

Consolidated Financial Statements and Report
of Independent Certified Public Accountants

HIAS, Inc.

December 31, 2017 and 2016

HIAS, Inc.

Contents

	Page
Report of Independent Certified Public Accountants	3-4
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	6-7
Consolidated Statements of Functional Expenses	8-9
Consolidated Statements of Cash Flows	10
Notes to Consolidated Financial Statements	11-37

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
1 South Street, Suite 2400
Baltimore, MD 21202-7304
T 410.685.4000
F 410.837.0587
www.GrantThornton.com

To the Board of Directors of
HIAS, Inc.

We have audited the accompanying consolidated financial statements of HIAS, Inc. (“HIAS”) which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to HIAS’s preparation and fair presentation of the consolidated 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 HIAS’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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of HIAS, Inc. as of December 31, 2017 and 2016, 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.



Baltimore, Maryland
July 19, 2018

HIAS, Inc.

Consolidated Statements of Financial Position

<i>December 31,</i>	2017	2016
ASSETS		
Cash	\$ 2,563,350	\$ 2,778,383
Investments - allocated, client deposits, non-American pension plan (Note 3)	56,058,932	50,669,642
Investments held for charitable gift annuities and trusts (Note 3)	2,323,108	2,294,387
Grants receivables (net of allowances of \$72,518 for 2017 and \$142,000 for 2016)	4,268,260	6,903,056
Contribution receivables	2,331,964	1,924,621
Other receivables	517,659	505,463
Deposits and prepaid expenses	660,294	557,353
Beneficial interest in annuity trust	128,495	161,850
Property and equipment, net (Note 5)	1,121,305	1,424,347
Total Assets	\$ 69,973,367	\$ 67,219,102
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 4,014,574	\$ 5,226,450
Client deposits	6,315,606	7,217,004
Deferred rent	956,574	1,024,608
Severance obligations	1,160,451	234,597
Grants Payable	190,642	435,681
Pension obligations (Note 6)	6,097,083	5,910,127
Annuity obligations (Note 4)	1,403,347	1,260,514
Total Liabilities	20,138,277	21,308,981
NET ASSETS		
Unrestricted	43,421,717	39,379,901
Temporarily restricted (Note 9)	3,450,193	4,213,790
Permanently restricted (Note 10)	2,963,180	2,316,430
Total Net Assets	49,835,090	45,910,121
Total Liabilities and Net Assets	\$ 69,973,367	\$ 67,219,102

The accompanying notes are an integral part of these consolidated financial statements.

HIAS, Inc.

Consolidated Statements of Activities

<i>For the Years Ended</i>	December 31, 2017				December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:								
Contributions	\$ 6,531,276	\$ 836,262	\$ 28,300	\$ 7,395,838	\$ 4,769,624	\$ 2,116,187	\$ 27,500	\$ 6,913,311
Operating grants	9,717,882	-	-	9,717,882	8,233,298	-	-	8,233,298
Bequests	90,127	-	-	90,127	55,898	-	-	55,898
Governmental and intergovernmental agencies:								
U.S. Department of Health and Human Services	3,609,315	-	-	3,609,315	3,250,069	-	-	3,250,069
U.S. Department of State	17,128,553	-	-	17,128,553	21,243,694	-	-	21,243,694
Migrant loan processing fees and repayments	741,803	-	-	741,803	666,208	-	-	666,208
Investment income designated for current operations (Note 3)	2,486,876	-	-	2,486,876	2,456,531	-	-	2,456,531
Service fee revenues and other revenues	741,694	-	-	741,694	895,803	-	-	895,803
Net assets released from restriction	1,962,497	(1,962,497)	-	-	2,213,066	(2,213,066)	-	-
Total Revenues and Other Support	\$ 43,010,023	\$ (1,126,235)	\$ 28,300	\$ 41,912,088	\$ 43,784,191	\$ (96,879)	\$ 27,500	\$ 43,714,812

The accompanying notes are an integral part of these consolidated financial statements.

HIAS, Inc.

Consolidated Statements of Activities - Continued

<i>For the Years Ended</i>	December 31, 2017				December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses:								
Program services - refugee and immigration assistance:								
U.S. operations	\$ 15,501,760	\$ -	\$ -	\$ 15,501,760	\$ 17,755,538	\$ -	\$ -	\$ 17,755,538
International operations	22,315,841	-	-	22,315,841	21,379,047	-	-	21,379,047
Total program services	37,817,601	-	-	37,817,601	39,134,585	-	-	39,134,585
Supporting services								
Management and general	6,839,884	-	-	6,839,884	9,031,414	-	-	9,031,414
Fundraising	2,664,186	-	-	2,664,186	2,456,562	-	-	2,456,562
Total supporting services	9,504,070	-	-	9,504,070	11,487,976	-	-	11,487,976
Total Operating Expenses	47,321,671	-	-	47,321,671	50,622,561	-	-	50,622,561
Changes in net assets from operations	(4,311,648)	(1,126,235)	28,300	(5,409,583)	(6,838,370)	(96,879)	27,500	(6,907,749)
Non-Operating Activities:								
Non-operating investment income (Note 3)	5,802,260	424,641	-	6,226,901	451,229	183,625	115	634,969
Bequest income	3,298,658	-	-	3,298,658	2,177,957	-	-	2,177,957
Actuarial loss on split-interest agreements	(120,252)	(27,054)	-	(147,306)	(120,136)	33,177	-	(86,959)
Changes in pension obligations other than net periodic benefit cost	(43,701)	-	-	(43,701)	264,291	-	-	264,291
Total Non-Operating Activities	8,936,965	397,587	-	9,334,552	2,773,341	216,802	115	2,990,258
Change in net assets before reclassification of net assets	4,625,317	(728,648)	28,300	3,924,969	(4,065,029)	119,923	27,615	(3,917,491)
Reclassification of net assets as a result of clarification of donor intent (Note 11)	(583,501)	(34,949)	618,450	-	-	-	-	-
Change in net assets	4,041,816	(763,597)	646,750	3,924,969	(4,065,029)	119,923	27,615	(3,917,491)
Net Assets - Beginning of Year	39,379,901	4,213,790	2,316,430	45,910,121	43,444,930	4,093,867	2,288,815	49,827,612
Net Assets - End of Year	\$ 43,421,717	\$ 3,450,193	\$ 2,963,180	\$ 49,835,090	\$ 39,379,901	\$ 4,213,790	\$ 2,316,430	\$ 45,910,121

The accompanying notes are an integral part of these consolidated financial statements.

HIAS, Inc.

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2017

	Program Services - Refugee and Immigration Assistance			Supporting Services			2017 Total
	U.S. Operations	International Operations	Total	Management and General	Fundraising	Total	
Payments to resettling communities	\$ 8,975,711	\$ -	\$ 8,975,711	\$ -	\$ -	\$ -	\$ 8,975,711
Resettlement documentation	-	181,557	181,557	-	-	-	181,557
Transportation and transient assistance	384,643	3,019,970	3,404,613	-	-	-	3,404,613
Total Emigration and Resettlement Expenses	9,360,354	3,201,527	12,561,881	-	-	-	12,561,881
Personnel expenses:							
Salaries	3,043,393	8,713,872	11,757,265	4,195,180	1,312,054	5,507,234	17,264,499
Payroll taxes and employee benefits (including pension cost of approximately \$330,878) (Note 6)	957,001	2,798,891	3,755,892	1,806,493	433,676	2,240,169	5,996,061
Total Personnel Expenses	4,000,394	11,512,763	15,513,157	6,001,673	1,745,730	7,747,403	23,260,560
Other Expenses:							
Rent, utilities, taxes, maintenance and insurance (Note 7)	13,029	1,561,799	1,574,828	970,698	130	970,828	2,545,656
Communications costs	17,205	182,376	199,581	219,145	2,402	221,547	421,128
Mailing costs	53,159	20,840	73,999	27,844	580,817	608,661	682,660
Computers, furniture and equipment	72,220	508,200	580,420	251,926	62,950	314,876	895,296
Professional and consulting fees	524,624	1,163,965	1,688,589	586,437	102,269	688,706	2,377,295
Local transportation	29,687	198,959	228,646	5,333	7,945	13,278	241,924
Project support	208,591	36,477	245,068	14,563	7,459	22,022	267,090
Program Supplies	13,507	839,598	853,105	1,000	-	1,000	854,105
Memberships and subscriptions	96,189	3,378	99,567	53,272	34,799	88,071	187,638
Printing and office supplies	8,866	204,030	212,896	62,328	2,683	65,011	277,907
Publications and media	2,563	356	2,919	184,969	7,020	191,989	194,908
Travel, site visits, conferences and meetings	268,339	419,230	687,569	294,224	59,989	354,213	1,041,782
International travel	85,940	88,794	174,734	83,361	1,252	84,613	259,347
Advertising	1,400	5,535	6,935	260,291	-	260,291	267,226
Depreciation and amortization	-	69,611	69,611	192,926	41,569	234,495	304,106
Bank charges and miscellaneous	68,885	423,949	492,834	181,156	7,172	188,328	681,162
Indirect costs	676,808	1,874,454	2,551,262	(2,551,262)	-	(2,551,262)	-
Total Other Expenses	2,141,012	7,601,551	9,742,563	838,211	918,456	1,756,667	11,499,230
Total Functional Expenses	\$ 15,501,760	\$ 22,315,841	\$ 37,817,601	\$ 6,839,884	\$ 2,664,186	\$ 9,504,070	\$ 47,321,671

The accompanying notes are an integral part of this consolidated financial statement.

HIAS, Inc.

Consolidated Statement of Functional Expenses - Continued

For the Year Ended December 31, 2016

	Program Services - Refugee and Immigration Assistance			Supporting Services			2016 Total
	U.S. Operations	International Operations	Total	Management and General	Fundraising	Total	
Payments to resettling communities	\$ 12,156,184	\$ -	\$ 12,156,184	\$ -	\$ -	\$ -	\$ 12,156,184
Resettlement documentation	-	665,065	665,065	-	-	-	665,065
Transportation and transient assistance	448,215	3,682,159	4,130,374	-	-	-	4,130,374
Total Emigration and Resettlement Expenses	12,604,399	4,347,224	16,951,623	-	-	-	16,951,623
Personnel expenses:							
Salaries	2,810,701	7,861,560	10,672,261	4,136,751	995,069	5,131,820	15,804,081
Payroll taxes and employee benefits (including pension cost of approximately \$220,732) (Note 6)	727,850	2,116,751	2,844,601	1,698,470	338,968	2,037,438	4,882,039
Total Personnel Expenses	3,538,551	9,978,311	13,516,862	5,835,221	1,334,037	7,169,258	20,686,120
Other Expenses:							
Rent, utilities, taxes, maintenance and insurance (net of rental income of \$36,630) (Note 7)	240	1,481,342	1,481,582	1,083,804	134,145	1,217,949	2,699,531
Communications costs	3,652	161,262	164,914	251,421	17,242	268,663	433,577
Mailing costs	47,948	11,706	59,654	22,802	540,433	563,235	622,889
Computers, furniture and equipment	44,833	475,012	519,845	808,681	152,158	960,839	1,480,684
Professional and consulting fees	545,632	1,560,945	2,106,577	1,125,711	93,061	1,218,772	3,325,349
Local transportation	22,767	258,145	280,912	8,565	7,450	16,015	296,927
Project support	115,398	11,372	126,770	210	12,780	12,990	139,760
Memberships and subscriptions	45,632	130,260	175,892	60,959	9,466	70,425	246,317
Printing and office supplies	2,120	225,918	228,038	79,559	1,992	81,551	309,589
Publications and media	-	521	521	87,177	649	87,826	88,347
Travel, site visits, conferences and meetings	222,202	543,451	765,653	297,547	70,482	368,029	1,133,682
International travel	72,731	158,290	231,021	80,377	11,044	91,421	322,442
Scholarships	-	130,422	130,422	-	-	-	130,422
Advertising	1,236	2,751	3,987	168,306	667	168,973	172,960
Depreciation and amortization	25,000	73,491	98,491	218,180	65,992	284,172	382,663
Bank charges and miscellaneous	31,904	134,722	166,626	1,028,089	4,964	1,033,053	1,199,679
Indirect costs	431,293	1,693,902	2,125,195	(2,125,195)	-	(2,125,195)	-
Total Other Expenses	1,612,588	7,053,512	8,666,100	3,196,193	1,122,525	4,318,718	12,984,818
Total Functional Expenses	\$ 17,755,538	\$ 21,379,047	\$ 39,134,585	\$ 9,031,414	\$ 2,456,562	\$ 11,487,976	\$ 50,622,561

The accompanying notes are an integral part of this consolidated financial statement.

HIAS, Inc.

Consolidated Statements of Cash Flows

<i>For the years ended December 31,</i>	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 3,924,969	\$ (3,917,491)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	304,106	382,663
Permanently restricted contributions	(28,300)	(27,500)
Investment income restricted for long-term investment	(152)	(115)
Realized gain on investments	(5,459,705)	(1,076,997)
Unrealized gain on investments	(2,799,768)	(1,632,483)
Loss on split-interest agreements	147,306	86,959
Loss on disposal of fixed assets	-	369,906
Changes in operating assets and liabilities:		
Grants receivables	2,634,796	(1,119,958)
Contribution receivables	(407,343)	(988,445)
Other receivables	(12,196)	(71,446)
Deposits and prepaid expenses	(102,941)	(162,645)
Accounts payable and accrued expenses	(1,211,876)	695,083
Client deposits	(901,398)	535,915
Deferred rent	(68,034)	(71,413)
Severance obligations	925,854	(89,770)
Grants payable	(245,039)	435,681
Pension obligations	186,956	127,864
Net Cash Used in Operating Activities	(3,112,765)	(6,524,192)
Cash Flows from Investing Activities		
Proceeds from sale of investments	35,282,712	7,806,470
Purchase of investments	(32,416,538)	(2,886,090)
Fixed asset additions	(1,064)	(252,488)
Net Cash Provided by Operating Activities	2,865,110	4,667,892
Cash Flows from Financing Activities		
Permanently restricted contributions	28,300	27,500
Payments of annuity obligations	(267,854)	(252,481)
Investment income subject to annuity obligations	272,024	6,821
Investment income restricted for reinvestment	152	115
Net Cash Provided by (Used in) financing activities	32,622	(218,045)
Net Decrease in Cash	(215,033)	(2,074,345)
Cash - Beginning of Year	2,778,383	4,852,728
Cash - End of Year	\$ 2,563,350	\$ 2,778,383

The accompanying notes are an integral part of these consolidated financial statements.

December 31, 2017 and 2016

NOTE 1—ORGANIZATION

HIAS rescues people whose lives are in danger for being who they are. We protect the most vulnerable refugees, helping them build new lives and reuniting them with their families in safety and freedom. We advocate for the protection of refugees and assure that displaced people are treated with the dignity they deserve. Guided by our Jewish values and history, we bring more than 130 years of expertise to our work with refugees.

The primary sources of revenue are: federal funding through U.S. Government Grants (see Note 8), operating grants, contributions and investment income, derived mainly from endowments.

HIAS is a nonprofit organization exempt from federal income tax under Internal Revenue Code Section 501(c)(3). The consolidated financial statements include the accounts of HIAS' domestic and international operations offices. All material interoffice balances and transactions have been eliminated. Assets and liabilities of the foreign offices, whose functional currency is their local currency, are translated into U.S. dollars at exchange rates in effect at the balance sheet date and their revenues and expenses are reflected at the monthly average exchange rates. Net translation adjustments are not material.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Accordingly, the classification of HIAS' net assets and its support, revenues and expenses are based on the existence or absence of donor-imposed restrictions. The amounts for each of the three classes of net assets, permanently restricted, temporarily restricted and unrestricted, are displayed in the consolidated statements of financial position and the changes in each of those classes of net assets are displayed in the consolidated statements of activities.

December 31, 2017 and 2016

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Basis of Presentation—Continued

Net assets consist of the following:

Unrestricted - net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations and, therefore, are available to carry out HIAS' operations.

Temporarily Restricted - net assets resulting from contributions and other inflows of assets whose use by HIAS is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of HIAS pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently Restricted - net assets resulting from contributions and other inflows of assets whose use by HIAS is limited in perpetuity by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of HIAS. Permanently restricted net assets are comprised primarily of funds restricted by donors to be held in perpetuity, the income from which is intended to support the operations of HIAS.

Concentration of Credit Risk

Financial instruments that potentially subject HIAS to concentrations of credit and market risk consist principally of cash on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation limit, and investments. Management does not believe that a significant risk of loss is likely due to the failure of a financial institution HIAS utilizes. Management also believes that its market risk is mitigated by an adequate diversification of its investments amongst a variety of asset classes.

Investments

Investments are stated at quoted market values or values provided by the respective fund manager or general partner as of the measurement date. Realized and unrealized gains or losses on investments pertaining to HIAS have been reflected on the accompanying consolidated statements of activities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility changes. 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 such changes could materially affect the amounts reported on the accompanying consolidated financial statements.

December 31, 2017 and 2016

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by US GAAP for fair value measurement, HIAS uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1** - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2** - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. As of December 31, 2017 and 2016, HIAS had no investments which were deemed to be Level 2.
- Level 3** - Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. As of December 31, 2017 and 2016, HIAS had no investments which were deemed to be Level 3.

December 31, 2017 and 2016

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Cash and Cash Equivalents

HIAS considers all highly liquid investments with original maturities of less than three months from the date of purchase to be cash and cash equivalents, except for those cash equivalents which are included in HIAS' investment portfolio which are considered to be for long-term investment purposes.

Valuation of Investments

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Equity securities and mutual funds: Valued at the closing share price reported on the active market on which the individual securities are traded.

Fixed income securities: When quoted prices are available in an active market, they are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing modules, matrix pricing, or discounted cash flow models. The most significant inputs to the discounted cash flow model are the coupon, yield and expected maturity date.

Collective trust and alternative investments: The collective trust and alternative investments consist of investments in funds of funds based on their underlying investments. The fair value of such investments are determined using the net asset value (“NAV”) per share as a practical expedient.

Fixed Assets

HIAS defines a capital asset as tangible property/equipment that meets all of the following requirements:

- It was procured through HIAS unrestricted funds;
- Total unit cost, including tax, shipping, duty, installation, etc., is \$5,000 or more; and
- It has an expected useful life of more than one year.

December 31, 2017 and 2016

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Fixed Assets—Continued

HIAS depreciates assets on a straight line basis over the estimated useful life associated with each class of asset. The table below shows these useful lives:

Asset Type	Estimated Useful Life
Leasehold property improvements	Shorter of 10 years or remaining lease period
Motor vehicles	3 years, unless the context determines that a shorter life would be more appropriate
Furniture and office equipment	5 years
Computer hardware	3 years
Computer software	3 years

Client Deposits

HIAS receives deposits from clients in advance of their travel to the United States, which are recorded as a liability. All travel is expected to be completed in the next fiscal year, although in some cases travel might be delayed due to various different factors. The current HIAS liability represents client deposits that HIAS is carrying on behalf of the beneficiaries' expenses to resettle in the United States.

Annuity Agreements

The contribution portion of a charitable gift annuity agreement is recognized as an unrestricted contribution if the donor does not restrict the use of the assets contributed to the organization. Adjustments to annuity liabilities to reflect the amortization of the discount and revaluation of expected future payment to beneficiaries based on changes in actuarial assumptions are made annually and recognized in revenue as non-operating actuarial gain (loss) on split-interest agreements in the accompanying consolidated statements of activities. There was one new charitable gift annuity agreement signed in 2017 for \$10,000. There were no new charitable gift agreements signed in 2016.

December 31, 2017 and 2016

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Beneficial Interest in Annuity Trust

The trust has been recorded at its fair value at the date of the contribution, and is adjusted for subsequent changes in fair value based on changes to the underlying assets.

Severance Obligation

Severance obligations are recorded when a qualifying event occurs or, for country offices, based on the respective country's labor laws.

Contributions and Receivables

Contributions, including unconditional promises to give (pledges), are reported as revenues in the period received or pledged. Contributions of assets, other than cash, are recorded at their estimated fair value at the date of gift. HIAS received contributed computer software of \$148,254, which is included in contributions on the accompanying consolidated statements of activities. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. No allowance was recorded at December 31, 2017 and 2016. All contributions are expected to be collected in the next year, therefore no discount has been recorded. Contributions receivable are written-off in the period deemed uncollectible.

Contributed Services

Contributed services are recorded at their estimated fair value and are recognized as revenues and expenses on the consolidated statements of activities in the period received. There were no contributed legal services for the year ended December 31, 2017. Contributed legal services for the year ended December 31, 2016 totaled \$18,762 and is included in contribution revenue on the accompanying consolidated statements of activities.

Governmental and Operating Grants

Government and operating grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors.

Service Fee Revenues

Revenues from program service fees are recognized when earned.

December 31, 2017 and 2016

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Migrant Loan Processing Fees and Repayments

HIAS has an agreement under which it collects on loans given out by the International Office of Migration (“IOM”) to refugees. HIAS keeps 25% of the total amounts collected, and recognizes it as migrant loan processing fees and repayments revenue in the accompanying consolidated statements of activities.

Rent

Rent is recognized on a straight-line basis over the terms of the various leases.

Functional Allocation of Expenses

The costs of providing HIAS’ programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on actual labor expenses.

Income Taxes

HIAS follows guidance that clarifies the accounting for uncertainty in income tax positions taken or expected to be taken in a tax return, including issues relating to consolidated financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. Management believes there are no uncertain tax positions that would have an impact on the accompanying consolidated financial statements. The tax years ended December 31, 2016, 2015, 2014 and 2013 are still open to audit for both federal and state purposes.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements and revenues and expenses recognized during the reporting period. The most significant estimates pertain to the determination of the allowance for doubtful accounts, the valuation of non-exchanged traded alternative investments, benefit obligations, and the useful lives assigned to fixed assets, amongst others. Actual results may differ from those estimates.

December 31, 2017 and 2016

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Risk of Operating Outside the United States

HIAS is subject to the risks of doing business outside the United States, including, among other risks, foreign currency exchange rate risks, tax laws and political or labor disturbances.

New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02 “Leases (Topic 842),” which supersedes the guidance in former ASC Topic 840 “Leases.” The most significant change will result in the recognition of lease assets for the right to use the underlying asset, and lease liabilities for the obligation to make lease payments by lessees, for those leases classified as operating leases under current guidance. The new guidance will also require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. This standard is effective for the fiscal year ending December 31, 2020, with early adoption permitted. Upon adoption of ASU 2016-02, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. HIAS is evaluating the impact this ASU will have on the financial statement presentation.

In August 2016, the FASB issued ASU 2016-14 to Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends several requirements for financial statements and notes, including net asset classifications in the statements of financial position and statements of activities and enhanced disclosures in numerous areas. This standard is effective for the fiscal year ending December 31, 2018, with early adoption permitted. HIAS is evaluating the impact this ASU will have on the financial statement presentation.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This standard is effective for the fiscal year ending December 31, 2018, with early adoption permitted. HIAS is evaluating the impact this ASU will have on the financial statements.

December 31, 2017 and 2016

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

New Accounting Pronouncements—Continued

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

Reclassification

Certain 2016 financial statement amounts have been reclassified to conform to the 2017 financial statement classification. U.S. operations program expenses increased by \$110,815 and international operations program expenses decreased by \$110,815. This reclassification had no effect on total assets, liabilities, or net assets.

Subsequent Events

HIAS evaluated its December 31, 2017 consolidated financial statements for subsequent events through July 19, 2018, the date the consolidated financial statements were available to be issued. HIAS is not aware of any subsequent events that would require recognition or disclosure in the accompanying consolidated financial statements.

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 3—INVESTMENTS

Investments are carried at fair value and consist of the following at December 31:

	2017		2016	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 1,997,763	\$ 1,997,763	\$ 542,439	\$ 380,050
Mutual funds:				
Equity funds	14,057,326	12,827,206	5,715,819	6,027,275
Fixed-income funds	3,770,895	3,629,479	4,876,756	4,756,329
All asset funds	6,489,817	6,503,121	7,097,443	7,757,646
Total mutual funds	<u>24,318,038</u>	<u>22,959,806</u>	<u>17,690,018</u>	<u>18,541,250</u>
Equities - U.S. small cap	1,847,752	1,357,015	2,028,428	1,794,424
Fixed income securities	102,461	102,440	—	—
Collective trust	10,135,643	9,570,693	7,712,977	7,916,807
Alternative investments	19,980,383	6,683,628	24,780,167	10,970,429
State of Israel bonds	—	—	210,000	210,000
Total investments	<u>\$58,382,040</u>	<u>\$42,671,345</u>	<u>\$52,964,029</u>	<u>\$39,812,960</u>

Investment income consists of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 746,697	\$ 759,753
Realized gain	5,459,705	1,076,997
Unrealized gain	<u>2,799,768</u>	<u>1,632,483</u>
	9,006,170	3,469,233
Less:		
Investment fees	(292,393)	(377,733)
Investment return designated for current operations	<u>(2,486,876)</u>	<u>(2,456,531)</u>
Non-operating investment income	<u>\$ 6,226,901</u>	<u>\$ 634,969</u>

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 3—INVESTMENTS—CONTINUED

The following tables set forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2017 and 2016:

	2017		
	<u>Level 1</u>	<u>Reported at NAV</u>	<u>Total</u>
Mutual funds:			
Equity funds	\$ 14,057,326	\$ —	\$ 14,057,326
Fixed - income funds	3,770,895	—	3,770,895
All asset funds	<u>6,489,817</u>	<u>—</u>	<u>6,489,817</u>
Total mutual funds	<u>24,318,038</u>	<u>—</u>	<u>24,318,038</u>
Equity - U.S. small cap	1,847,752	—	1,847,752
Fixed income securities	102,461	—	102,461
Collective trust *	—	10,135,643	10,135,643
Alternative investments *	<u>—</u>	<u>19,980,383</u>	<u>19,980,383</u>
Total investments, at fair value	<u>\$ 26,268,251</u>	<u>\$ 30,116,026</u>	<u>\$ 56,384,277</u>
Cash and cash equivalents			<u>\$ 1,997,763</u>
Total investments			<u>\$ 58,382,040</u>

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 3—INVESTMENTS—CONTINUED

	2016		
	<u>Level 1</u>	<u>Reported at NAV</u>	<u>Total</u>
Mutual funds:			
Equity funds	\$ 5,715,819	\$ —	\$ 5,715,819
Fixed - income funds	4,876,756	—	4,876,756
All asset funds	<u>7,097,443</u>	<u>—</u>	<u>7,097,443</u>
Total mutual funds	<u>17,690,018</u>	<u>—</u>	<u>17,690,018</u>
Equity - U.S. small cap	2,028,428	—	2,028,428
Collective trust *	—	7,712,977	7,712,977
Alternative investments*	<u>—</u>	<u>24,780,167</u>	<u>24,780,167</u>
Total investments, at fair value	<u>\$ 19,718,446</u>	<u>\$ 32,493,144</u>	<u>\$ 52,211,590</u>
Cash and cash equivalents			\$ 542,439
State of Israel bonds			<u>210,000</u>
Total investments			<u>\$ 52,964,029</u>

* HIAS uses the NAV per share, or its equivalent to determine the fair value as of the measurement date of all the underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their investees financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. In accordance with ASC Subtopic 820-10, investments measured at fair value using NAV per share as a practical expedient have not been categorized in the fair value hierarchy.

December 31, 2017 and 2016

NOTE 3—INVESTMENTS—CONTINUED

The following tables detail certain attributes pertaining to the investments reported at fair value using a NAV, or its equivalent, as of December 31, 2017 and 2016.

		2017		
Type	Strategy	NAV in Funds	\$ Amount of Unfunded Commitments	Redemption Terms
Collective trust	Global equity, bond and currency markets, and fixed-income securities	\$ 8,384,516	\$ —	Monthly, as of the last day of any month upon 2 days' prior notice
Collective trust	Outperform the Russell 1000 Growth Index by varying portfolio weights based on the volatilities and correlation of stocks	1,751,127	—	Monthly, as of the last day of any month upon 15 days' prior notice
Alternative investment	Diversified portfolio of equity securities of companies ordinarily incorporated in any county other than the U.S.	11,698,478	—	Monthly, as of the last day of any month upon 10 days' prior notice
Alternative investment	Global developed and emerging stocks, developed and emerging government bonds and emerging currencies, global inflation-protected bonds, U.S. high-yield and investment grade credit mortgages, global swap spreads and commodities	5,612,647	—	Monthly, as of the last day of any month upon 15 days' prior notice
Alternative investment	Investment grade, credit, high yield credit, bank loan, and securitized markets	2,669,258	—	1 st or 15 th day of month, with 30 days' written notice
Total		<u>\$30,116,026</u>	<u>\$ —</u>	

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 3—INVESTMENTS—CONTINUED

2016				
Type	Strategy	NAV in Funds	\$ Amount of Unfunded Commitments	Redemption Terms
Collective trust	Global equity, bond and currency markets, and fixed-income securities	\$ 7,712,977	\$ —	Monthly, as of the last day of any month upon 2 days' prior notice
Alternative investment	Diversified portfolio of equity securities of companies ordinarily incorporated in any country other than the U.S.	10,432,676	—	Monthly, as of the last day of any month upon 10 days' prior notice
Alternative investment	Global developed and emerging stocks, developed and emerging government bonds and emerging currencies, global inflation-protected bonds, U.S. high-yield and investment grade credit mortgages, global swap spreads and commodities	4,835,820	—	Monthly, as of the last day of any month upon 15 days' prior notice
Alternative investment	Outperform the Russell 1000 Growth Index by varying portfolio weights based on the volatilities and correlation of stocks	4,581,040	—	Daily
Alternative investment	Investment grade, credit, high yield credit, bank loan, and securitized markets	2,918,018	—	1 st or 15 th day of month, with 30 days' written notice
Alternative investment	Investment grade credit, high yield credit, bank loan, and securitized markets	2,012,613	—	Monthly, as of the last day of any month upon 30 days' prior written notice
Total		<u>\$32,493,144</u>	<u>\$ —</u>	

December 31, 2017 and 2016

NOTE 4—SPLIT-INTEREST AGREEMENTS

HIAS is the beneficiary of charitable remainder trusts and charitable remainder unitrusts. The present values of the annuities' obligations are based upon the expected future cash flows to be paid to the annuities' beneficiaries. Adjustments to the annuity liabilities reflect the amortization of the discount and the revaluation of expected future payments to beneficiaries based on changes in actuarial assumptions, and are made annually and recognized in revenue as changes in split-interest agreements.

HIAS is the beneficiary of one charitable remainder trust under an agreement where the assets are held and invested by a third party. HIAS recorded a receivable and a temporarily restricted contribution based on the present value of the estimated future distributions expected to be received by HIAS over the expected term of the agreement.

The discount rates ranged between 1.2% and 6.2% for each of the years ended December 31, 2017 and 2016, respectively.

The following tables show the changes in the annuity obligations:

	<u>2017</u>	<u>2016</u>
Annuity obligations, beginning of year	\$ 1,260,514	\$ 1,381,356
New agreements	10,000	—
Payments to annuitants	(267,854)	(252,481)
Change in actuarial valuations	<u>400,687</u>	<u>131,639</u>
Annuity obligations, end of year	<u>\$ 1,403,347</u>	<u>\$ 1,260,514</u>

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 5—PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 798,436	\$ 797,372
Leasehold improvements	<u>1,267,179</u>	<u>1,267,179</u>
	2,065,615	2,064,551
Less: Accumulated depreciation	<u>(944,310)</u>	<u>(640,204)</u>
Property and equipment, net	<u>\$ 1,121,305</u>	<u>\$ 1,424,347</u>

Depreciation expense amounted to \$304,106 and \$382,663 for the years ended December 31, 2017 and 2016.

NOTE 6—PENSIONS

Domestic Pension Plan

HIAS has a noncontributory defined benefit pension plan (the “Plan”) covering all of its eligible employees. All benefits under this plan were frozen effective February 15, 2012.

The following table sets forth the Plan’s funded status and the components of net periodic benefit cost at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Reconciliation of benefit obligation:		
Benefit obligation, beginning of year	\$15,996,720	\$15,929,336
Service cost	187,470	146,132
Interest cost	643,495	684,957
Assumption gain	1,366,830	(16,178)
Actuarial loss	297,267	27,109
Expected expenses	(180,000)	(140,000)
Benefits paid	<u>(1,285,824)</u>	<u>(634,636)</u>
Benefit obligation, end of year	<u>\$17,025,958</u>	<u>\$15,996,720</u>

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 6—PENSIONS—CONTINUED

Domestic Pension Plan—Continued

	<u>2017</u>	<u>2016</u>
Reconciliation of fair value of plan assets:		
Plan assets, beginning of year	\$ 10,646,650	\$ 10,709,218
Actual return on assets	2,007,250	639,073
Employer contributions	279,820	111,554
Benefit payments and actual expenses	<u>(1,447,607)</u>	<u>(813,195)</u>
Plan assets, end of year	<u>\$ 11,486,113</u>	<u>\$ 10,646,650</u>
Projected benefit obligation	\$(17,025,958)	\$(15,996,720)
Accrued expenses	(535,964)	(524,124)
Fair value of plan assets	<u>12,022,077</u>	<u>11,170,774</u>
Funded status	<u>\$ (5,539,845)</u>	<u>\$ (5,350,070)</u>
Amounts that have not been recognized as components of net periodic benefit cost but are included in unrestricted net assets:		
Net actuarial loss	<u>\$ 5,360,348</u>	<u>\$ 5,404,049</u>
Components of net periodic benefit cost :		
Service cost	\$ 187,470	\$ 146,132
Interest cost	643,495	684,957
Expected return on plan assets	(720,250)	(732,833)
Amortization of net loss	<u>402,580</u>	<u>407,541</u>
Net periodic benefit cost	<u>\$ 513,295</u>	<u>\$ 505,797</u>
Changes in pension obligation other than net periodic benefit cost:		
Net loss	\$ 358,879	\$ 143,250
Amortization of net loss	<u>(402,580)</u>	<u>(407,541)</u>
Total	<u>\$ (43,701)</u>	<u>\$ (264,291)</u>
Estimated amounts expected to be recognized in net periodic benefit cost over the next fiscal year:		
Amortization of net loss	<u>\$ 469,954</u>	<u>\$ 402,580</u>

December 31, 2017 and 2016

NOTE 6—PENSIONS—CONTINUED

Domestic Pension Plan—Continued

The weighted-average assumptions used to determine benefit obligations at December 31, 2017 and 2016, respectively, are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.61%	4.15%
Rate of compensation increase	N/A	N/A

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2017 and 2016, respectively, are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.61%	4.15%
Rate of compensation increase	N/A	N/A
Long-term rate of return	7.00%	7.00%

The long-term rate of return on assets assumption was selected by the Plan sponsor based on review of investment allocations with the investment advisor and based on both historic and projected returns. This assumption was determined to be an appropriate estimate of the expected returns, based on the nature of the pension plan investment allocation and related strategy. Since the rate of return assumption reflects a long-term outlook, it is not expected to change based on short-term market fluctuations. The Plan sponsor routinely monitors the performance of the pension plan assets and based on consultation with the investment advisor, will make changes to the investment allocation and strategy as determined to be necessary in an effort to maximize returns within prudent risk constraints.

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 6—PENSIONS—CONTINUED

Domestic Pension Plan—Continued

The fair value of the Plan assets by asset category is as follows:

	December 31, 2017			
	Level 1	Level 2	Reported at NAV	Total Fair Value
Mutual funds:				
Equity funds	\$ 803,384	\$ —	\$ —	\$ 803,384
Fixed - income funds	453,997	—	—	453,997
All asset funds	<u>4,074,015</u>	<u>—</u>	<u>—</u>	<u>4,074,015</u>
Total mutual funds	<u>\$ 5,331,396</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,331,396</u>
Equity - U.S. small cap	873,517	—	—	873,517
Fixed income securities	—	40,000	—	40,000
Collective trust	—	—	1,659,742	1,659,742
Alternative investments	<u>—</u>	<u>—</u>	<u>3,767,649</u>	<u>3,767,649</u>
Total investments, at fair value	<u>\$ 6,204,913</u>	<u>\$ 40,000</u>	<u>\$ 5,427,391</u>	<u>\$ 11,672,304</u>
Cash and cash equivalents				<u>\$ 349,773</u>
Total investments				<u>\$12,022,077</u>

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 6—PENSIONS—CONTINUED

Domestic Pension Plan—Continued

	December 31, 2016			
	Level 1	Level 2	Reported at NAV	Total Fair Value
Mutual funds:				
Equity funds	\$ 1,146,074	\$ —	\$ —	\$ 1,146,074
Fixed - income funds	751,212	—	—	751,212
All asset funds	998,765	—	—	998,765
Total mutual funds	<u>\$ 2,896,051</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,896,051</u>
Equity - U.S. small cap	689,621	—	—	689,621
Fixed income securities	—	—	—	—
Collective trust	—	—	3,030,260	3,030,260
Alternative investments	—	—	4,271,471	4,271,471
Total investments, at fair value	<u>\$ 3,585,672</u>	<u>\$ —</u>	<u>\$ 7,301,731</u>	<u>\$ 10,887,403</u>
Cash and cash equivalents				<u>\$ 283,371</u>
Total investments				<u>\$ 11,170,774</u>

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

<u>Year Ending December 31:</u>	<u>Domestic</u>
2018	\$ 4,723,212
2019	\$ 460,711
2020	\$ 370,348
2021	\$ 514,698
2022	\$ 955,620
2023-2026	\$ 3,983,530

December 31, 2017 and 2016

NOTE 6—PENSIONS—CONTINUED

Foreign Pension Plan

HIAS had a nonqualified defined benefit pension plan covering eligible foreign employees. All benefits were frozen effective March 15, 2012. As of December 31, 2017 and 2016, the accumulated benefit obligation was \$557,238 and \$560,057, respectively, which is the present value of the benefits earned as of the date that the Plan froze benefit accruals. No additional pension contributions were incurred in 2017 or 2016.

The assumptions used included a discount rate of 3.40% and 4.15% for the years ended December 31, 2017 and 2016, respectively.

401(k) Defined Contribution Plan

HIAS sponsors a defined contribution plan covering all eligible employees. The defined contribution plan permits elective deferrals pursuant to Internal Revenue Code Section 401(k), up to the maximum amount by law of pre-tax annual compensation, as defined in the Plan. HIAS makes matching contributions up to 5% of the employee's total compensation. Total contributions to the Plan by HIAS during 2017 and 2016 were \$330,878 and \$220,732, respectively.

NOTE 7—COMMITMENTS AND CONTINGENCIES

Lease Commitments

New York

HIAS renewed its lease agreement on October 13, 2004 for its headquarters space in New York. The lease renewal commenced on March 1, 2005 and was to expire on August 31, 2016; however, HIAS vacated the space early and terminated the lease in March 2016 by making a \$200,000 payment to the landlord. HIAS also signed a lease for other office space in New York in August 2015. That lease commenced with base rent of \$235,074 per annum, and increases over the life of the lease, which expires in December 2019. Rent expense for the New York leases totaled \$244,547 and \$623,889 for the years ended December 31, 2017 and 2016, respectively.

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 7—COMMITMENTS AND CONTINGENCIES—CONTINUED

Lease Commitments—Continued

Maryland

In March 2015, HIAS signed a new lease for the purpose of relocating its corporate headquarters to Silver Spring, Maryland. The lease provides for a tenant improvement allowance of \$849,070, which is being amortized over the term of the lease, and provides for base rent of approximately \$401,000 per year after a six month rent abatement. Rent escalates by 2.75% per year until the lease expires in July 2025. Rent expense for the Silver Spring lease totaled \$438,929 and \$438,929 for the years ended December 31, 2017 and 2016, respectively.

Washington D.C.

On August 2, 2007, HIAS signed a lease for office space in Washington, D.C. The lease commenced with an annual payment of \$129,836, with subsequent rent increases of 2.5% per year. HIAS subleased a portion of this space to another not-for-profit organization for the entirety of the lease, which expired in August 2017. On July 26, 2017, HIAS extended the Washington, D.C. lease through December 2018. Rent expense for the Washington, D.C. lease totaled \$122,942 and \$170,775 for the years ended December 31, 2017 and 2016, respectively.

Lease commitments are as follows:

<u>Years ending December 31,</u>	<u>Rent Expense</u>
2018	\$ 679,089
2019	698,394
2020	451,025
2021	463,428
2022	476,172
Thereafter	<u>1,596,190</u>
	<u>\$ 4,364,298</u>

Contingencies

HIAS is a party to litigation and other claims in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the consolidated financial position or changes in net assets of HIAS.

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 8—CONCENTRATION RISK

The most significant source of HIAS's revenue are grants from the U.S. Government. In 2017, HIAS received \$17,128,553 and \$3,609,315 from the U.S. Department of State and U.S. Department of Health and Human Services, respectively, accounting for approximately 41% and 9%, respectively, of total revenues and other support. In 2016, HIAS received \$21,243,694 and \$3,250,069 from the U.S. Department of State and U.S. Department of Health and Human Services, respectively, accounting for approximately 49% and 7%, respectively, of total revenues and other support.

NOTE 9—TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets released from restrictions were:

	<u>2017</u>	<u>2016</u>
Scholarship awards	\$ 169,389	\$ 443,585
Dire emergency use	20,543	13,824
Internship Program	10,645	—
The Linking Communities	15,830	123,080
Legal Service Program in Greece	362,045	274,164
Syrian/Europe Emergency Relief	134,052	110,815
Refugee Program for Artists, Scholars and Professionals	365,150	300,000
Michael B. Rukin Refugee Law Fellows Program In Israel	133,652	156,889
LGBT Refugees, Asylum Seekers and Migrants in East Africa	50,242	29,077
Refugee Crisis Deployment	36,503	231,554
New York Resettlement	259,853	252,657
Time restrictions	404,593	277,421
	<u>\$ 1,962,497</u>	<u>\$ 2,213,066</u>

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 9—TEMPORARILY RESTRICTED NET ASSETS—CONTINUED

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Scholarship awards	\$ 1,510,983	\$ 1,348,716
Advocacy and legal assistance for Ethiopian Jews in Israel	—	6,933
Resettlement of newly arrived immigrants within the U.S.	68,835	68,835
Rescue and resettlement of Russian Jewish children and other Russian Jews	100,000	100,000
Dire emergency use	15,633	36,176
Internship Program	—	10,645
Legal Assistance - Greece	—	109,836
The Linking Communities	—	15,830
Syrian/Europe Emergency Relief	78,328	203,223
Legal Service Program	10,124	20,000
Refugee Crisis Deployment	81,577	118,080
Refugee Program for Artists, Scholars and Professionals	804,378	999,664
Michael B. Rukin Refugee Law Fellows Program in Israel	13,844	147,496
LGBT Refugees, Asylum Seekers and Migrants in East Africa	—	50,242
New York Resettlement	27,707	114,560
Archive Project	80,000	80,000
	<u>2,791,409</u>	<u>3,430,236</u>
For periods after December 31, 2017 and 2016	<u>658,784</u>	<u>783,554</u>
	<u>\$ 3,450,193</u>	<u>\$ 4,213,790</u>

December 31, 2017 and 2016

NOTE 10—ENDOWMENT FUNDS

HIAS has interpreted the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) as requiring the preservation of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, HIAS classifies as permanently restricted net assets (a) the original value of the 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 at the time the accumulation is added to the fund. 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 those amounts are appropriated for expenditure by HIAS in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of HIAS and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of HIAS
- The investment policies of HIAS
- When appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on HIAS

HIAS has a policy of appropriating for distribution a certain percentage (5% in 2017 and 2016) of its endowment fund’s average fair value over the prior twelve quarters. In establishing this policy, HIAS considered the long-term expected return on its endowment. For 2017 and 2016, this allocation amounted to \$2,486,876 and \$2,456,531, respectively.

The return objective of HIAS is to generate investment income while maintaining the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in a diversified portfolio of investments. Investment income is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 10—ENDOWMENT FUNDS—CONTINUED

The endowment net assets consist of:

	2017	2016
Board-designated funds	<u>\$ 41,969,795</u>	<u>\$ 39,586,567</u>
Donor restricted endowment funds:		
The HIAS scholarship program	718,623	782,575
Special projects and activities of organization	2,028,301	1,342,598
Rescue and resettlement of Jewish immigrants	<u>216,256</u>	<u>191,257</u>
Total donor-restricted endowment funds	<u>2,963,180</u>	<u>2,316,430</u>
Total endowment funds	<u>\$ 44,932,975</u>	<u>\$ 41,902,997</u>

The following are the changes in endowment net assets for the years ended December 31, 2017 and 2016:

	2017			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 39,586,567	\$ —	\$ 2,316,430	\$41,902,997
Investment income & fees	6,674,460	—	—	6,674,460
Contributions	3,298,658	—	28,300	3,326,958
Adjustment for prior year deficits	(3,917,491)	—	—	(3,917,491)
Actuarial loss on split-interest agreement	(120,252)	—	—	(120,252)
Appropriation for relocation	(90,571)	—	—	(90,571)
Appropriation for archival project	(288,997)	—	—	(288,997)
Appropriation of endowment assets for expenditure	(2,486,876)	—	—	(2,486,876)
Reclassification as a result of clarification of donor intent (Note 11)	<u>(685,703)</u>	<u>—</u>	<u>618,450</u>	<u>(67,253)</u>
Endowment net assets, end of year	<u>\$ 41,969,795</u>	<u>\$ —</u>	<u>\$ 2,963,180</u>	<u>\$44,932,975</u>

HIAS, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2017 and 2016

NOTE 10—ENDOWMENT FUNDS—CONTINUED

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 41,187,400	\$ 305,175	\$ 2,288,815	\$43,781,390
Net assets released from restriction	—	(305,175)	—	(305,175)
Investment income & fees	2,307,707	—	115	2,307,822
Contributions	2,177,957	—	27,500	2,205,457
Adjustment for prior year deficits	(5,566,394)	—	—	(5,566,394)
Actuarial loss on split-interest agreement	(120,136)	—	—	(120,136)
Adjustment for unspent relocation	1,394,500	—	—	1,394,500
Adjustment for unspent archival project	662,064	—	—	662,064
Appropriation of endowment assets for expenditure	(2,456,531)	—	—	(2,456,531)
Endowment net assets, end of year	\$ 39,586,567	\$ —	\$ 2,316,430	\$41,902,997

NOTE 11—NET ASSET RECLASSIFICATION

HIAS received notice during 2017 from three donors clarifying the intent of restrictions on certain gifts received in prior years. HIAS had classified these gifts as unrestricted, temporarily restricted or permanently restricted based on an interpretation of the donors' intent. These donors intent clarifications resulted in reclassification of \$685,703 unrestricted net assets to permanently restricted net assets within the endowment, \$67,253 permanently restricted endowed net assets to unrestricted net assets and \$34,949 temporarily restricted net assets to unrestricted net assets.