that no allowance is needed for the receivable.

Amounts due in	
Less than one year	\$ 1,499,135
One to five years	5,888,000
Five or more years	2,208,000
	<hr/>
	9,595,135
Discount on multi-year contributions receivable	(283,086)
	<hr/>
<b>Contributions receivable, Anieres Program, net</b>	<b>\$ 9,312,049</b>

#### 4 - CONTRIBUTIONS RECEIVABLE, OTHER

ORT received unconditional promises to give, restricted by time. Noncurrent contributions receivable have been discounted over the payment period using discount rates ranging from 2.5% to 5%. Outstanding contributions receivable were as follows as of December 31, 2015:

Amounts due in	
Less than one year	\$ 1,906,272
One to five years	126,711
Five or more years	200,000
	<hr/>
	2,232,983
Allowance for uncollectible contributions	(71,000)
Discount on multi-year contributions receivable	(71,973)
	<hr/>
<b>Contributions receivable, other, net</b>	<b>\$ 2,090,010</b>

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**5 - INVESTMENTS (INCLUDING BENEFICIAL INTERESTS IN PERPETUAL TRUSTS HELD BY THIRD PARTIES)**

Investments (including beneficial interests in perpetual trusts held by third parties) consist of the following as of December 31, 2015:

Money market funds	\$ 251,435
Marketable equity securities	998,444
Mutual funds	2,253,764
Bonds	770,056
Pooled investment funds	7,462,206
State of Israel bonds	150,300
Investment in life insurance contracts	10,258
<u>Total investments, at fair value</u>	<u>\$ 11,896,463</u>

Investment loss consists of the following for the year ended December 31, 2015:

Interest, dividends and changes in annuity values	\$ 147,067
Realized gain	132,905
Unrealized loss	(296,749)
Unrealized foreign currency translation loss	(4,487)
Insurance royalties	7,731
Management fees	(44,117)
	<u>\$ (57,650)</u>

The Organization is the named income beneficiary in multiple perpetual trusts, the corpus of which is not controlled by management of the Organization. Under these arrangements, the Organization has the irrevocable right to receive all or a portion of the income received on the underlying assets held in perpetuity. Accordingly, permanently restricted contribution revenue and related assets are recognized at fair value in the period in which the Organization receives notice that the trust agreements convey an unconditional right to receive benefits. Income from the perpetual trusts is unrestricted.

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**6 - FAIR VALUE MEASUREMENT**

The following table sets forth, by level, ORT's investments at fair value, within the fair value hierarchy, as of December 31, 2015:

Description	Total	2015 Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 251,435	\$ 251,435	\$ -	\$ -
Bonds				
Corporate	334,973	-	334,973	-
Government agency	435,083	-	435,083	-
	770,056	-	770,056	-
Marketable equity securities				
Exchange-traded funds	682,832	682,832	-	-
Common stock	151,007	151,007	-	-
International equities	164,605	164,605	-	-
	998,444	998,444	-	-
Mutual funds				
International equities	180,003	180,003	-	-
Domestic large blend	53,051	53,051	-	-
Domestic small cap	54,210	54,210	-	-
International large blend	1,516,780	1,516,780	-	-
Fixed income	449,720	449,720	-	-
	2,253,764	2,253,764	-	-
Pooled investment funds	7,462,206	-	28,709	7,433,497
State of Israel bonds	150,300	-	150,300	-
Investment in life insurance contract	10,258	-	-	10,258
Total investments at fair value	\$ 11,896,463	\$ 3,503,643	\$ 949,065	\$ 7,443,755

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Below are the valuation techniques used by the Organization to measure different financial instruments at fair value and the level within the fair value hierarchy in which the financial instrument is categorized.

## ORT AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 6 - FAIR VALUE MEASUREMENT (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2015:

Marketable equity securities and money market funds listed on a national securities exchange are stated at the last reported sales or trade price on the day of valuation, and are classified as Level 1 in the fair value hierarchy.

The fair value of bonds is based on the last reported bid price provided by broker-dealers, and is classified as Level 2 in the fair value hierarchy.

The fair value of mutual funds is based on the last quoted evaluation or bid price, and is classified as Level 1 in the fair value hierarchy.

The fair value of the life insurance contract is based on anticipated cash inflow and other significant unobservable inputs, and is classified as Level 3 in the fair value hierarchy.

Investments in pooled investment funds are valued at fair value based on the applicable percentage ownership of the investment funds' net assets as of the measurement date, as reported to the Organization by the fund. In determining the fair value, the Organization utilizes, as a practical expedient, the net asset value provided by the fund manager (NAV of funds). The majority of investment funds value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds, which may include private placements and other securities for which prices are not readily available, are determined by the fund manager and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments. The fair value of the Organization's investment pool generally represents the amount that the Organization would expect to receive if it were to liquidate its investment in the investment pool, excluding any redemption charges that may apply.

The Organization categorized its investments in investment pools in the United Jewish Endowment Fund as a Level 3 fair value measurement because there may be a variety of circumstances in which the United Jewish Endowment Fund, in its discretion, may delay the remittance of funds to the Organization after a withdrawal written notice is received from the Organization. There is a possibility that the Organization would not be able to redeem its investments within 90 days from the date of the redemption request.

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**6 - FAIR VALUE MEASUREMENT** (Continued)

The following table presents the reconciliation for Level 3 assets and liabilities measured at fair value during the year ended December 31, 2015:

	Investment in Life Insurance Contract	Pooled Investment Funds
Balance, beginning of year	\$ 10,139	\$ 7,115,808
Interest and dividends	119	54,472
Net realized gain	-	92,107
Net unrealized gain	-	(207,926)
Investment fees	-	(34,976)
Purchase of investments	-	470,498
Sale of investments	-	(56,486)
Balance, end of year	<u>\$ 10,258</u>	<u>\$ 7,433,497</u>

**7 - PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2015 consist of the following:

Leasehold improvements	\$ 32,348
Furniture and equipment	107,908
Property and equipment of branches	122,090
	<u>262,346</u>
Less - Accumulated depreciation and amortization	<u>(114,782)</u>
	<u>\$ 147,564</u>

Depreciation and amortization amounted to \$33,497, of which \$4,513 is related to local regions and chapters at large, for the year ended December 31, 2015.

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**8 - LEASE COMMITMENTS**

ORT has a lease agreement to rent office space located at 75 Maiden Lane, New York, New York, which was set to expire on January 31, 2017 but was subsequently amended in May 2016 which extended the lease term to April 30, 2027. In addition, several of the regional and chapter offices are subject to operating leases. ORT has also entered into a sublease agreement, effective March 1, 2011, for a portion of its New York office space, which was scheduled to expire on May 31, 2016. Minimum rental payments under the sublease agreement were \$8,067 per month at the commencement of the lease term, with stated increases on each anniversary date. The sublease agreement also required the subtenant to pay a prorated share of enumerated tax, maintenance and utility charges. Effective June 1, 2015, the sublease agreement was amended, reducing the monthly rent to \$6,000 inclusive of taxes, maintenance and utility charges, and extending the lease period through January 31, 2017. This amendment forfeits the sublessee's security deposit, prorated monthly through the remainder of the new lease period.

Scheduled future minimum lease obligations under noncancelable operating leases, net of sublease income, are as follows:

Year Ending December 31,	New York Offices	Other Offices	Sublease Income	Total
2016	\$ 416,104	\$ 168,249	\$ (72,000)	\$ 512,353
2017	276,105	150,269	( 6,000)	420,374
2018	370,800	102,221	-	473,021
2019	380,534	2,904	-	383,438
2020	390,952	-	-	390,952
Thereafter	2,738,991	-	-	2,738,991
	<u>\$ 4,573,486</u>	<u>\$ 423,643</u>	<u>\$ (78,000)</u>	<u>\$ 4,919,129</u>

Occupancy expense was \$595,541 for the year ended December 31, 2015.

Rent expense is recognized on a straight-line basis over the term of the lease. The difference between rental payments made under these leases and rent expense calculated on a straight-line basis is recorded as deferred rent payable and is reflected in the accompanying statement of financial position as part of the accounts payable and accrued expenses balance.

The Organization leases office equipment for various terms under long-term, noncancelable operating lease agreements. The leases expire at various dates through 2020 and provide for renewal. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other equipment. Average monthly lease payments in the aggregate were \$5,522 during the year ended December 31, 2015.

## ORT AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 8 - LEASE COMMITMENTS (Continued)

The future minimum rental payment required under the operating lease agreement for office equipment is \$248,604 as of December 31, 2015, to be paid through 2020.

Equipment lease expense (included in the statement of functional expenses) was \$71,258 for the year ended December 31, 2015.

#### 9 - ACCRUED PENSION PAYABLE

ORT administers three pension plans:

- A. Defined Benefit Pension Plan - Women's American ORT, Inc.: ORT has a frozen defined benefit pension plan covering the former employees of Women's American ORT, Inc. ("WAO"), an entity that merged with ORT in 2007. The plan was frozen as a result of the cessation of benefit accruals effective December 31, 2002. The amortization of prior service costs was eliminated as a result of the partial termination.
- B. Employee Pension Plan - American ORT, Inc. and Affiliated Organizations: The former employees of American ORT, Inc. ("AOI") and its affiliates are covered by the Employees Pension Plan of American ORT, Inc. and Affiliated Organizations. The plan was frozen as a result of the cessation of benefit accruals effective August 31, 2006.
- C. Defined Contribution Pension Plan: ORT established a defined contribution pension plan covering substantially all of its employees. Pension expense under this plan was \$86,951 for the year ended December 31, 2015.

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**9 - ACCRUED PENSION PAYABLE (Continued)**

The following table summarizes the benefit obligation, fair value of assets and the funded status for the year ended December 31, 2015:

	WAO	AOI
Benefit obligation	\$ (6,365,903)	\$ (9,078,915)
Fair value of plan assets	5,001,900	6,813,193
<b>Funded status at end of year</b>	<b>\$ (1,364,003)</b>	<b>\$ (2,265,722)</b>
Amounts recognized as liabilities in the statement of financial position	\$ (1,364,003)	\$ (2,265,722)
Amounts recognized as cumulative changes in pension other than net periodic costs		
Net loss	\$ (3,281,006)	\$ (5,671,656)
Cumulative employer contributions in excess of net periodic benefit cost	1,917,003	3,405,934
<b>Net amount recognized</b>	<b>\$ (1,364,003)</b>	<b>\$ (2,265,722)</b>
Components of net periodic benefit costs		
Interest cost	\$ 226,849	\$ 319,443
Expected return on assets	(388,824)	(518,873)
Amortization of net loss	120,539	223,728
<b>Net periodic benefit cost</b>	<b>\$ (41,436)</b>	<b>\$ 24,298</b>

Changes in pension costs other than net periodic costs at December 31, 2015:

Net loss	\$ 574,385	\$ 687,056
Amortization of net loss	(120,539)	(223,728)
<b>Net other than periodic costs</b>	<b>\$ 453,846</b>	<b>\$ 463,328</b>
Accumulated benefit obligation	\$ 6,365,903	\$ 9,078,915
Employer contributions	339,909	565,147
Benefits paid	486,084	514,952

Weighted average assumptions to determine benefit obligations at December 31, 2015:

	WAO	AOI
Discount rate	3.75%	3.75%

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**9 - ACCRUED PENSION PAYABLE** (Continued)

Weighted average assumptions to determine net periodic cost at December 31, 2015:

	WAO	AOI
Discount rate	3.50%	3.50%
Expected return on plan assets	7.50	7.50
Rate of compensation increase	N/A	N/A

Benefit payments, which reflect the expected future service, as appropriate, are expected to be paid as follows:

Year Ending December 31,	WAO	AOI
2016	\$ 543,499	\$ 663,245
2017	529,812	678,643
2018	512,723	662,297
2019	497,529	651,511
2020	478,221	634,988
2021 - 2025	2,162,656	2,942,477

WAO expects to contribute \$228,200 and AOI expects to contribute \$281,300 in 2016.

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**9 - ACCRUED PENSION PAYABLE (Continued)**

The fair value of the plans' investments at December 31, 2015 (all of which are Level 1 - see Note 2), by asset category, are as follows:

	Fair Value Using Quoted Prices in Active Markets for Identical Assets (All Level 1)			
	WAO		AOI	
	2015	% 2015	2015	% 2015
Cash equivalents	\$ 54,867	1.1%	\$ 77,075	1.1%
Mutual funds				
Small cap	143,918	2.9	196,083	2.9
Mid cap	260,848	5.2	354,367	5.2
Large value	1,710,384	34.2	2,325,288	34.1
International	988,721	19.8	1,350,814	19.8
Fixed income	1,394,256	27.9	1,902,020	27.9
Emerging markets	78,770	1.5	107,543	1.6
Real estate	370,136	7.4	500,003	7.4
	4,947,033	98.9	6,736,118	98.9
	\$ 5,001,900	100.0%	\$ 6,813,193	100.0%

The plans' investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, plan managers, with advice from the Pension Committee of the Board of Directors, formulate an investment portfolio composed of a combination of equity and debt securities.

**10 - POSTRETIREMENT BENEFIT COSTS**

ORT has accrued for postretirement benefit costs of former AOI employees. Former AOI employees have a contributory postretirement medical and life insurance benefit plan which covers specified nonunion employees, and their spouses and dependents, who retire after the attainment of age 60 with 15 or more years of service.

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**10 - POSTRETIREMENT BENEFIT COSTS (Continued)**

The following table sets forth the plan's combined unfunded status and amounts recognized in the statement of financial position as of December 31, 2015:

Benefit obligation	\$ (530,857)
Fair value of plan assets	-
<b>Funded status at end of year</b>	<b>\$ (530,857)</b>
<hr/>	
Amount recognized as liability in the statement of financial position	\$ (530,857)
<hr/>	
Components of net periodic benefit cost	
Interest cost	\$ 17,599
Amortization of transition obligation	24,205
Amortization of actuarial loss	154
<b>Net periodic benefit cost</b>	<b>\$ 41,958</b>
<hr/>	
Changes in pension costs other than net periodic costs	
Actuarial loss	\$ 9,477
Amortization of transition obligation	(24,205)
Amortization of actuarial loss	(154)
<b>Net other than periodic benefit</b>	<b>\$ (14,882)</b>
<hr/>	
Employer contributions	\$ 30,250
Plan participants' contributions	3,600
Benefits paid	(33,850)

Weighted-average assumptions to determine benefit obligations at December 31, 2015:

Discount rate	3.62%
---------------	-------

Weighted-average assumptions to determine net periodic benefit cost for the year ended December 31, 2015:

Discount rate	3.41%
---------------	-------

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**10 - POSTRETIREMENT BENEFIT COSTS (Continued)**

Benefit payments, which reflect the expected future service, as appropriate, are expected to be paid as follows:

Year Ending December 31,	
2016	\$ 42,054
2017	45,258
2018	45,999
2019	44,368
2020	42,726
2021 - 2025	187,072

ORT expects to contribute \$42,054 to the plan in 2016.

The assumed health care trend rate at December 31, 2015 is as follows:

Health care cost trend rate assumed for next year	8.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.886
Year that the rate reaches the ultimate trend rate	2075

Assumed health care cost trend rates have significant effect on the amounts reported for the health care plans. A one-percentage-point change in the health care cost trend rate would have the following effects:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	\$ 275	\$ (223)
Effect on postretirement benefit obligation	7,176	(6,570)

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**11 - EMPLOYEES' SEVERANCE PAYABLE**

ORT has accrued the present value of severance pay for former AOI employees, which provides for a maximum of 24 months for nonunion employees based upon the current year's salary. On March 31, 2004, AOI froze severance benefits for employees. The severance liability as of December 31, 2015 was \$101,184.

**12 - SPLIT-INTEREST AGREEMENTS OBLIGATIONS**

The Organization has numerous split-interest agreements that include charitable remainder trusts and gift annuities where the Organization serves as trustee for the benefit of the individual beneficiaries. Under these agreements, the Organization controls the donated assets and distributes to the donor or the donor's designee the income generated from those assets or set payments as stated in the agreements.

At the time of the gift, and adjusted annually, the Organization records contribution revenue and a liability for amounts payable to beneficiaries using an actuarial calculation based on estimated mortality rates and other assumptions. Gains and losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective net asset class in the statement of activities. The discount rates used in the calculation range from 1.2% to 10.0%.

The financial statements include various split-interest agreements as of December 31, 2015, as follows:

Statement of activities	
Contributions	\$ 57,003
Change in value of split-interest agreements	(136,026)
Statement of financial position	
Investments	2,878,784
Liabilities under split-interest agreements	1,670,163

The asset balance at December 31, 2015 exceeded the reserve requirements of the New York State Insurance Commission as well as the reserve requirements of the relevant regulatory bodies in all other states that require a reserve fund and in which the Organization issues gift annuities. Reserves are included in liabilities under split-interest agreement obligations on the accompanying statement of financial position.

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**13 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of December 31, 2015 are available for educational assistance and scholarships.

During the year ended December 31, 2015, temporarily restricted net assets were released from restrictions by satisfying the restricted purposes for education.

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support general operations or educational programs (donor designated).

**14 - LOCAL REGIONS AND CHAPTERS-AT-LARGE**

Assets and liabilities of local regions and chapters-at-large are presented in the statement of financial position as of December 31, 2015 in the following classifications:

<u>Assets</u>	
Cash and cash equivalents	\$ 537,666
Property and equipment, net	122,090
Prepaid expenses and other assets	76,393
	<hr/>
	\$ 736,149
 <u>Liabilities</u>	
Accounts payable and accrued expenses	\$ 249,106
	<hr/>

Not included in the above accounts payable and accrued expenses are the payroll reimbursements payable by the local regions and chapters-at-large to the national office of \$83,580, which was eliminated against the receivables reported by the national office as of December 31, 2015.

Local regions and chapters-at-large expenses are reported on the statement of functional expenses, and consist of the following for the year ended December 31, 2015:

Salaries and related benefits	\$ 567,755
Occupancy	180,323
Office expense	236,402
Other	328,396
	<hr/>
	\$ 1,312,876

Depreciation expense of \$4,513 from local regions and chapters-at-large was included in depreciation and amortization expense on the statement of functional expenses.

## ORT AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 15 - ENDOWMENT AND BOARD-DESIGNATED FUNDS

The Endowment: The Organization's endowment consists of approximately 24 individual special-purpose funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: NYPMIFA became law in September 2010. The Board of Directors will continue to adhere to NYPMIFA's requirement relating to the Organization's seeking to maintain the purchasing power of the endowment.

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment and board-designated assets that attempt to provide a relatively predictable stream of funding to programs supported by its endowment while seeking to maintain the long-term, real purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to achieve a balanced return of current income and modest growth of principal, consistent with preservation of the purchasing power of the funds after satisfying any liquidity needs and expenses.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Organization 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). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments specific to each investment pool to achieve its long-term return objectives within prudent risk constraints. Returns are compared to a blended benchmark for the overall portfolio and category-specific benchmarks corresponding to investment strategies used.

Spending Policy and How Investment Objectives Relate to Spending Policy: Expenditures from the board-designated net assets are released as approved by the Organization's Board of Directors. The earnings on the permanently restricted net assets are released from restricted funds and are used in accordance with donor stipulations, as described in Note 13.

**ORT AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**15 - ENDOWMENT AND BOARD-DESIGNATED FUNDS (Continued)**

The Organization's endowment net assets had the following activity for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2015	\$ 732,872	\$ 4,627,736	\$ 4,954,923	\$ 10,315,531
Investment return				
Investment income	3,803	26,811	-	30,614
Investment fee	(2,670)	(18,825)	-	(21,495)
Real estate partnership income	-	395,796	-	395,796
Net change in asset value (realized and unrealized)	(9,102)	(64,169)	-	(73,271)
Total investment return (loss)	(7,969)	339,613	-	331,644
Contributions	35,844	201,156	157,055	394,055
Appropriation of endowment assets for expenditure	(135,104)	(64,281)	-	(199,385)
Changes in net assets	(107,229)	476,488	157,055	526,314
Endowment net assets, December 31, 2015	\$ 625,643	\$ 5,104,224	\$ 5,111,978	\$ 10,841,845

**16 - CONTINGENCIES**

On March 21, 2007, American ORT (hereafter ORT America, Inc.) filed a civil complaint against ORT Israel in the United States District Court for the Southern District of New York ("New York Lawsuit") requesting that the court enjoin ORT Israel from using the ORT trademark in the United States. In this lawsuit, ORT America, Inc. claimed federal statutory trademark infringement and related federal and New York State claims. On May 10, 2007, ORT Israel filed a counterclaim against ORT America, Inc. for unspecified damages claiming federal and common-law advertising violations and contract and equitable relief, including the cancellation of ORT America, Inc.'s federal trademark registration in the trademark "ORT."

In July 2009, ORT America, Inc. and ORT Israel agreed to settle the New York Lawsuit. ORT America, Inc. or its licensees can use the ORT mark for fund-raising in the United States, while ORT Israel will have to introduce itself under a different name. ORT Israel can raise money in the United States through Friends of Israel Sci-Tech Schools, another 501(c)(3) organization.

## **ORT AMERICA, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

#### **16 - CONTINGENCIES (Continued)**

On January 22, 2008, ORT Israel filed an action in the District Court of Tel Aviv, Israel, ORT Israel versus World ORT and ORT America, Inc. (“Tel Aviv Lawsuit”), whereby ORT Israel seeks damages in the amount of approximately \$4.6 million jointly and severally from each defendant. The action involves contract and implied contract claims. The case is still pending.

The final outcome of ORT Israel’s Tel Aviv Lawsuit is uncertain. On the advice of their attorney, ORT management has concluded that some probable loss will result from the lawsuit and ORT has accrued approximately \$461,000 on the basis that such loss, while still being contested by ORT, is probable.

#### **17 - GRANTS PAYABLE, WORLD ORT**

As of December 31, 2015, the Organization has received \$751,923 in contributions that are restricted to World ORT. Amounts received that are restricted to World ORT are deemed a commitment and paid to World ORT.

In addition, an amount of \$9,310,971 (stated at net present value) to be received from a donor for the Anieres Program will be transferred to World ORT when collected.

#### **18 - RELATED PARTY TRANSACTIONS**

On October 10, 2011, ORT and Women’s American ORT Foundation (“WAOF”) entered into an exclusive license agreement as part of the trademark assignment and option agreement entered into by both parties on the same day. WAOF granted ORT the rights to continue to use the “ORT” trademark in its daily activities in exchange for a license fee. ORT is to pay WAOF a three percent royalty fee based on all gross donations received by ORT in the United States of America, with the annual royalty fee not to exceed \$170,000 and not to be less than \$84,000. The term of the license agreement is for ninety-nine years, unless terminated earlier by either party as stipulated in the agreement. ORT recognized \$170,000 of royalty fees in the year ended December 31, 2015, which is included in miscellaneous expenses on the statement of functional expenses.

WAOF reimburses ORT for certain audit and accounting services. Reimbursements of \$99,676 were received by ORT in the year ended December 31, 2015 and are included in miscellaneous revenue on the statement of activities.

ORT received \$403,242 in contributions from WAOF for the year ended December 31, 2015.

#### **19 - GAIN ON SALE OF PROPERTY**

On August 18, 2015, the Organization sold a building in Philadelphia, Pennsylvania, for \$1,000,000, realizing a gain of approximately \$941,000.