

**P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
COMPARATIVE FINANCIAL STATEMENTS  
FOR YEARS ENDED NOVEMBER 30, 2018 AND 2017  
AND  
SUPPLEMENTARY INFORMATION**

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# GREENFIELD & FORTUNA, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditor's Report

To the Board of Directors of  
P.E.F Israel Endowment Funds, Inc.

We have audited the accompanying financial statements of P.E.F. Israel Endowment Funds, Inc. (a nonprofit organization), which comprise the statements of financial position as of November 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of P.E.F Israel Endowment Funds, Inc. as of November 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Greenfield & Fortuna, LLP*  
New York, N.Y.  
March 19, 2019

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
STATEMENTS OF FINANCIAL POSITION  
NOVEMBER 30, 2018 AND 2017

	<u>NOVEMBER 30, 2018</u>	<u>NOVEMBER 30, 2017</u>
<b>Assets</b>		
Cash	\$ 3,349,521	\$ 12,513,008
Unconditional Promise to Give		150,000
Interest and Dividends Receivable	56,197	61,513
Prepaid Expenses	62,946	62,256
Investments	162,384,318	159,972,400
Equipment and Leasehold Improvements, net	31,264	42,339
Other Assets	<u>34,608</u>	<u>74,050</u>
Total Assets	<u><u>\$ 165,918,854</u></u>	<u><u>\$ 172,875,566</u></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Grants Payable	\$ 1,287,917	\$ 3,379,456
Deferred Rent and Accrued Liabilities	<u>103,279</u>	<u>110,773</u>
Total Liabilities	<u>1,391,196</u>	<u>3,490,229</u>
Commitment and Contingency (Note 6)		
<b>Net Assets:</b>		
Unrestricted	139,357,249	144,039,715
Temporarily Restricted	3,991,584	4,166,797
Permanently Restricted	<u>21,178,825</u>	<u>21,178,825</u>
Total Net Assets	<u>164,527,658</u>	<u>169,385,337</u>
Total Liabilities and Net Assets	<u><u>\$ 165,918,854</u></u>	<u><u>\$ 172,875,566</u></u>

See accompanying notes to financial statements.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED NOVEMBER 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
<b>Revenue</b>				
Contributions	\$ 94,644,956	\$ 133,800	\$ -	\$ 94,778,756
Interest and Dividends, net	1,810,684	56,087		1,866,771
Net Realized and Unrealized Gains (Losses) on Investments	582,383	(52,680)		529,703
	<u>97,038,023</u>	<u>137,207</u>		<u>97,175,230</u>
Net Assets Released from Restrictions	<u>312,420</u>	<u>(312,420)</u>		
Total Revenue	<u>97,350,443</u>	<u>(175,213)</u>		<u>97,175,230</u>
<b>Expenses</b>				
Grants to Qualified Organizations and Related Expenses	101,343,325			101,343,325
General and Administrative	671,756			671,756
Fundraising	17,828			17,828
Total Expenses	<u>102,032,909</u>			<u>102,032,909</u>
Change in Net Assets	(4,682,466)	(175,213)		(4,857,679)
Net Assets - Beginning of Year	<u>144,039,715</u>	<u>4,166,797</u>	<u>21,178,825</u>	<u>169,385,337</u>
Net Assets - End of Year	<u>\$ 139,357,249</u>	<u>\$ 3,991,584</u>	<u>\$ 21,178,825</u>	<u>\$ 164,527,658</u>

See accompanying notes to financial statements.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED NOVEMBER 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
<b>Revenue</b>				
Contributions	\$ 112,060,302	\$ 101,358	\$ -	\$ 112,161,660
Interest and Dividends, net	1,697,397	81,055		1,778,452
Net Realized and Unrealized Gains on Investments	14,064,828	509,627		14,574,455
	<u>127,822,527</u>	<u>692,040</u>		<u>128,514,567</u>
Net Assets Released from Restrictions	<u>379,024</u>	<u>(379,024)</u>		
Total Revenue	<u>128,201,551</u>	<u>313,016</u>		<u>128,514,567</u>
<b>Expenses</b>				
Grants to Qualified Organizations and Related Expenses	104,758,494			104,758,494
General and Administrative	679,972			679,972
Fundraising	15,482			15,482
Total Expenses	<u>105,453,948</u>			<u>105,453,948</u>
Change in Net Assets	22,747,603	313,016		23,060,619
Net Assets - Beginning of Year	<u>121,292,112</u>	<u>3,853,781</u>	<u>21,178,825</u>	<u>146,324,718</u>
Net Assets - End of Year	<u>\$ 144,039,715</u>	<u>\$ 4,166,797</u>	<u>\$ 21,178,825</u>	<u>\$ 169,385,337</u>

See accompanying notes to financial statements.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED NOVEMBER 30, 2018 AND 2017

	2018	2017
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ (4,857,679)	\$ 23,060,619
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and Amortization	11,075	9,795
Net Realized and Unrealized (Gains) on Investments	(529,703)	(14,574,455)
Donated Securities	(9,727,227)	(30,545,624)
(Increase) decrease in operating assets:		
Unconditional Promise to Give	150,000	(150,000)
Interest and Dividends Receivable	5,316	11,392
Prepaid Expenses	(690)	(6,837)
Other Assets	39,442	(5,870)
Increase (decrease) in operating liabilities:		
Grants Payable	(2,091,539)	2,080,650
Deferred Rent and Accrued Liabilities	(7,494)	19,891
Net Cash (Used In) Operating Activities	(17,008,499)	(20,100,439)
<b>Cash Flows From Investing Activities</b>		
Purchases of Equipment		(11,625)
Proceeds from Sales of Investments	93,540,082	69,952,642
Purchases of Investments	(85,695,070)	(40,926,918)
Net Cash Provided By Investing Activities	7,845,012	29,014,099
Net (Decrease) Increase In Cash	(9,163,487)	8,913,660
Cash At Beginning of Year	12,513,008	3,599,348
Cash At End of Year	\$ 3,349,521	\$ 12,513,008

See accompanying notes to financial statements.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Organization

P.E.F. Israel Endowment Funds, Inc. (PEF) is a non-profit organization incorporated in the State of New York and is a tax-exempt public charity under the United States Internal Revenue Code 501(c)(3). It was established in 1922 as Palestine Endowment Funds, Inc. After the founding of the State of Israel its name was changed. PEF's support is derived from public contributions by individuals and organizations. PEF primarily supports charitable organizations in Israel.

b) Basis of Accounting

The financial statements of PEF have been prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles (GAAP).

c) Basis of Presentation

The organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - net assets that are not subject to donor imposed stipulations and where a privilege of grant recommendation is given to the donor (and his or her designees) and the distribution of principal and income is governed by PEF grant guidelines. Even when a recommendation fully complies with such guidelines, the Board of Directors has the absolute power and authority to reject such recommendation.

Temporarily Restricted Net Assets - consist of contributed funds subject to specific donor-imposed restrictions, contingent upon the occurrence of a specific future event or a specific passage of time before PEF may spend the funds, and earnings on endowment funds that have not yet been appropriated.

Permanently Restricted Net Assets - are subject to donor-imposed restrictions requiring that the assets be maintained in perpetuity.  
(See Note 4)

d) Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

e) Liquidity

PEF maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. Management invests cash in excess of monthly requirements in liquid or short-term investments.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

f) Contribution Revenue

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods are reported as temporarily restricted or permanently restricted contributions that increases those net asset classes. When the temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donated marketable securities are recorded as contributions at their fair values on date of donation.

g) Grants

Grants made to others are recorded as an expense when they become unconditional promises by PEF to give based on guidelines promulgated by the Board of Directors. At November 30, 2018 and 2017, promises to give to grantees but not disbursed were \$1,287,917 and \$3,379,456, respectively, and payable within one year.

h) Functional allocation of expenses

The costs of providing grants and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the grant making and supporting services in reasonable ratios determined by management.

i) Cash

Cash is composed of available cash balances. PEF maintains its cash in bank deposit accounts.

j) Promises to Give

Promises to give are oral or written agreements by donors to contribute cash or other assets to an entity. A promise to give is unconditional if its receipt depends only on the passage of time or demand by the organization and no right of return of any assets transferred exists. Conditional promises generally depend on some future event occurring before the promisor is bound or allow for a right of return of assets depending on some future event. Unconditional promises to give that are expected to be collected in less than one year are recorded at their net realizable value, which is the estimate of their fair value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows.

The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Unconditional promises with donor imposed restrictions are recorded as either temporarily or permanently restricted contributions. Conditional promises are recorded when the conditions are substantially met or explicitly waived, at which time the conditional promise becomes unconditional.

At November 31, 2018, the organization had no unconditional promise to give. The organization had one written unconditional promise to give for \$150,000 at November 30, 2017 which was received on December 8, 2017.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

k) Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value determined on the basis of quoted market prices. Investments in non-exchange traded limited partnerships and similar interests for which market values are not readily obtainable are carried at fair value as determined by the respective limited partnership or PEF's management. As a practical expedient, hedge funds are valued using the net asset value per share. These values may differ significantly from values that would have been used had a readily available market existed for such investments, and the differences could be material to the change in net assets of PEF.

Investment transactions are recorded on a trade-date basis. Realized gains and losses are determined on the first-in, first-out basis. Unrealized gains or losses are determined by comparing cost to fair value at the beginning and end of the year. Gains or losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations.

Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date. Interest and dividend income for the years ended November 30, 2018 and 2017 are shown net of investment expenses of \$812,450 and \$756,568, respectively.

l) Fair Value of Financial Instruments

PEF's financial instruments are cash, unconditional promise to give and grants payable. The recorded values of these financial instruments approximate their fair values based on their short-term nature.

m) Concentrations of Credit Risk and Market Risk

Financial instruments that potentially subject PEF to concentrations of credit risk consist principally of cash and money market funds that are deposited in financial institutions which exceeded federally insured limits at times during the years ended November 30, 2018 and 2017. PEF has not experienced any losses in such accounts and management believes the organization is not exposed to any significant risk on these accounts.

PEF utilizes various investment instruments including mutual funds and hedge funds. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

n) Donated Services

No amounts have been reflected in the financial statements for donated services. PEF generally pays for services requiring specific expertise. Trustees volunteer their time and perform a variety of tasks that assists PEF in its operations.

At times, trustees also make cash and non-cash contributions to the organization which are included in the financial statements.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 NOVEMBER 30, 2018 AND 2017

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

o) Depreciation and Amortization

Equipment and Leasehold improvements are stated at cost less accumulated depreciation and amortization. Fixed asset expenditures in excess of \$1,000 are capitalized. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation is computed using the straight-line method over their estimated useful lives of 3 to 7 years for equipment. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the related lease.

p) Income Taxes

PEF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. No taxes were paid for unrelated business activities in the years ended November 30, 2018 and 2017. PEF believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. PEF's Forms 990, Return of Organization Exempt from Income Tax, for the current fiscal year and the last three years are subject to examination by the Internal Revenue Service.

NOTE 2 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following at November 30:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 75,385	\$ 75,385
Leasehold Improvements	<u>3,315</u>	<u>3,315</u>
	78,700	78,700
Less: Accumulated Depreciation and Amortization	<u>(47,436)</u>	<u>(36,361)</u>
	<u>\$ 31,264</u>	<u>\$ 42,339</u>

For the years ended November 30, 2018 and 2017, depreciation and amortization expense was \$11,075 and \$9,795, respectively.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 3 - ADMINISTRATIVE FEES

To pay its operating expenses, PEF charges an administrative fee to all donor-advised funds as described below. Fees were based on total asset value as follows:

<u>Account Balance</u>	<u>Administrative Fee (Per Annum)</u>
Assets up to \$4,000,000	75 basis points
Additional assets exceeding \$4,000,000	30 basis points

The administrative fee is charged annually, and it reduces the value of the donor-advised funds and increases the value of PEF's operating fund. The fee was \$751,173 and \$738,852 for years ended November 30, 2018 and November 30, 2017, respectively.

NOTE 4 - ENDOWMENT FUNDS

PEF is subject to the New York Prudent Management of Institutional Funds Act ("NYPMIFA). In accordance with NYPMIFA, PEF applies a standard of prudence and considers the following factors prescribed by NYPMIFA in making a determination to appropriate for expenditure or to accumulate donor-restricted endowments funds:

- (1) The duration and preservation of the fund
- (2) The purposes of PEF and its donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of PEF
- (7) The investment policies of PEF, and
- (8) Where appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on PEF.

PEF's endowment consists of 8 individual funds (4 permanently restricted and 4 temporarily restricted) and is an aggregation of gifts provided by donors with the requirement they be held in perpetuity or for a period of time to generate earnings now and in future years to support funding its programs and administrative operating costs.

PEF classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until such amounts can be prudently spent, consistent with donor stipulations.

Endowment net asset composition by type of fund as of November 30, 2018 and 2017 is as follows:

		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted	2018	<u>\$ (3,113,493)</u>	<u>\$ 3,991,584</u>	<u>\$ 21,178,825</u>	<u>\$ 22,056,916</u>
Donor Restricted	2017	<u>\$ (2,726,517)</u>	<u>\$ 4,166,797</u>	<u>\$ 21,178,825</u>	<u>\$ 22,619,105</u>

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 4 - ENDOWMENT FUNDS (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires PEF to retain as a fund of perpetual duration. In accordance with United States generally accepted accounting principles, accumulated deficiencies of this nature that are reported in unrestricted net assets totaled \$3,113,493 and \$2,726,517 as of November 30, 2018 and 2017, respectively. It represented 1 individual donor-restricted endowment fund for each year.

Changes in Endowment Net Assets  
for the Fiscal Year Ended November 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$ (2,726,527)	\$ 4,166,797	\$ 21,178,825	\$ 22,619,105
Contributions		133,800		133,800
Investment Return:				
Investment income	113,505	56,087		169,592
Net appreciation (depreciation) (realized and unrealized)	<u>1,054,007</u>	<u>(52,680)</u>	_____	<u>1,001,327</u>
Total investment return	1,167,512	3,407		1,170,919
Appropriation of endowment assets for expenditure	<u>(1,554,488)</u>	<u>(312,420)</u>	_____	<u>(1,866,908)</u>
Endowment net assets, End of year	<u>\$ (3,113,493)</u>	<u>\$ 3,991,584</u>	<u>\$ 21,178,825</u>	<u>\$ 22,056,916</u>

Changes in Endowment Net Assets  
for the Fiscal Year Ended November 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$ (4,471,312)	\$ 3,853,781	\$ 21,178,825	\$ 20,561,294
Contributions		101,358		101,358
Investment Return:				
Investment income	183,962	81,055		265,017
Net appreciation (realized and unrealized)	<u>2,861,516</u>	<u>509,627</u>	_____	<u>3,371,143</u>
Total investment return	3,045,478	590,682		3,636,160
Appropriation of endowment assets for expenditure	<u>(1,300,683)</u>	<u>(379,024)</u>	_____	<u>(1,679,707)</u>
Endowment net assets, End of year	<u>\$ (2,726,517)</u>	<u>\$ 4,166,797</u>	<u>\$ 21,178,825</u>	<u>\$ 22,619,105</u>

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 4 - ENDOWMENT FUNDS (Continued)

Return objectives and risk parameters:

PEF has adopted investment and spending policies for endowment assets to provide a stable stream of funding for programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity, or for a donor-specified period. Endowment assets are invested in a manner intended to produce results that meet or exceed the five-year consumer price index. Actual returns in any given year may vary.

Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return, PEF 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). PEF targets a diversified asset allocation within prudent risk constraints.

Spending policy and related objectives:

PEF has a policy of appropriating amounts sufficient for the purpose(s) of the endowment. In establishing this policy, PEF considered the long-term expected return on its endowment. Accordingly, over the long term, PEF expects the current spending policy to maintain a stable stream of funding to programs.

NOTE 5 - FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement, defines “fair value” as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This pronouncement also establishes a framework for measuring and disclosing fair value of assets and liabilities. 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). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Fair Value Hierarchy

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 - Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities).
- Level 3 - Significant unobservable inputs (including the organization's own assumptions in determining the fair value of assets or liabilities).

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

Certain of PEF's investments are valued using net asset value ("NAV") as a practical expedient of fair value. PEF uses NAV to measure the fair values of the investments in hedge funds. The use of the practical expedient is applicable for investments which (a) do not have a readily determinable fair value and (b) the financial statements of which were prepared by the respective investment managers, consistent with the measurement principles of an investment company or that have the attributes of an investment company. Investments valued at NAV per share are not required to be categorized within the fair-value hierarchy and accordingly have been excluded from the fair-value hierarchy.

The following tables summarize the fair values of PEF's investments on a recurring basis in accordance with the fair value hierarchy and NAV per share as a practical expedient as of November 30, 2018.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>
<u>Investments:</u>				
<u>Equities:</u>				
Consumer Durables	\$ 2,085,090	\$ 2,085,090	\$ -	\$ -
Consumer Non-Durables	5,026,820	5,026,820		
Consumer Services	1,993,930	1,993,930		
Electronic Technology	5,125,135	5,125,135		
Energy Minerals	3,710,624	3,710,624		
Financials	15,581,611	15,581,611		
Healthcare Services	2,247,534	2,247,534		
Healthcare Technology	5,371,594	5,371,594		
Industrial Services	244,480	244,480		
Process Industries	1,503,920	1,503,920		
Producer Manufacturing	6,566,749	6,566,749		
Retail Trade	2,281,702	2,281,702		
Technology Services	4,394,178	4,394,178		
Transportation	3,634,347	3,634,347		
Utilities	2,397,488	2,397,488		
Other	<u>1,707,978</u>	<u>1,707,978</u>		
Total Equities	63,873,180	63,873,180		
Mutual Funds	26,075,454	26,075,454		
Money Market Funds and Deposits at Brokers	6,193,811	6,193,811		
Fixed Income Securities:				
Government Bonds	48,921,255		48,921,255	
Corporate Bonds	2,665,712		2,665,712	
Certificate of Deposits	<u>514,674</u>		<u>514,674</u>	
Investments excluding Hedge Funds	148,244,086	96,142,445	52,101,641	
Hedge Funds	<u>14,140,232</u>			<u>14,140,232</u>
	<u>\$ 162,384,318</u>	<u>\$ 96,142,445</u>	<u>\$ 52,101,641</u>	<u>\$ 14,140,232</u>

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following tables summarize the fair values of PEF's investments on a recurring basis in accordance with the fair value hierarchy and NAV per share as a practical expedient as of November 30, 2017.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
<u>Investments:</u>					
Equities:					
Consumer Durables	\$ 3,869,415	\$ 3,869,415	\$ -	\$ -	\$ -
Consumer Non-Durables	6,197,021	6,197,021			
Consumer Services	2,389,039	2,389,039			
Distribution Services	314,330	314,330			
Electronic Technology	4,328,460	4,328,460			
Energy Minerals	3,244,147	3,244,147			
Financials	15,612,889	15,612,889			
Healthcare Services	1,835,531	1,835,531			
Healthcare Technology	4,338,753	4,338,753			
Industrial Services	403,664	403,664			
Process Industries	1,961,950	1,961,950			
Producer Manufacturing	5,438,105	5,438,105			
Retail Trade	2,616,777	2,616,777			
Technology Services	6,154,770	6,154,770			
Transportation	3,496,582	3,496,582			
Utilities	2,469,626	2,469,626			
Other	<u>1,975,294</u>	<u>1,975,294</u>			
Total Equities	66,646,353	66,646,353			
Mutual Funds	33,509,577	33,509,577			
Money Market Funds and Deposits at Brokers	4,806,021	4,806,021			
Fixed Income Securities:					
Government Bonds	37,633,225		37,633,225		
Corporate Bonds	2,946,642		2,946,642		
Certificate of Deposits	513,180		513,180		
Real Estate Partnership	<u>274,975</u>			<u>274,975</u>	
Investments excluding Hedge Funds	146,329,973	104,960,951	41,094,047	274,975	
Hedge Funds	<u>13,642,427</u>				<u>13,642,427</u>
	<u>\$ 159,972,400</u>	<u>\$ 104,960,951</u>	<u>\$ 41,094,047</u>	<u>\$ 274,975</u>	<u>\$ 13,642,427</u>

PEF uses the following ways to determine the fair value of its Level 2 and Level 3 investments:

- Government and corporate bonds: Determined by the closing bid price on the measurement date.
- Certificates of deposits: Valued at cost plus accrued interest, which approximates fair value.
- Partnerships: Determined considering brokers quotes and published price or best information available (liquidation value) in the circumstance that impact value.

There were no changes in the valuation techniques during the year.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes the changes in PEF's Level 3 rental real estate investments for the years ended November 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Beginning of the year	\$ 274,975	\$ 320,553
Distributions	(274,975)	(57,500)
Interest and Dividends		4,889
Net Realized Gains		3,358
Net Unrealized Gains	<u>          </u>	<u>3,675</u>
End of the year	<u>\$ 0</u>	<u>\$ 274,975</u>

Realized and unrealized gains are included in Net Realized and Unrealized Gains on Investments in the accompanying statement of activities.

The following table lists investments using NAV as a practical expedient at November 30, 2018 and 2017:

<u>Investment</u> <u>Type/Category</u>	<u>Strategy</u>	<u>2018</u>	<u>2017</u>	<u>Redemption</u> <u>Notice</u> <u>Period</u>	<u>Redemption</u> <u>Frequency</u>
Hedge Fund	Multi-Strategy	\$ 3,314,635	\$ 3,227,519	90 Days	Annually
Hedge Fund	Multi-Strategy	8,200,389	7,888,352	60 Days	Quarterly
Hedge Fund	Multi-Strategy	<u>2,625,208</u>	<u>2,526,556</u>	65 Days	Quarterly
		<u>\$ 14,140,232</u>	<u>\$ 13,642,427</u>		

As of November 30, 2018 and 2017, there are no unfunded commitments related to investments in hedge funds.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 6 - COMMITMENT AND CONTINGENCY

a) Office Lease

PEF is obligated under a non-cancelable operating lease for office space, expiring in January 2025. The lease contains annual escalation clauses and, accordingly, rent expense is recorded on the straight line basis over the life of the lease. Rental expense was \$163,488 and \$164,385 for the years ended November 30, 2018 and 2017, respectively. Future minimum lease payments for the years ended November 30, are as follows:

2019	\$ 161,435
2020	170,338
2021	175,195
2022	180,199
2023	185,353
Thereafter	<u>223,194</u>
	<u>\$ 1,095,714</u>

b) Litigation

PEF is a named defendant in a civil action suit along with other charitable organizations, Israeli government officials and private individuals filed with the U.S. District Court, Southern District of New York. Plaintiffs claim damages in excess of \$1.35 billion against PEF. The suit was brought by plaintiffs who allege, among other things negligent and intentional infliction of emotional distress and violations of the Racketeer Influenced and Corrupt Organizations Act. P.E.F. has been named as a defendant because it has made grants to charities which help people involved in guardianship proceedings. On February 2, 2017, PEF was served with an Amended Complaint. On December 8, 2017, the court dismissed the plaintiff's entire complaint against P.E.F. and enjoined two of the plaintiffs from bringing similar actions without court approval. On December 28, 2017, the Court filed an Amended Order clarifying the legal basis for the Court's Order. The plaintiffs have appealed the Court's dismissal of the complaint. The appeal was argued on February 13, 2019. The management of PEF and legal counsel believe that there are bases upon which the Court's dismissal of the complaint should be affirmed in the appeal process.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2018 AND 2017

NOTE 7 - UPCOMING ACCOUNTING ADOPTION

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 amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on contributions used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. This accounting standard is effective for years beginning after December 15, 2017. PEF will adopt this pronouncement beginning December 1, 2018.

NOTE 8 - SUBSEQUENT EVENTS

PEF’s management has evaluated subsequent events through March 19, 2019 which is the date the financial statements were available to be issued, and has concluded that there are no subsequent events for disclosure.

**SUPPLEMENTARY INFORMATION**

**GREENFIELD & FORTUNA, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditor's Report  
on Supplementary Information**

To the Board of Directors of  
P.E.F. Israel Endowment Funds, Inc.

We have audited the financial statements of P.E.F. Israel Endowment Funds, Inc. (a nonprofit organization) as of and for the years ended November 30, 2018 and 2017 and our report thereon dated March 19, 2019, which expressed an unmodified opinion on those financial statements appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Greenfield & Fortuna, LLP*

New York, N.Y.  
March 19, 2019

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
SCHEDULE OF FUNCTIONAL EXPENSES  
YEAR ENDED NOVEMBER 30, 2018, WITH COMPARATIVE TOTALS FOR 2017

	Program Services	Supporting Services		Totals	
	Grants to Qualified Organizations and Related Expenses	General and Administrative	Fundraising	2018	2017
Compensation and Related Expenses					
Salaries	\$ 141,534	\$ 266,417	\$ 8,326	\$ 416,277	\$ 415,600
Employee Benefits	28,266	53,207	1,663	83,136	75,306
Total Compensation and Related Expenses	169,800	319,624	9,989	499,413	490,906
Grants	100,983,690			100,983,690	104,388,804
Investment Management Fees		812,450		812,450	756,568
Rent	55,586	104,632	3,270	163,488	164,385
Insurance	7,614	14,332	448	22,394	20,901
Office Expense	27,501	51,766	1,618	80,885	90,396
Telephone	863	1,626	51	2,540	2,236
Postage	1,360	2,560	80	4,000	5,254
Professional Fees	9,539	164,616		174,155	203,384
Outside Services	69,896			69,896	67,812
Computer Consulting Services	17,476			17,476	8,550
Credit Card Processing Fees			2,372	2,372	
State Filing Fees		1,525		1,525	1,525
Depreciation and Amortization		11,075		11,075	9,795
Total Expenses	101,343,325	1,484,206	17,828	102,845,359	106,210,516
Less: expenses included with revenues on the statement of activities		(812,450)		(812,450)	(756,568)
Total expenses, year ended November 30, 2018	\$ 101,343,325	\$ 671,756	\$ 17,828	\$ 102,032,909	
Total expenses, year ended November 30, 2017	\$ 104,758,494	\$ 679,972	\$ 15,482		\$ 105,453,948