

**P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
COMPARATIVE FINANCIAL STATEMENTS  
FOR YEARS ENDED NOVEMBER 30, 2019 AND 2018**

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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, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

#### Management's Responsibility for the Financial Statements

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

#### 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, 2019 and 2018, 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 31, 2020

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 NOVEMBER 30, 2019 AND 2018

	NOVEMBER 30, 2019	NOVEMBER 30, 2018
Assets		
Cash	\$ 5,122,966	\$ 3,349,521
Interest and Dividends Receivable	67,052	56,197
Prepaid Expenses	65,778	62,946
Investments	152,222,262	162,384,318
Equipment and Leasehold Improvements, net	20,650	31,264
Other Assets	34,203	34,608
Total Assets	\$ 157,532,911	\$ 165,918,854
Liabilities and Net Assets		
Liabilities:		
Grants Payable	\$ 1,287,501	\$ 1,287,917
Deferred Rent and Accrued Liabilities	104,657	103,279
Total Liabilities	1,392,158	1,391,196
Commitment (Note 7)		
Net Assets:		
Without Donor Restrictions	133,121,808	142,500,253
With Donor Restrictions	23,018,945	22,027,405
Total Net Assets	156,140,753	164,527,658
Total Liabilities and Net Assets	\$ 157,532,911	\$ 165,918,854

See accompanying notes to financial statements.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED NOVEMBER 30, 2019

	Without Donor Restrictions	With Donor Restrictions	TOTAL
Revenue			
Contributions	\$ 117,532,558	\$ -	\$ 117,532,558
Investment Return, net			
Interest and Dividends, net	1,752,710	329,038	2,081,748
Net Realized and Unrealized Gains on Investments	7,303,676	2,264,912	9,568,588
Total Investment Return, net	9,056,386	2,593,950	11,650,336
Net Assets Released from Restrictions	1,602,410	(1,602,410)	
Total Revenue	128,191,354	991,540	129,182,894
Expenses			
Grants to Qualified Organizations and Related Expenses	136,831,023		136,831,023
General and Administrative	695,533		695,533
Fundraising	43,243		43,243
Total Expenses	137,569,799		137,569,799
Change in Net Assets	(9,378,445)	991,540	(8,386,905)
Net Assets - Beginning of Year	142,500,253	22,027,405	164,527,658
Net Assets - End of Year	\$ 133,121,808	\$ 23,018,945	\$ 156,140,753

See accompanying notes to financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	TOTAL
Revenue			
Contributions	\$ 94,644,956	\$ 133,800	\$ 94,778,756
Investment Return, net			
Interest and Dividends, net	1,697,508	169,263	1,866,771
Net Realized and Unrealized (Losses) Gains on Investments	(471,970)	1,001,673	529,703
Total Investment Return, net	1,225,538	1,170,936	2,396,474
Net Assets Released from Restrictions	1,866,683	(1,866,683)	
Total Revenue	97,737,177	(561,947)	97,175,230
Expenses			
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	102,032,909		102,032,909
Change in Net Assets	(4,295,732)	(561,947)	(4,857,679)
Net Assets - Beginning of Year	146,795,985	22,589,352	169,385,337
Net Assets - End of Year	\$ 142,500,253	\$ 22,027,405	\$ 164,527,658

See accompanying notes to financial statements.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED NOVEMBER 30, 2019

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Totals</u>
	Grants to Qualified Organizations and Related Expenses	General and Administrative	Fundraising	2019
Compensation and Related Expenses				
Salaries	\$ 151,669	\$ 285,494	\$ 8,922	\$ 446,085
Employee Benefits	28,705	54,033	1,689	84,427
Total Compensation and Related Expenses	<u>180,374</u>	<u>339,527</u>	<u>10,611</u>	<u>530,512</u>
Grants	136,457,421			136,457,421
Rent	56,940	107,181	3,349	167,470
Insurance	8,308	15,638	489	24,435
Office Expense	30,179	56,807	1,775	88,761
Telephone	934	1,757	55	2,746
Postage	1,454	2,736	86	4,276
Professional Fees	1,329	159,748		161,077
Outside Services	72,896			72,896
Computer Consulting Services	21,188			21,188
Credit Card Processing Fees			26,878	26,878
State Filing Fees		1,525		1,525
Depreciation and Amortization		<u>10,614</u>		<u>10,614</u>
Total expenses, year ended November 30, 2019	<u>\$ 136,831,023</u>	<u>\$ 695,533</u>	<u>\$ 43,243</u>	<u>\$ 137,569,799</u>

See accompanying notes to financial statements.

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

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Totals</u>
	Grants to Qualified Organizations and Related Expenses	General and Administrative	Fundraising	2018
Compensation and Related Expenses				
Salaries	\$ 141,534	\$ 266,417	\$ 8,326	\$ 416,277
Employee Benefits	28,266	53,207	1,663	83,136
Total Compensation and Related Expenses	<u>169,800</u>	<u>319,624</u>	<u>9,989</u>	<u>499,413</u>
Grants	100,983,690			100,983,690
Rent	55,586	104,632	3,270	163,488
Insurance	7,614	14,332	448	22,394
Office Expense	27,501	51,766	1,618	80,885
Telephone	863	1,626	51	2,540
Postage	1,360	2,560	80	4,000
Professional Fees	9,539	164,616		174,155
Outside Services	69,896			69,896
Computer Consulting Services	17,476			17,476
Credit Card Processing Fees			2,372	2,372
State Filing Fees		1,525		1,525
Depreciation and Amortization		<u>11,075</u>		<u>11,075</u>
Total expenses, year ended November 30, 2018	<u>\$ 101,343,325</u>	<u>\$ 671,756</u>	<u>\$ 17,828</u>	<u>\$ 102,032,909</u>

See accompanying notes to financial statements.



P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED NOVEMBER 30, 2019 AND 2018

	2019	2018
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ (8,386,905)	\$ (4,857,679)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and Amortization	10,614	11,075
Net Realized and Unrealized (Gains) on Investments	(9,568,588)	(529,703)
Donated Securities	(6,536,827)	(9,727,227)
(Increase) decrease in operating assets:		
Unconditional Promise to Give		150,000
Interest and Dividends Receivable	(10,855)	5,316
Prepaid Expenses	(2,832)	(690)
Other Assets	405	39,442
Increase (decrease) in operating liabilities:		
Grants Payable	(416)	(2,091,539)
Deferred Rent and Accrued Liabilities	1,378	(7,494)
Net Cash (Used In) Operating Activities	(24,494,026)	(17,008,499)
<b>Cash Flows From Investing Activities</b>		
Proceeds from Sales of Investments	116,083,618	93,540,082
Purchases of Investments	(89,816,147)	(85,695,070)
Net Cash Provided By Investing Activities	26,267,471	7,845,012
Net Increase (Decrease) In Cash	1,773,445	(9,163,487)
Cash At Beginning of Year	3,349,521	12,513,008
Cash At End of Year	\$ 5,122,966	\$ 3,349,521

See accompanying notes to financial statements.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2019 AND 2018

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 the newly adopted accounting principle. (See Note 6)

Net Assets Without Donor Restrictions - 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.

Net Assets With Donor Restrictions - consist of contributed endowment 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. Certain contributed endowment funds 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) Contribution Revenue

Contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are designated to be held in perpetuity or for a period of time are reported as net assets with donor restrictions. When the restriction expires, those net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from net assets with donor restrictions. Donated marketable securities are recorded as contributions at their fair values on date of donation.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2019 AND 2018

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

f) 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, 2019 and 2018, promises to give to grantees but not disbursed were \$1,287,501 and \$1,287,917, respectively, and payable within one year.

g) 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. The statements of functional expenses present expenses by function and natural classification. Accordingly, direct costs have been charged to the program and supporting services based on the nature of each expense. Indirect costs have been functionalized on the basis of utilization of resources and by employee time allocations.

h) Cash

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

i) 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. Conditional promises are recorded when the conditions are substantially met or explicitly waived, at which time the conditional promise becomes unconditional. Unconditional promises with donor imposed restrictions are recorded as net assets with donor restrictions. There are no promises to give as of November 30, 2019 and 2018.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2019 AND 2018

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

j) 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 net assets without donor restrictions unless their use is 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, 2019 and 2018 are shown net of investment expenses of \$746,121 and \$812,450, respectively.

k) 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.

l) 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, 2019 and 2018. 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.

m) 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, 2019 AND 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

n) 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.

o) 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. 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.

NOTE 2 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

	<u>2019</u>	<u>2018</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>(58,050)</u>	<u>(47,436)</u>
	<u>\$ 20,650</u>	<u>\$ 31,264</u>

For the years ended November 30, 2019 and 2018, depreciation and amortization expense was \$10,614 and \$11,075, respectively.

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 \$688,707 and \$751,173 for years ended November 30, 2019 and 2018, respectively.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 NOVEMBER 30, 2019 AND 2018

NOTE 4 - ENDOWMENT FUNDS

PEF's net assets with donor restrictions is comprised of 7 individual endowment funds 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 has no board-designated endowment funds as of November 30, 2019 and 2018. The composition of net assets with donor restrictions as of November 30, 2019 and 2018 by type of endowment fund and in total are as follows:

	<u>November 30,</u> <u>2019</u>	<u>November 30,</u> <u>2018</u>
Original donor-restricted gift amount required to be retained in perpetuity	\$ 18,728,308	\$ 18,065,332
Term endowment funds	2,721,142	2,721,142
Investment gains	<u>1,569,495</u>	<u>1,240,931</u>
Total endowment funds classified as net assets with donor restrictions	<u>\$ 23,018,945</u>	<u>\$ 22,027,405</u>

Changes in Endowment Net Assets for the Fiscal Year Ended November 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Endowment Net Assets, Beginning of Year	\$ 22,027,405	\$ 22,589,352
Contributions		133,800
Investment Return, net:		
Interest and Dividends	329,038	169,263
Net Appreciation (realized and unrealized)	<u>2,264,912</u>	<u>1,001,673</u>
Total Investment Return	2,593,950	1,170,936
Appropriation of Endowment Assets for Expenditure	<u>(1,602,410)</u>	<u>(1,866,683)</u>
Endowment Net Assets, End of Year	<u>\$ 23,018,945</u>	<u>\$ 22,027,405</u>

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 exist in one donor-restricted endowment fund, which has an original gift value of \$20,448,125; has a current fair value of \$17,997,608 and \$17,334,632 as of November 30, 2019 and 2018, respectively. Deficiencies that are reported in net assets with donor restrictions totaled \$2,450,517 and \$3,113,493 as of November 30, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the original contribution and continued appropriation for certain grants that were deemed prudent by the Board of Trustees.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2019 AND 2018

NOTE 4 - ENDOWMENT FUNDS (Continued)

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.

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. PEF has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater taking into consideration donor intent and relevant laws and regulations and the ability to replenish the endowment fund balance.

P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2019 AND 2018

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. 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.



P.E.F. ISRAEL ENDOWMENT FUNDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2019 AND 2018

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, 2019.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>
<u>Investments:</u>				
Equities	\$ 72,703,962	\$ 72,703,962	\$	\$
Mutual Funds	30,773,104	30,773,104		
Money Market Funds and Deposits at Brokers	5,091,646	5,091,646		
Fixed Income Securities:				
Government Bonds	26,009,622		26,009,622	
Corporate Bonds	<u>2,763,713</u>	<u>                    </u>	<u>2,763,713</u>	
Investments excluding Hedge Funds	137,342,047	108,568,712	28,773,335	
Hedge Funds	<u>14,880,215</u>	<u>                    </u>	<u>                    </u>	<u>14,880,215</u>
	<u>\$ 152,222,262</u>	<u>\$ 108,568,712</u>	<u>\$ 128,773,335</u>	<u>\$ 14,880,215</u>

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>				
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>                    </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>                    </u>	<u>                    </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.  
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NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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.

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, 2019 and 2018:

<u>Investment Type/Category</u>	<u>Strategy</u>	<u>2019</u>	<u>2018</u>	<u>Redemption Notice Period</u>	<u>Redemption Frequency</u>
Hedge Fund	Multi-Strategy	\$ 3,533,326	\$ 3,314,635	90 Days	Annually
Hedge Fund	Multi-Strategy	8,581,643	8,200,389	60 Days	Quarterly
Hedge Fund	Multi-Strategy	<u>2,765,246</u>	<u>2,625,208</u>	65 Days	Quarterly
		<u>\$ 14,880,215</u>	<u>\$ 14,140,232</u>		

As of November 30, 2019 and 2018, there are no unfunded commitments related to investments in hedge funds.

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NOTE 6 - ADOPTION OF ACCOUNTING PRINCIPLE

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. Accordingly, PEF was required to adopt ASU 2016-14 for its fiscal year ended November 30, 2019, which under U.S. GAAP is a change in accounting principle requiring retroactive application in the financial statements of certain areas, whereas certain other areas were adopted on a prospective basis. PEF’s adoption of ASU 2016-14 had no effect on PEF’s total net assets or its changes in net assets for the years ended November 30, 2019 and 2018, however, certain reclassifications were required. Accordingly, PEF changed its presentation of its net asset classes, changed the classification of an underwater donor-restricted endowment fund, added the statements of functional expenses and added certain footnote disclosures.

NOTE 7 - COMMITMENT

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 \$167,470 and \$163,488 for the years ended November 30, 2019 and 2018, respectively. Future minimum lease payments for the years ended November 30, are as follows:

2020	\$ 170,338
2021	175,195
2022	180,199
2023	185,353
2024	190,661
Thereafter	<u>32,532</u>
	<u>\$ 934,278</u>

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NOTE 8 - LIQUIDITY AND AVAILABILITY OF RESOURCES

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.

The following reflects PEF's financial assets as of the financial position date, reduced by amounts not available for general use within one year of November 30, 2019 because of contractual or donor-imposed restrictions.

Financial assets:

Cash	\$ 5,122,966
Interest and Dividends Receivable	67,052
Investments	<u>152,222,262</u>
Total Financial Assets	157,412,280
Less: amounts unavailable for general expenditures within one year, due to contractual or donor imposed restrictions	<u>23,899,967</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 133,512,313</u>

NOTE 9 - SUBSEQUENT EVENTS

PEF's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which in March 2020, was declared a pandemic by the World Health Organization. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material negative impact on PEF's financial position, operations and cash flows. Possible areas that may be affected include, but are not limited to, disruption to PEF's revenue and the decline in the carrying fair market value of investments.

PEF's management has evaluated subsequent events through March 31, 2020 which is the date the financial statements were available to be issued, and has concluded that there are no subsequent events for disclosure.