

HAZON, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

HAZON, INC.

TABLE OF CONTENTS
DECEMBER 31, 2017 AND 2016

	<u>PAGE NO.</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
<u>FINANCIAL STATEMENTS</u>	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7 - 19
<u>SUPPLEMENTARY INFORMATION</u>	
SCHEDULE OF PROGRAM SERVICE EXPENSES	20

BILLET, FEIT AND PREIS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

42 BROADWAY, SUITE 1815, NEW YORK, N.Y. 10004
TEL (212) 425-3300 FAX (212) 425-3131

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hazon, Inc.
New York, NY

We have audited the accompanying financial statements of Hazon, Inc. (a New York nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

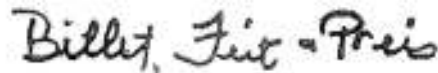
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hazon, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program service expenses for the year ended December 31, 2017 on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

BILLET, FEIT & PREIS, P.C.

Handwritten signature in cursive script that reads "Billet, Feit & Preis".

Certified Public Accountants

New York, NY
April 30, 2018

HAZON, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
<u>Current Assets</u>		
Cash and cash equivalents	\$ 1,704,506	\$1,699,840
Pledges and grants receivable, net	7,825,712	3,674,810
Accounts receivable	114,298	108,476
Investments	42,420	42,420
Prepaid expenses	90,271	79,339
Total Current Assets	<u>9,777,207</u>	<u>5,604,885</u>
Property and equipment, net	2,259,148	2,300,402
Security deposits	<u>9,167</u>	<u>9,267</u>
TOTAL ASSETS	<u>\$12,045,522</u>	<u>\$7,914,554</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities</u>		
Accounts payable	\$ 282,710	\$ 280,560
Accrued expenses	217,803	348,885
Grants payable, fiscal sponsorships	329,882	779
Deferred income	270,434	215,424
Tenant deposits	25,071	9,741
Mortgage and loans payable, current maturities	92,678	24,073
Total Current Liabilities	<u>1,218,578</u>	<u>879,462</u>
<u>Long-term Liabilities</u>		
Mortgage and loans payable, less current maturities	<u>457,000</u>	<u>45,242</u>
Total Liabilities	<u>1,675,578</u>	<u>924,704</u>
<u>Net Assets</u>		
Without donor restriction	1,611,822	1,903,176
With donor restriction	8,758,122	5,086,674
Total Net Assets	<u>10,369,944</u>	<u>6,989,850</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$12,045,522</u>	<u>\$7,914,554</u>

See accompanying notes to financial statements.

HAZON, INC.

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
<u>Revenues and Other Support</u>						
General Support:						
Foundation grants	\$1,364,971	\$5,971,214	\$ 7,336,185	\$ 718,001	\$ 863,441	\$1,581,442
Individual and institutional support	580,060	-	580,060	1,140,853	-	1,140,853
Released from restrictions, prior periods	3,031,766	(3,031,766)	-	3,997,059	(3,997,059)	-
	<u>4,976,797</u>	<u>2,939,448</u>	<u>7,916,245</u>	<u>5,855,913</u>	<u>(3,133,618)</u>	<u>2,722,295</u>
Program Revenues:						
Program fees	2,654,309	-	2,654,309	2,783,184	-	2,783,184
Ride income	334,385	-	334,385	107,984	-	107,984
	<u>2,988,694</u>	<u>-</u>	<u>2,988,694</u>	<u>2,891,168</u>	<u>-</u>	<u>2,891,168</u>
Other Income:						
Other income	209,580	-	209,580	78,043	-	78,043
Sales of merchandise	115,459	-	115,459	66,385	-	66,385
Donated services	146,578	-	146,578	171,988	-	171,988
	<u>471,617</u>	<u>-</u>	<u>471,617</u>	<u>316,416</u>	<u>-</u>	<u>316,416</u>
Total revenues and other support excluding fiscal sponsor income	8,437,108	2,939,448	11,376,556	9,063,497	(3,133,618)	5,929,879
Fiscal sponsor income	230,773	732,000	962,773	25,001	-	25,001
Total Revenues and Other Support	<u>8,667,881</u>	<u>3,671,448</u>	<u>12,339,329</u>	<u>9,088,498</u>	<u>(3,133,618)</u>	<u>5,954,880</u>
<u>Operating Expenses</u>						
Program expenses	7,605,211	-	7,605,211	7,278,976	-	7,278,976
Management and general	578,582	-	578,582	714,847	-	714,847
Fundraising	438,646	-	438,646	555,990	-	555,990
Donated services	146,578	-	146,578	171,988	-	171,988
Total operating expenses before grants to fiscal sponsors	8,769,017	-	8,769,017	8,721,801	-	8,721,801
Grants to fiscal sponsors	190,218	-	190,218	27,677	-	27,677
Total Operating Expenses	<u>8,959,235</u>	<u>-</u>	<u>8,959,235</u>	<u>8,749,478</u>	<u>-</u>	<u>8,749,478</u>
Change in net assets	(291,354)	3,671,448	3,380,094	339,020	(3,133,618)	(2,794,598)
Net assets, beginning of year	1,903,176	5,086,674	6,989,850	1,564,156	8,220,292	9,784,448
Net assets, end of year	<u>\$1,611,822</u>	<u>\$8,758,122</u>	<u>\$10,369,944</u>	<u>\$1,903,176</u>	<u>\$5,086,674</u>	<u>\$6,989,850</u>

See accompanying notes to financial statements.

HAZON, INC.

**STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017				2016			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related costs	\$3,757,898	\$353,685	\$309,474	\$4,421,057	\$3,659,209	\$392,059	\$304,934	\$4,536,202
Grants to other organizations	553,986	-	-	553,986	607,143	-	-	607,143
Program supplies and costs	520,336	-	-	520,336	439,906	47,133	36,659	523,698
Dining and food costs	519,396	-	-	519,396	408,536	43,772	34,045	486,353
Occupancy	252,506	23,765	20,795	297,066	203,678	21,823	16,973	242,474
Depreciation and amortization	228,654	40,351	-	269,005	200,030	21,432	16,668	238,130
Temporary staffing	201,647	18,979	16,606	237,232	155,353	16,645	12,946	184,944
Professional fees	185,841	25,779	22,557	234,177	343,549	36,809	28,629	408,987
Insurance	177,142	16,672	14,587	208,401	199,901	21,418	16,659	237,978
Housekeeping	197,079	-	-	197,079	150,477	16,123	12,540	179,140
Repairs and maintenance	167,139	-	-	167,139	197,380	21,148	16,448	234,976
Information technology	134,319	12,943	11,325	158,587	97,857	10,485	8,155	116,497
Utilities	126,962	22,405	-	149,367	126,208	13,522	10,517	150,247
Travel and accommodations	100,660	9,718	8,503	118,881	108,383	11,612	9,032	129,027
Conferences and meetings	83,326	10,021	8,768	102,115	17,708	1,897	1,476	21,081
Marketing and communications	67,440	6,347	5,554	79,341	46,111	4,940	3,843	54,894
Telephone and internet	55,250	5,200	4,550	65,000	48,673	5,215	4,056	57,944
Printing and copying	49,799	4,687	4,101	58,587	34,423	3,688	2,869	40,980
Office supplies	44,792	4,216	3,689	52,697	47,871	5,129	3,989	56,989
Sales and merchandise	40,444	7,138	-	47,582	39,609	4,244	3,301	47,154
Meals and entertainment	30,001	2,824	2,471	35,296	32,392	3,471	2,699	38,562
Vehicle costs	22,125	3,904	-	26,029	12,818	1,373	1,068	15,259
Permits and registration fees	19,686	3,474	-	23,160	20,483	2,195	1,707	24,385
Postage	16,341	1,538	1,346	19,225	11,072	1,186	923	13,181
Miscellaneous	12,155	1,144	1,001	14,300	31,596	3,390	2,637	37,623
Payroll services	11,303	1,064	931	13,298	10,050	1,077	837	11,964
Credit card and processing fees	9,445	889	778	11,112	5,841	626	487	6,954
Dues and subscriptions	7,887	742	650	9,279	7,948	852	662	9,462
Professional recruitment	7,333	690	604	8,627	6,967	747	581	8,295
Bank fees	4,319	407	356	5,082	7,804	836	650	9,290
Totals	<u>\$7,605,211</u>	<u>\$578,582</u>	<u>\$438,646</u>	<u>\$8,622,439</u>	<u>\$7,278,976</u>	<u>\$714,847</u>	<u>\$555,990</u>	<u>\$8,549,813</u>

See accompanying notes to financial statements.

HAZON, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$3,380,094	\$(2,794,598)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	269,005	238,130
(Increase) decrease in operating assets:		
Pledges and grants receivable, net	(4,150,902)	1,778,686
Accounts receivable	(5,822)	(105,680)
Prepaid expenses	(10,932)	(33,744)
Increase (decrease) in operating liabilities:		
Accounts payable	2,150	193,598
Accrued expenses	(131,082)	140,480
Grants payable, fiscal sponsorships	329,103	272
Deferred income	55,010	(13,844)
Tenant deposits	15,330	140
Other liabilities	-	(51,738)
Total adjustments	(3,628,140)	2,146,300
Net Cash Flows Used by Operating Activities	(248,046)	(648,298)
<u>Cash Flows from Investing Activities</u>		
Investments	-	133
Acquisition of property and equipment	(227,751)	(397,824)
Donated property held for resale	-	230,510
Decrease in security deposits	100	2,073
Net Cash Flows Used by Investing Activities	(227,651)	(165,108)
<u>Cash Flows from Financing Activities</u>		
Proceeds from loan	500,000	-
Payments on mortgages and loans payable	(19,637)	(23,019)
Net Cash Flows (Used) Provided by Financing Activities	480,363	(23,019)
Net increase (decrease) in cash and cash equivalents	4,666	(836,425)
Cash and cash equivalents, beginning of year	1,699,840	2,536,265
Cash and cash equivalents, end of year	\$1,704,506	\$1,699,840
<u>Supplemental Disclosures:</u>		
Interest paid	\$ 3,209	\$ 3,098
Non-cash investing transactions:		
Donated stock investments	\$ 2,775	\$ 2,816

During the year ended December 31, 2016 the Organization wrote off fully depreciated property and equipment in the amount of \$278,890.

See accompanying notes to financial statements.

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Hazon, Inc. (“Hazon”) is a 501(c)(3) non-profit organization working to create a healthier and more sustainable Jewish community and a healthier and more sustainable world for all. Hazon effects change in three main ways, (1) transformative experiences, (2) thought-leadership and (3) capacity building.

For more complete information about Hazon’s mission and programs, visit their website: <http://hazon.org/>

Basis of Accounting

The financial statements of Hazon, Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Revenue is recorded as detailed below and expenses are recorded when incurred.

Basis of Presentation

In August 2016 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, with the stated purpose of improving financial reporting by not-for-profit entities. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, however early adoption is permitted. The Organization has elected for early adoption of the provisions of ASU 2016-14 and accordingly, the organization’s financial position and activities are presented as either one of two classes of net assets: with donor restrictions and without donor restrictions. (Donors include other types of contributors, including makers of certain grants.) Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations or other stipulations. A total of \$1,611,822 and \$1,903,176 of the Organization’s net assets were without donor restrictions as of December 31, 2017 and 2016, respectively.

Net Assets with Donor Restrictions – Net assets that are subject to donor-imposed restrictions or other stipulations. When a restriction expires, with donor restricted net assets are reclassified to without donor restricted net assets and reported in the statements of activities as net assets released from donor restrictions. A total of \$8,758,122 and \$5,086,674 of the Organization’s net assets were donor restricted as of December 31, 2017 and 2016, respectively.

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

Costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses and the schedule of program service expenses. Costs are allocated between programs service expenses, management and general activities and fundraising based on evaluations of the related activities. General and administrative expenses include expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Donated Assets

Donated investments and property are recorded at the underlying asset's fair market value at the date of the donation (see Note D).

Donated Services

Hazon pays for most services requiring specific expertise. However, many individuals volunteer significant amounts of time and perform a variety of tasks that assist the Organization by creating, leading and delivering a growing range of programs. These amounts have not been reflected in the statements of activities because the criteria for recognition under FASB ASC have not been satisfied, however Hazon's programmatic impact is significantly leveraged by volunteer leadership.

During the year ended December 31, 2017 and 2016 the Organization has recognized a total of \$146,578 and \$171,988, respectively, of donated services for professional, legal and other consulting fees. These donated services are included in both other income and in operating expenses on the statements of activities.

Investments

Marketable securities with readily determinable fair values are valued at their fair values in the statements of financial position. Other investments whose fair market values are not readily determinable are valued based on management's market observations, such as current private equity funding rounds. Unrealized gains and losses are included as changes in net assets in the statements of activities.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received are recorded as either "with donor restriction" or "without donor restriction" support

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

depending on the existence and/or nature of any donor restrictions. When a restriction expires, “with donor restriction” net assets are reclassified to “without donor restriction” net assets. Contributions that are restricted by the donor are reported as increases in “without donor restrictions” net assets if the restrictions are met or expire in the fiscal year in which the contributions are recognized. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in “with donor restriction” net assets. Absent donor restrictions regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents

Cash and cash equivalents include savings and money market accounts and all highly liquid investments with original maturities of three months or less (see Note B).

Pledges, Grants and Accounts Receivable

Pledges, grants and accounts receivable consist of amounts due from donors, grantors and participants. Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their net realizable value (see Note C). Management periodically assesses the receivable balances for collectability and expenses uncollectible debts as determined. No allowance for doubtful accounts was deemed necessary as of December 31, 2017 and 2016.

Property and Equipment

Generally, all acquisitions of property and equipment over \$5,000 and all expenditures for renewals and betterments that materially prolong the useful lives of assets are capitalized at cost. Assets contributed to Hazon are recorded at their fair market value at the date of the donation. Depreciation of property and

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

equipment (that is not held for sale) is provided over the estimated useful lives of the respective assets using the straight-line method.

Income Taxes

Hazon, Inc. is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code. Gifts to Hazon, Inc. are tax deductible. The federal and state information returns of the Organization for 2014 through 2016 are subject to examination by the Internal Revenue Service and New York State Office of the Attorney General, generally for three years after the filing date. At December 31, 2017, Hazon had no knowledge of any tax returns under examination.

Deferred Income

Program revenues related to future periods, primarily from deposits paid for events taking place at the Organization's retreat center, are recorded as deferred income.

Merchandise Sales

Merchandise sales and costs of goods sold are recorded net of discounts and allowances for returns.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2017 and 2016 was \$79,341 and \$54,894, respectively.

Subsequent Events

Management has evaluated subsequent events through April 30, 2018, the date the financial statements were available to be issued.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Cash in checking accounts and on hand	\$ 806,017	\$ 852,811
Cash in broker and savings accounts	898,489	847,029
Total	<u>\$1,704,506</u>	<u>\$1,699,840</u>

See Note I with regard to credit risk at financial institutions.

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE C – PLEDGES AND GRANTS RECEIVABLE, NET

In March 2015, the Jim Joseph Foundation awarded the Organization a four-year grant (2015 through 2019) in the amount of approximately \$7,500,000 for the purpose of developing its Jewish Outdoor, Food and Environmental Education (“JOFEE”) programs. The amount includes approximately \$3,500,000 for the development of a JOFEE fellowship, and \$4,000,000 in matching funds for business planning and capacity support for Hazon and partner organizations. The matching funds will be paid (a) 25% directly, (b) 50% as a 1:1 match to new and increased dollars raised and (c) 25% as a 1:2 match to new and increased dollars raised.

In March 2017, the William Davidson Foundation awarded the Organization a three-year grant of up to \$1,800,000 to support the Organization’s activities in the Detroit community. Of the total amount, \$250,000 was awarded as a matching grant.

In November 2017, the Israel Ministry of Diaspora Affairs awarded the Organization a grant in the amount of approximately \$3,642,500 to create a program (“Hakhel”) to amplify and strengthen new expressions of Jewish community in North America and other parts of the Jewish diaspora.

Pledges and grants receivable, net of unamortized discounts, at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Unconditional promises to give:		
Jim Joseph Foundation	\$1,487,225	\$3,265,065
Israel Ministry of Diaspora Affairs	3,642,275	-
William Davidson Foundation	1,400,000	-
Other receivables	1,622,731	493,851
	<u>8,152,231</u>	<u>3,758,916</u>
Less unamortized discount	(326,519)	(84,106)
Pledges and grants receivable, net	<u>\$7,825,712</u>	<u>\$3,674,810</u>

The pledges and grants receivable are due as follows:

	<u>2017</u>	<u>2016</u>
Due within one year	\$3,744,796	\$2,317,463
Due between one and two years	1,824,675	1,441,453
Due between two and three years	1,263,900	-
Due after three years	1,318,860	-
Total pledges and grants receivable	<u>\$8,152,231</u>	<u>\$3,758,916</u>

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE C – PLEDGES AND GRANTS RECEIVABLE, NET (CONTINUED)

Pledges and grants receivable with due dates extending beyond one year are discounted using the prime interest rate for similar credit terms. The applicable rate at December 31, 2017 and 2016 was 4.50% and 3.25%, respectively.

NOTE D - INVESTMENTS

A gift of 192 limited partnership units in Global Sun Partners L.P. (“GSP”) was received in 2009. Management valued the limited partnership units at \$42,420 based on known private sales and other financial factors existing at the time. No appreciation or depreciation in the fair value of GSP was recorded during the years ended December 31, 2017 and 2016. The chief financial officer of GSP is a member of the board of directors and a member of the finance committee of the Organization.

Donated common stock is valued at its market value at the time of the donation. During the years ended December 31, 2017 and 2016 the Organization received donations of common stock in the market value amount of \$2,775 and \$2,816, respectively, which are included in individual and institutional support.

NOTE E – PROPERTY AND EQUIPMENT, NET

Property and equipment, net of accumulated depreciation, as of December 31, 2017 and 2016, consist of:

	<u>2017</u>	<u>2016</u>
Land	\$ 592,000	\$ 592,000
Building and improvements	4,434,353	4,291,406
Furniture and fixtures	390,698	306,727
Office equipment	71,284	71,284
Transportation equipment	227,403	227,403
Software development costs	31,297	31,297
Website	16,752	15,919
	<u>5,763,787</u>	<u>5,536,036</u>
Less accumulated depreciation	<u>(3,504,639)</u>	<u>(3,235,634)</u>
Property and equipment, net of accumulated depreciation	<u>\$2,259,148</u>	<u>\$2,300,402</u>

A property at 58 Johnson Road, Falls Village, CT is pledged as collateral for a bank mortgage loan, and a truck is pledged as collateral for a vehicle retail installment contract (see Note F).

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE E – PROPERTY AND EQUIPMENT, NET (CONTINUED)

Depreciation expense for the year ended December 31, 2017 and 2016 was \$269,005 and \$238,130, respectively, and is included in the statements of functional expenses.

During the year ended December 31, 2016, fully depreciated property and equipment in the amount of \$278,890 was written off.

NOTE F – LOANS AND MORTGAGE PAYABLE

In December 2003, the Organization received a mortgage loan of \$165,000 from National Iron Bank to purchase property to be used by the retreat center. The loan bears interest at 5.5% with monthly payments of \$1,348 based on a 15-year amortization schedule. The balance as of December 31, 2017 and 2016 is \$15,314 and \$30,203, respectively. The mortgage is secured by the property at 58 Johnson Road, Falls Village, CT. Total interest expense on the loan for the year ended December 31, 2017 and 2016 was \$1,290 and \$1,816, respectively.

In October 2015 the Organization purchased a pick-up truck and financed the balance of \$48,470. The installment loan bears interest at 5.89% with 60 monthly payments of \$937. The balance as of December 31, 2017 and 2016 is \$29,928 and \$39,111, respectively. Total interest expense on the loan for the year ended December 31, 2017 and 2016 was \$2,058 and \$2,582, respectively.

In June 2017, the Organization received a \$500,000 loan from the United Jewish Appeal of New York, to assist the Organization in the construction of a new building at its Isabella Freedman Jewish Retreat Center. Interest at the rate of 1.76% is being accrued during the first year and added to the principal amount.

Future minimum payments required under the mortgage and loan agreements, as of December 31, 2017 are as follows:

	<u>Mortgage</u> <u>Loan</u>	<u>Truck</u> <u>Loan</u>	<u>Construction</u> <u>Loan</u>	<u>Total</u>
Year ended December 31:				
2018	\$15,314	\$ 9,740	\$ 67,624	\$ 92,678
2019	-	10,329	125,138	135,467
2020	-	9,859	127,358	137,217
2021	-	-	129,618	129,618
2022	-	-	54,698	54,698
Totals	<u>\$15,314</u>	<u>\$29,928</u>	<u>\$504,436</u>	<u>\$549,678</u>

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE G – COMMERCIAL LINE OF CREDIT

Beginning in April 2017, the Organization had a \$500,000 revolving line of credit from TD Bank, of which the entire \$500,000 was unused at December 31, 2017. Bank advances on the credit line are payable on demand and carry an interest rate of 4.24% per annum on the outstanding balance. The line of credit is collateralized by the Organization's real property at its retreat center in Connecticut. The line of credit does not have a maturity date.

NOTE H – RENT EXPENSE

In April 2010 the Organization entered into a lease agreement to rent office space on the 8th floor of 125 Maiden Lane in New York City at the base amount (not including electricity charges) of \$9,166.67 per month with annual increases of 9.1%. A security deposit in the amount of \$9,167 was provided in respect of this lease. The lease expired on May 31, 2017 and was subsequently renewed for the same premises plus additional office space. The new base rent amount begins at \$16,154 per month and increases to \$20,793 per month to reflect the additional space. The extended lease expires on June 30, 2019.

In August 2015 the Organization entered into a rent agreement for office space at 6735 Telegraph Road in Bloomfield, MI. The lease was renewed through January 1, 2020 in the amount of \$1,500 per month.

In August 2015 the Organization entered into a rent agreement for office space at 4747 Commonwealth Street in Detroit, MI in the amount of \$1,100 per month. The agreement was renewed in July 2016 and expired in July 2017 when the premises were vacated.

The following are the future minimum payments required under the lease agreement as of December 31, 2017:

<u>Year ended December 31,</u>	<u>New York,</u>	<u>Bloomfield,</u>	
	<u>NY</u>	<u>MI</u>	<u>Total</u>
2018	\$221,682	\$18,000	\$239,682
2019	124,758	18,000	142,758
	<u>\$346,440</u>	<u>\$36,000</u>	<u>\$382,440</u>

Total rent expense for the year ended December 31, 2017 and 2016 was \$260,904 and \$227,212, respectively, which is included with occupancy expenses in the statements of functional expenses.

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE H – FUNDRAISING EXPENSES

Total fundraising expenses, which includes allocated payroll and other costs, for the year ended December 31, 2017 and 2016 totaled \$438,646 and \$555,990, respectively.

NOTE I – CONCENTRATION OF RISKS

The Organization's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash and cash equivalents. Management has reduced the Organization's exposure to banking risks through diversifying the Organization's cash into several banks. At times the balances in the Organization's cash accounts exceed FDIC and SIPC protection limits; however, the Organization has not experienced any losses in its cash accounts to date.

Three major grantors comprised approximately 69% of the total general support for the year ended December 31, 2017 and approximately 79% of the outstanding pledges and grants receivable, net, as of December 31, 2017.

One major grantor comprised approximately 82% of the total general support for the year ended December 31, 2016 and approximately 87% of the outstanding pledges and grants receivable, net, as of December 31, 2016.

NOTE J – RETIREMENT PLAN

Employees of the Organization may participate in an Internal Revenue Code section 403(b) retirement savings plan. The plan is funded solely by employee contributions to the plan, pursuant to a salary reduction agreement.

NOTE K – FAIR VALUE PRESENTATION

Under the FASB ASC, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Organization uses various valuation approaches. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE K – FAIR VALUE PRESENTATION (CONTINUED)

pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, for the asset or liability other than quoted prices included in Level 1.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents – the carrying amounts for cash reported in the statement of financial position approximate fair value as they mature in three months or less and do not present unanticipated credit concerns (Level 1).

Receivables and payables – the carrying amounts for receivable and payables reported in the statement of financial position approximate fair value because of their short term maturities (Level 1). If significant, receivable and payables due beyond one year are presented at their discounted value (Level 2).

Investments – investments in private equity investments reflect management's own assumptions and estimated fair value (Level 3). Portfolio investments held by brokers are valued at current market prices (Level 1).

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE K – FAIR VALUE PRESENTATION (CONTINUED)

The following table presents the Organization’s fair value hierarchy for the above assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$1,704,506	\$ -	\$ -	\$1,704,506
Pledges and grants receivable, net	-	7,825,712	-	7,825,712
Investments	-	-	42,420	42,420
Total Assets	<u>\$1,704,506</u>	<u>\$7,825,712</u>	<u>\$42,420</u>	<u>\$9,572,638</u>
<u>Liabilities</u>				
Loan payable	\$ -	\$ 15,314	\$ -	\$ 15,314
Mortgage payable	-	28,500	-	28,500
Construction loan payable	-	478,026	-	478,026
Total Liabilities	<u>\$ -</u>	<u>\$521,840</u>	<u>\$ -</u>	<u>\$521,840</u>

The following table presents the Organization’s fair value hierarchy for the above assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$1,699,840	\$ -	\$ -	\$1,699,840
Pledges and grants receivable, net	-	3,674,810	-	3,674,810
Investments	-	-	42,420	42,420
Total Assets	<u>\$1,699,840</u>	<u>\$3,674,810</u>	<u>\$42,420</u>	<u>\$5,417,070</u>
<u>Liabilities</u>				
Loan payable	\$ -	\$ 36,329	\$ -	\$ 36,329
Mortgage payable	-	28,779	-	28,779
Total Liabilities	<u>\$ -</u>	<u>\$65,108</u>	<u>\$ -</u>	<u>\$65,108</u>

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE K – FAIR VALUE PRESENTATION (CONTINUED)

The following table presents information about fair value measurements that use significant unobservable inputs (Level 3 measurements):

	<u>Private Equity Investment</u>
January 1, 2016	\$ 42,420
Transfers in and out of Level 3	-
Purchases, sales and settlements	-
Gains or losses for the year	-
December 31, 2016	<u>42,420</u>
Transfers in and out of Level 3	-
Purchases, sales and settlements	-
Gains or losses for the year	-
December 31, 2017	<u>\$ 42,420</u>

NOTE L – INFORMATION REGARDING LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents (Note B), pledges and accounts receivable (Note C) and a commercial line of credit (Note G).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program service activities related to thought leadership, capacity building and transformative experiences, as well as the conduct of services undertaken to support those activities to be general expenditures.

The Organization has a goal to maintain financial assets, which consist of cash and receivables, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$1,400,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note G, the Organization also has committed line of credit in the amount of \$500,000, which it could draw upon in the event of an unanticipated liquidity need.

HAZON, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE L – INFORMATION REGARDING LIQUIDITY AND AVAILABILITY
(CONTINUED)

As of December 31, 2017, the following tables show the total financial assets held by the Organization and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets at year-end	
Cash and cash equivalents	\$1,704,506
Pledges and grants receivable, net	7,825,712
Accounts receivable	114,298
Investments	42,420
Total financial assets at year-end	<u>\$9,686,936</u>
Financial assets available to meet general expenditures over the next 12 months	
Cash and cash equivalents	\$1,704,506
Accounts receivable	114,298
Pledges for general expenditures due in one year or less	312,300
	<u>\$2,131,104</u>

HAZON, INC.

SUPPLEMENTARY INFORMATION

SCHEDULE OF PROGRAM SERVICE EXPENSES
YEAR ENDED DECEMBER 31, 2017

	<u>Thought Leadership & Capacity Building</u>	<u>Transformative Experiences</u>	<u>Total Program Service Expenses</u>
Salaries and related costs	\$1,635,791	\$2,122,107	\$3,757,898
Grants to other organizations	278,076	275,910	553,986
Program supplies and costs	227,895	292,441	520,336
Dining and food costs	226,090	293,306	519,396
Occupancy	109,914	142,592	252,506
Depreciation and amortization	99,532	129,122	228,654
Temporary staffing	87,776	113,871	201,647
Professional fees	119,229	66,612	185,841
Insurance	77,109	100,033	177,142
Housekeeping	85,787	111,292	197,079
Repairs and maintenance	72,754	94,385	167,139
Information technology	59,862	74,457	134,319
Utilities	55,266	71,696	126,962
Travel and accommodations	44,945	55,715	100,660
Conferences and meetings	46,347	36,979	83,326
Marketing and communications	29,356	38,084	67,440
Telephone and internet	24,050	31,200	55,250
Printing and copying	21,677	28,122	49,799
Office supplies	19,498	25,294	44,792
Sales and merchandise	17,605	22,839	40,444
Meals and entertainment	13,059	16,942	30,001
Vehicle costs	9,631	12,494	22,125
Permits and registration fees	8,569	11,117	19,686
Postage	7,113	9,228	16,341
Miscellaneous	5,291	6,864	12,155
Payroll services	4,919	6,384	11,303
Credit card and processing fees	4,111	5,334	9,445
Dues and subscriptions	3,433	4,454	7,887
Professional recruitment	3,192	4,141	7,333
Bank fees	1,880	2,439	4,319
Totals	<u>\$3,399,757</u>	<u>\$4,205,454</u>	<u>\$7,605,211</u>