

PORT AMERICA, INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
AND
INDEPENDENT AUDITORS' REPORT

ORT AMERICA, INC.

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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, 2016, 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 \$301,608 at December 31, 2016, and total revenues of \$2,285,586 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, 2016, 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.

December 26, 2017

ORT AMERICA, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

ASSETS

Cash and cash equivalents	\$ 3,816,985
Investments, at fair value	10,797,273
Investments in real estate partnerships, at cost	352,462
Contributions receivable, net	
Anieres Program	8,147,452
Other	4,245,288
Due from WAOF	909,693
Due from World ORT	784,258
Prepaid expenses and other assets	322,793
Beneficial interests in perpetual trusts held by third parties	1,496,090
Property and equipment, net	131,178
	<hr/>
	\$ 31,003,472

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 2,999,618
Accrued pension payable	2,799,008
Accrued postretirement benefit costs	450,024
Employees' severance payable	62,777
Grants payable - World ORT	
Anieres Program	9,110,971
Other	972,021
Split-interest agreement obligations	1,666,157
	<hr/>
	18,060,576

Net assets

Unrestricted	(537,244)
Temporarily restricted	8,367,546
Permanently restricted	5,112,594
	<hr/>
	12,942,896
	<hr/>
	\$ 31,003,472

See notes to financial statements.

ORT AMERICA, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, public support and other support				
Contributions	\$ 7,202,967	\$ 1,556,770	\$ 616	\$ 8,760,353
Grant income	2,461,164	-	-	2,461,164
Membership dues	309,815	-	-	309,815
Legacies	2,700,548	-	-	2,700,548
Investment gain	249,854	239,851	-	489,705
Income from real estate partnerships	-	487,878	-	487,878
Change in value of split-interest agreements	-	(85,845)	-	(85,845)
Special events	562,523	-	-	562,523
Miscellaneous	131,449	-	-	131,449
Net assets released from restrictions	1,483,516	(1,483,516)	-	-
Total revenue, public support and other support	15,101,836	715,138	616	15,817,590
Expenses				
Program services				
ORT schools and grants	7,494,398	-	-	7,494,398
National activities	4,411,745	-	-	4,411,745
Communications and marketing	451,596	-	-	451,596
Total program services	12,357,739	-	-	12,357,739
Supporting services				
Management and general	883,852	-	-	883,852
Fund-raising	765,672	-	-	765,672
Total supporting services	1,649,524	-	-	1,649,524
Total expenses before other items	14,007,263	-	-	14,007,263
Change in net assets before other items	1,094,573	715,138	616	1,810,327
Other items				
Pension and other postretirement-related benefits other than net periodic costs	715,657	-	-	715,657
ORT Israel settlement	(1,304,898)	-	-	(1,304,898)
Change in net assets	505,332	715,138	616	1,221,086
Net assets				
Beginning of year	(1,042,576)	7,652,408	5,111,978	11,721,810
End of year	\$ (537,244)	\$ 8,367,546	\$ 5,112,594	\$ 12,942,896

See notes to financial statements.

ORT AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services				Supporting Services			
	ORT Schools and Grants	National Activities	Communications and Marketing	Total	Management and General	Fund-Raising	Total	Total
Salaries	\$ 186,241	\$ 1,840,338	\$ 175,920	\$ 2,202,499	\$ 394,836	\$ 342,785	\$ 737,621	\$ 2,940,120
Payroll taxes and employee benefits	50,345	497,482	47,555	595,382	106,733	92,662	199,395	794,777
Total salaries and related expenses	236,586	2,337,820	223,475	2,797,881	501,569	435,447	937,016	3,734,897
Custody account expense and filing fees	-	-	-	-	63,692	-	63,692	63,692
Telephone	2,408	40,603	2,125	45,136	4,475	2,390	6,865	52,001
Supplies	1,399	27,996	1,471	30,866	6,506	1,600	8,106	38,972
Printing and publications	503	35,363	56,467	92,333	1,114	28,384	29,498	121,831
Professional and consulting fees	13,116	150,013	42,445	205,574	29,043	63,411	92,454	298,028
Postage and shipping fees	640	20,734	50,054	71,428	2,290	3,035	5,325	76,753
Occupancy	28,766	437,409	30,250	496,425	63,697	34,017	97,714	594,139
Travel	173,972	66,687	1,868	242,527	3,985	2,101	6,086	248,613
Meetings, conferences and events	3,170	188,286	3,408	194,864	7,017	165,638	172,655	367,519
Computer system and maintenance	6,824	78,001	7,176	92,001	15,111	8,070	23,181	115,182
Local regions and chapters-at-large	-	798,622	-	798,622	-	-	-	798,622
Insurance	3,991	45,619	4,197	53,807	8,838	4,720	13,558	67,365
Equipment rentals and purchases	3,815	64,692	4,012	72,519	8,448	4,512	12,960	85,479
Legal fees	-	-	-	-	52,790	-	52,790	52,790
Bad debt	-	-	-	-	89,867	-	89,867	89,867
Depreciation	581	6,641	611	7,833	1,286	687	1,973	9,806
Miscellaneous expenses	9,861	113,259	24,037	147,157	21,834	11,660	33,494	180,651
Unrelated business income tax	-	-	-	-	2,290	-	2,290	2,290
Subtotal	485,632	4,411,745	451,596	5,348,973	883,852	765,672	1,649,524	6,998,497
Overseas and domestic program grants	7,008,766	-	-	7,008,766	-	-	-	7,008,766
Total expenses	\$ 7,494,398	\$ 4,411,745	\$ 451,596	\$ 12,357,739	\$ 883,852	\$ 765,672	\$ 1,649,524	\$ 14,007,263

See notes to financial statements.

ORT AMERICA, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities	
Change in net assets	\$ 1,221,086
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	9,806
Net realized and unrealized gain on investments	(302,560)
Net realized and unrealized gain on beneficial interests in perpetual trusts held by third parties	(62,785)
Write-off of investments in real estate partnerships	37,213
Disposal of property and equipment	16,486
Change in value of split-interest agreements	85,845
Bad debt expense	108,667
Recovery for uncollectable accounts	(18,800)
Change in present value of contributions receivable	(20,906)
Pension and other retirement benefits other than net periodic costs	(715,657)
Changes in assets and liabilities	
Contributions receivable, Anieres Program	1,200,000
Contributions receivable, other	(2,259,642)
Due from WAOF	118,954
Due from World ORT	(784,258)
Prepaid expenses and other assets	64,054
Beneficial interests in perpetual trusts held by third parties	51,137
Accounts payable and accrued expenses	1,857,709
Accrued pension payable	(115,060)
Accrued postretirement benefit costs	(80,833)
Employees' severance payable	(38,407)
Grants payable, World ORT, Anieres Program	(200,000)
Grants payable, World ORT	153,474
Net cash provided by operating activities	325,523
Cash flows from investing activities	
Purchases of investments	(707,644)
Purchase of property and equipment	(9,906)
Proceeds from sale of investments	624,952
Net cash used in investing activities	(92,598)
Cash flows from financing activities	
Split-interest agreement obligation payments	(89,851)
Net increase in cash and cash equivalents	143,074
Cash and cash equivalents, beginning of year	3,673,911
Cash and cash equivalents, end of year	\$ 3,816,985

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. At times, these balances may exceed federally insured limits and this potentially subjects the Organization to a concentration of credit risk. 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, net.

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 respective leases or the asset life.

Risks and Uncertainties

ORT's investments are concentrated 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 December 26, 2017.

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	\$ 1,771,135
One to five years	5,888,000
Five or more years	736,000
	<hr/>
	8,395,135
Discount on multi-year contributions receivable	(247,683)
	<hr/>
Contributions receivable, Anieres Program, net	\$ 8,147,452

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 2.3% to 5%. Outstanding contributions receivable were as follows as of December 31, 2016:

Amounts due in	
Less than one year	\$ 2,747,108
One to five years	1,436,850
Five or more years	200,000
	<hr/>
	4,383,958
Allowance for uncollectible contributions	(52,200)
Discount on multi-year contributions receivable	(86,470)
	<hr/>
Contributions receivable, other, net	\$ 4,245,288

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, 2016:

Money market funds	\$ 350,111
Marketable equity securities	1,456,474
Mutual funds	2,447,544
Bonds	809,598
Pooled investment funds	7,109,710
State of Israel bonds	113,050
Investment in life insurance contracts	6,876
<u>Total investments, at fair value</u>	<u>\$ 12,293,363</u>

Investment income consists of the following for the year ended December 31, 2016:

Interest, dividends and changes in annuity values	\$ 163,118
Realized gain	97,957
Unrealized gain	249,051
Unrealized foreign currency translation gain	16,586
Realized foreign currency translation gain	1,751
Insurance royalties	7,592
Management fees	(46,350)
<u></u>	<u>\$ 489,705</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, 2016:

Description	Total	2016 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	\$ 350,111	\$ 350,111	\$ -	\$ -
Bonds				
Corporate	363,865	-	363,865	-
Government agency	445,733	-	445,733	-
	809,598	-	809,598	-
Marketable equity securities				
Exchange-traded funds	670,704	670,704	-	-
Common stock	495,767	495,767	-	-
International equities	290,003	290,003	-	-
	1,456,474	1,456,474	-	-
Mutual funds				
International equities	175,710	175,710	-	-
Domestic large blend	92,084	92,084	-	-
Domestic small cap	59,441	59,441	-	-
Fixed income	2,085,518	2,085,518	-	-
Hedge funds	34,791	34,791	-	-
	2,447,544	2,447,544	-	-
Pooled investment funds	7,109,710	-	29,273	7,080,437
State of Israel bonds	113,050	-	113,050	-
Investment in life insurance contract	6,876	-	-	6,876
Total investments at fair value	\$ 12,293,363	\$ 4,254,129	\$ 951,921	\$ 7,087,313

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, 2016:

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, 2016:

	Investment in Life Insurance Contract	Pooled Investment Funds
Balance, beginning of year	\$ 10,258	\$ 7,433,497
Reclassification	-	(715,854)
Interest and dividends	126	60,598
Net realized gain	-	75,499
Net unrealized gain	-	152,698
Investment fees	-	(27,488)
Purchase of investments	-	125,016
Sale of investments	(3,508)	(23,529)
<u>Balance, end of year</u>	<u>\$ 6,876</u>	<u>\$ 7,080,437</u>

Certain assets reported as Level 3 assets in the December 31, 2015 report are reported as Level 1 or 2 assets in the current report due to additional information becoming available to management during the year ended December 31, 2016. Management examines all available information regarding the fair value of the individual assets in determining the appropriate level classification of the assets.

7 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2016 consist of the following:

Leasehold improvements	\$ 38,748
Furniture and equipment	111,414
<u>Property and equipment of branches, net</u>	<u>105,604</u>
	255,766
<u>Less - Accumulated depreciation</u>	<u>(124,588)</u>
	<u>\$ 131,178</u>

Depreciation expense of \$9,806 is presented in the statement of functional expenses.

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 expires on April 30, 2027. In addition, several of the regional and chapter offices are subject to operating leases.

Scheduled future minimum lease obligations under noncancelable operating leases are as follows:

Year Ending December 31,	New York Offices	Other Offices	Total
2017	\$ 276,105	\$ 201,899	\$ 478,004
2018	370,800	157,378	528,178
2019	380,534	41,511	422,045
2020	390,952	32,907	423,859
2021	401,703	32,907	434,610
Thereafter	2,337,287	13,711	2,350,998
	<u>\$ 4,157,381</u>	<u>\$ 480,313</u>	<u>\$ 4,637,694</u>

Occupancy expense was \$594,139 for the year ended December 31, 2016.

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 \$5,467 during the year ended December 31, 2016.

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 \$185,619 as of December 31, 2016, to be paid through 2020.

Equipment lease expense (included in the statement of functional expenses) was \$85,479 for the year ended December 31, 2016.

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 \$77,024 for the year ended December 31, 2016.

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, 2016:

	WAO	AOI
Benefit obligation	\$ (5,898,099)	\$ (8,854,328)
Fair value of plan assets	4,932,777	7,020,642
Funded status at end of year	\$ (965,322)	\$ (1,833,686)
Amounts recognized as liabilities in the statement of financial position	\$ (965,322)	\$ (1,833,686)
Amounts recognized as cumulative changes in pension other than net periodic costs		
Net loss	\$ (2,926,155)	\$ (5,408,358)
Cumulative employer contributions in excess of net periodic benefit cost	1,960,833	3,574,672
Net amount recognized	\$ (965,322)	\$ (1,833,686)
Components of net periodic benefit costs		
Interest cost	\$ 219,622	\$ 325,360
Expected return on assets	(355,563)	(491,062)
Amortization of net loss	131,885	241,156
Net periodic benefit cost	\$ (4,056)	\$ 75,454

Changes in pension costs other than net periodic costs at December 31, 2016:

Net loss (gain)	\$ (222,966)	\$ (22,142)
Amortization of net loss	(131,885)	(241,156)
Net other than periodic benefits	\$ (354,851)	\$ (263,298)
Accumulated benefit obligation	\$ 5,898,099	\$ 8,854,328
Employer contributions	39,774	244,192
Benefits paid	467,277	542,439

Weighted average assumptions to determine benefit obligations at December 31, 2016:

	WAO	AOI
Discount rate	3.75%	3.75%
Rate of compensation increase	N/A	N/A

ORT AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

9 - ACCRUED PENSION PAYABLE (Continued)

Weighted average assumptions to determine net periodic cost at December 31, 2016:

	WAO	AOI
Discount rate	3.75%	3.75%
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
2017	\$ 528,275	\$ 712,943
2018	517,883	725,186
2019	501,778	705,094
2020	487,078	690,677
2021	467,890	670,511
2022 - 2026	2,110,982	3,051,986

WAO expects to contribute \$0 and AOI expects to contribute \$384,000 in 2017.

ORT AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

9 - ACCRUED PENSION PAYABLE (Continued)

The fair value of the plans' investments at December 31, 2016 (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	
	2016	% 2016	2016	% 2016
Cash equivalents	\$ 63,658	1.3%	\$ 59,022	0.8%
Mutual funds				
Small cap	154,363	3.1	221,126	3.1
Mid cap	264,742	5.4	376,746	5.4
Large value	1,751,264	35.6	2,490,847	35.6
International	929,499	18.8	1,341,498	19.1
Fixed income	1,318,924	26.7	1,896,127	27.0
Emerging markets	78,229	1.6	113,317	1.6
Real estate	372,098	7.5	521,959	7.4
	4,869,119	98.7	6,961,620	99.2
	\$ 4,932,777	100.0%	\$ 7,020,642	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, 2016:

Benefit obligation	\$ (450,024)
Fair value of plan assets	-
Funded status at end of year	\$ (450,024)
<hr/>	
Amount recognized as liability in the statement of financial position	\$ (450,024)
<hr/>	
Components of net periodic benefit cost	
Interest cost	\$ 18,509
Amortization of transition obligation	24,205
Amortization of actuarial loss	1,033
Net periodic benefit cost	\$ 43,747
<hr/>	
Changes in pension costs other than net periodic costs	
Actuarial loss (gain)	\$ (72,270)
Amortization of transition obligation	(24,205)
Amortization of actuarial loss	(1,033)
Net other than periodic benefit	\$ (97,508)
<hr/>	
Employer contributions	\$ 27,072
Plan participants' contributions	2,600
Benefits paid	(29,672)

Weighted-average assumptions to determine benefit obligations at December 31, 2016:

Discount rate	3.52%
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Weighted-average assumptions to determine net periodic benefit cost for the year ended December 31, 2016:

Discount rate	3.62%
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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,		
2017	\$	40,103
2018		42,356
2019		40,067
2020		37,952
2021		35,967
2022 - 2026		152,513

ORT expects to contribute \$40,103 to the plan in 2017.

The assumed health care trend rate at December 31, 2016 is as follows:

Health care cost trend rate assumed for next year	8.15%
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	\$ 258	\$ (237)
Effect on postretirement benefit obligation	1,823	(1,716)

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, 2016 was \$62,777.

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 1.4% to 9.6%.

The financial statements include various split-interest agreements as of December 31, 2016, as follows:

Statement of activities	
Contributions	\$ 40,398
Change in value of split-interest agreements	(85,845)
Statement of financial position	
Investments	2,926,239
Liabilities under split-interest agreements	1,666,157

The asset balance at December 31, 2016 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, 2016 are available for educational assistance and scholarships.

During the year ended December 31, 2016, 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, 2016 in the following classifications:

<u>Assets</u>	
Cash and cash equivalents	\$ 483,502
Property and equipment, net	105,604
Prepaid expenses and other assets	38,112
	<hr/> \$ 627,218
 <u>Liabilities</u>	
Accounts payable and accrued expenses	<hr/> \$ 112,077

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 \$70,984, which was eliminated against the receivables reported by the national office as of December 31, 2016.

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, 2016:

Salaries and related benefits	\$ 471,274
Occupancy	144,996
Office expense	134,088
Other	44,624
	<hr/> \$ 794,982

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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	\$ 625,643	\$ 5,104,224	\$ 5,111,978	\$ 10,841,845
Investment return				
Investment income	4,922	39,821	-	44,743
Investment fee	(2,502)	(20,244)	-	(22,746)
Real estate partnership income	-	487,878	-	487,878
Net change in asset value (realized and unrealized)	20,717	167,593	-	188,310
Total investment return	23,137	675,048	-	698,185
Contributions	47,321	36,000	616	83,937
Appropriation of endowment assets for expenditure	(11,973)	(1,035,207)	-	(1,047,180)
Changes in net assets	58,485	(324,159)	616	(265,058)
Endowment net assets, December 31, 2016	\$ 684,128	\$ 4,780,065	\$ 5,112,594	\$ 10,576,787

16 - GRANTS PAYABLE, WORLD ORT

As of December 31, 2016, the Organization has received \$972,021 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 \$9,110,971 (stated at net present value) to be received from a donor for the Anieres Program will be transferred to World ORT when collected.

ORT AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

17 - 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, 2016, which is included in miscellaneous expenses on the statement of functional expenses.

ORT charges WAOF for its share in certain audit and accounting services. For the year ended December 31, 2016, WAOF's allocated share is \$41,588.

ORT received \$273,194 in contributions from WAOF for the year ended December 31, 2016.

ORT is due \$784,258 from World ORT in relation to settlement reimbursements and other amounts as of December 31, 2016.

18 - SUBSEQUENT EVENTS

On April 4, 2017, the Organization and ORT Israel (OI) signed a settlement agreement and mutual release resolving all issues raised by, or related to the litigation between parties. It was stipulated that the Organization shall pay OI \$2,495,095 plus interest at an annual rate of 4% from January 1, 2017 to March 31, 2017, or approximately \$2,520,046. This amount, less the \$461,271 which was accrued in prior years, and \$753,877 which is due from World ORT, is accrued as of December 31, 2016 and included in the statement of activities.