

THE ALEPH INSTITUTE, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
AUGUST 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Aleph Institute, Inc.
Surfside, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of The Aleph Institute, Inc. (the "Organization") (a nonprofit corporation) which comprise the statement of financial position as of August 31, 2018, and the related statement of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the Organization as of August 31, 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on pages 10-11 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.

Gutierrez Madariaga, CPA P.A.

GUTIERREZ MADARIAGA, CPA P.A.

Miami, Florida

January 10, 2019

THE ALEPH INSTITUTE, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$	86,518
Cash - Restricted for Jewish Community Foundation		105
Grant Receivable		34,000
Accounts Receivable	32,407	
Less: Allowance for Doubtful Accounts	<u>(13,421)</u>	
Net Accounts Receivable		18,986
Inventory		45,369
Employee advances		<u>2,595</u>
Total Current Assets		<u>187,573</u>

Other assets		38,000
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TOTAL ASSETS	\$	<u>225,573</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Cash Overdraft	\$	145,631
Accounts payable and accrued expenses		185,906
Note payable		<u>116,000</u>
TOTAL CURRENT LIABILITIES		<u>447,537</u>

NET ASSETS

Unrestricted		<u>(221,964)</u>
TOTAL NET ASSETS		<u>(221,964)</u>

TOTAL LIABILITIES AND NET ASSETS	\$	<u>225,573</u>
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The accompanying notes are an integral part of these financial statements.

**THE ALEPH INSTITUTE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018**

	<u>Unrestricted</u>
SUPPORT	
Contributions	
\$1000 and Over	\$ 4,719,034
\$999 and Under	326,749
Grant revenues	500
Total Support	<u>5,046,283</u>
REVENUE	
Program Service Fees	
Auction Revenue	294,185
Less: Costs of Auction	<u>(76,059)</u>
Net Revenue of Auction	218,126
Calendar Revenue	108,419
Less: Costs of Calendar	<u>(32,259)</u>
Net Revenue of Calendar	76,160
Sales of Religious Supplies	404,285
Less: Costs of Religious Materials	<u>(355,429)</u>
Net Revenue of Religious Materials	48,856
Legal Fund Donations	186,300
Donated Space and Utilities	244,773
Miscellaneous Income	29,041
Total Revenue	<u>803,256</u>
TOTAL SUPPORT AND REVENUE	<u>\$ 5,849,539</u>
EXPENSES	
Program Services	<u>\$ 4,889,708</u>
Total Program Services	4,889,708
Supporting Services	
General and Administration	491,437
Developmental and Fundraising	<u>671,160</u>
Total Supporting Services	1,162,597
TOTAL EXPENSES	<u>6,052,305</u>
CHANGE IN NET ASSETS	\$ (202,766)
NET ASSETS, BEGINNING OF YEAR	<u>(19,198)</u>
NET ASSETS, END OF YEAR	<u>\$ (221,964)</u>

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

THE ALEPH INSTITUTE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	<u>\$ (202,766)</u>
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	-
Bad debt expense	35,060
Changes in operating assets	
(Increase) Decrease in:	
Employee advances	727
Accounts receivable	(13,789)
Grant receivable	7,500
Inventory	9,406
Other assets	(36,000)
Increase (Decrease) in:	
Accounts payable and accrued expenses	83,475
Cash overdraft	73,930
Other liabilities	<u>(361)</u>
Total adjustments	<u>159,948</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(42,818)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from note payable	<u>116,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>116,000</u>

NET INCREASE IN CASH AND EQUIVALENTS 73,182

CASH AND CASH EQUIVALENTS

Beginning of year	<u>13,441</u>
End of year	<u><u>\$ 86,623</u></u>

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

**THE ALEPH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

This summary of significant accounting policies of The Aleph Institute, Inc. (the “Organization”) which is presented to assist in understanding the Organization’s financial statements and notes are representations of the Organization’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as promulgated in FASB Accounting Standards Codifications, and have been consistently applied in the preparation of the financial statements.

Organization

The Organization was incorporated in the State of Florida on April 21, 1983. The Organization is tax exempt under Section 501(c)(3) of the Internal Revenue Code. The primary purposes of the Organization are Family Services, Ethical Education, Rabbinical Visitations, Religious Freedom Advocacy, and Programs for Prisons and the Military.

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, and gains and losses are classified based on the existence of donor-imposed or time restrictions as follows:

Unrestricted

Net assets that are free of donor imposed or time restrictions. This category includes all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Temporarily Restricted

Net assets subject to donor-imposed stipulations that wither expire with the passage of time or that can be fulfilled or removed by actions of the Organization pursuant to those stipulations. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as “Net Assets Released from Temporary Restriction.” At August 31, 2018 there were no temporarily restricted net assets.

Permanently Restricted

Net assets whose use by the Organization is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Organization. At August 31, 2018 there were no permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of demand deposit and savings accounts.

Accounts Receivable

The Organization determines whether an allowance for uncollectible receivables should be provided. Such estimates are based on management’s assessments of the aged basis of the Organization’s receivables, current economic conditions, and historical experience. As of August 31, 2018 management has deemed an allowance of \$13,421.

Inventory

Inventories of merchandise purchased for resale are stated at lower of cost or market. Inventory as of August 31, 2018 was \$45,369.

In-Kind Contributions and Donated Services

The Organization records the value of donated goods and facilities when there is an objective basis available to measure the value. Donated items are reflected as support in the accompanying financial statements at their fair market values at the date of receipt. However, for donated items that do not meet the criteria in FASB ASC, the value is neither recorded nor recognized. Volunteers have donated time to the Organization’s program services during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

**THE ALEPH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Contributions

All contributions are available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the donor-imposed restrictions on a contribution are met in the same reporting period in which the contribution is received, contribution is reported as an increase in unrestricted net assets.

Grants Revenue

Grants and contracts revenue is reported at the estimated net realizable amounts due from sponsoring agencies. These grants and contract awards generally specify the purpose for which the funds are to be used. Revenues from sponsored grants and contracts are recognized when allowable expenditures are incurred under such agreements. These revenues, are recorded as unrestricted support. Amounts recorded in grants and contracts receivable are for grant expenditures incurred in advance of the receipt of funds.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and the accompanying notes. Accordingly, actual results could differ from those estimates.

Property and Equipment

All material acquisitions of property and equipment and all expenditures of repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful life of the asset. The estimated useful life of the computer equipment is 5 years, while the furniture and fixtures is 5 to 7 years. Maintenance and repairs are charged to expenses as incurred; improvements and betterments that extend the useful life of the asset are capitalized. When items are retired or otherwise disposed of, the related costs and accumulated depreciation is removed from accounts and any resulting gains or losses are credited or charged to income.

Functional Expenses

The cost of providing the Organization's programs and activities has been summarized on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of primarily temporary cash deposits. The Organization limits its exposure by placing its deposits with quality financial institutions. At times, such balances may be in excess of the insurance limits of the Federal Deposit Insurance Corporation. The Organization has not experienced losses in such accounts.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

The Organization recognizes and measures tax positions taken or expected to be taken in its tax return based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the Organization files tax returns. The Organization is generally not subject to U.S. Federal or State examinations by tax authorities for years before 2015.

THE ALEPH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Subsequent Events

The Organization has evaluated subsequent events through January 10, 2019, which is the date the financial statements were available to be issued.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable, net as of August 31, 2018 consist of the following amounts due in one year to support the ongoing operations of the Organization:

Accounts receivable	\$ 32,407
Allowance for doubtful accounts	(13,421)
Total	<u>\$ 18,986</u>

NOTE 3 – GRANT RECEIVABLE

On August 3, 2016, the Organization was granted \$250,000 by the Jewish Community Foundation of Los Angeles “The Foundation” for Project Tikvah. The purpose of Project Tikvah is to provide intervention, support services, and alternative sentencing opportunities to Jewish youth. Although the grant funds are deemed unrestricted, grant requirements are that “Project Tikvah” funds are deposited into a separate bank account and are to be used only for expenses included in the approved grant budget unless otherwise approved by “The Foundation” staff. Grant receivable represent amounts due from the Foundation as of August 31, 2018 in the amount of \$34,000. Management has determined that the receivables are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary. Amounts remaining to be funded to the Organization are as follows:

<u>Fiscal Year Ended</u>	<u>Amount</u>
8/31/19	\$49,000

NOTE 4 – CONCENTRATION OF REVENUE SOURCES

The major source of revenue for the year ending August 31, 2018 was via donors representing approximately 81% of the Organization’s total revenues. If the level of funding should change from this source, it could have a material effect on the operations of the Organization.

NOTE 5 – RELATED PARTY TRANSACTIONS AND COMMITMENTS

In Kind Facilities and Utilities

The space within which the Organization conducts its administrative activities is donated by a synagogue named The Shul of Bal Harbour (the Synagogue). The Synagogue is related to the Organization in that the Rabbi of the Synagogue is also the Chairman of the Board of the Organization. Other individuals are board members both of the Synagogue and the Organization. There is no related written agreement between the Synagogue and the Organization. The fair rental value of the donated space is determined by comparable rentals in the geographic area. The value of the utilities is the actual cost, allocated according to the portion of the building utilized by the Organization.

The Organization recorded both as unrestricted support from contributions, and as expenditures as follows:

Donated rent	\$ 242,773
Donated utilities	2,000
Total	<u>\$ 244,773</u>

THE ALEPH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

NOTE 5 – RELATED PARTY TRANSACTIONS AND COMMITMENTS (Continued)

Lease Commitments

On February 15, 2016, the Organization contracted to lease administrative space in Surfside, Florida. The rent payment obligation is \$2,000 per month during the lease period of February 15, 2016 through January 31, 2019. In addition, the Shul of Bal Harbour provides the Organization with a subsidy which offsets a portion of the rent expense paid by the Organization. Total subsidy provided by the Synagogue for the year ended August 31, 2017 was \$12,000. On November 2017, the Organization contracted to lease administrative space in Brooklyn, New York for a period of ten years, in which \$38,000 was paid as a deposit for the lease. Rent expense for the year ended August 31, 2018 net of subsidy was \$63,000.

The minimum rent expense payments are as follows:

2019	77,000
2020	79,200
2021	79,200
2022	166,320
Thereafter	<u>287,496</u>
	<u>\$ 689,216</u>

NOTE 6 – JOINT VENTURE

The Organization records expenditures which relate to “The Aleph House”. The “Aleph House” operated such that South Carolina not-for-profit corporation named “The Aleph House” purchased a building which adjoins the United State Military Chaplaincy training facility in Columbia, South Carolina. The building is leased to a joint venture of the Organization and a South Carolina not-for-profit names “Beit Medrash Shul.” The Organization provides training and support to United States military chaplains, while “Beit Medrash Shul” provides religious and community services.

NOTE 7 – CASH OVERDRAFTS

The Organization had various overdrafts in the cash accounts as of August 31, 2018 in the amount of \$145,631. The amount was reclassified to accounts payable on the statement of financial position.

NOTE 8 – NOTE PAYABLE

During the fiscal year 2018, the Organization obtained two note payables from individuals for operational purposes. The note payable had no interest and no maturity date. Note payable as of August 31, 2018 was \$116,000. The Organization paid down the entire balance subsequent to year end.

NOTE 9 – NET ASSET DEFICITS

As of August 31, 2018, the liabilities of the Organization have exceeded its assets, and the preceding two fiscal years, as well as other past years. Net asset deficits were as follows:

<u>Fiscal Year Ended:</u>	
August 31, 2014	(\$199,608)
August 31, 2015	(\$215,164)
August 31, 2016	(\$166,932)
August 31, 2017	(\$19,198)
August 31, 2018	(\$221,964)

Management intends to act to minimize future deficits. Management believes that the current deficit does not pose a risk to the Organization due to the fact that management believes that the past history of continually increasing donations to the Organization will continue. Secondly, the Organization does not have fixed, contractual costs which cannot be reduced. Subsequent to year end, the Organization plans to significantly decrease their salaries, payroll taxes and benefits in order to increase the change in net assets and increase the net asset deficit.

SUPPLEMENTARY INFORMATION

THE ALEPH INSTITUTE, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

	Program Services	Supporting Services			Total Expenses
		General and Administration	Development and Fundraising	Total Supporting Services	
Salaries and Wages	\$ 1,509,161	\$ 212,831	\$ 212,831	\$ 425,662	\$ 1,934,823
Parsonage Compensation	90,823	25,430	65,392	90,822	181,645
Payroll Taxes	82,804	62,103	14,331	76,434	159,238
Total Salaries and Related Expenses	1,682,788	300,364	292,554	592,918	2,275,706
Donated Rent and Utilities	\$ 208,057	\$ 12,239	\$ 24,477	\$ 36,716	\$ 244,773
Health Insurance	73,895	43,545	14,515	58,060	131,955
Fundraising Events	-	-	137,503	137,503	137,503
Aleph House Military Chaplaincy	149,205	-	-	-	149,205
Tuition Stipends	86,865	-	97,954	97,954	184,819
Bad Debt Expense	-	35,060	-	35,060	35,060
Bank Charges	-	11,994	-	11,994	11,994
Re-entry program	35,560	-	-	-	35,560
Grant Program Director	12,395	-	-	-	12,395
Case Management	63,781	-	-	-	63,781
Computers, Software and Technology	42,805	2,253	-	2,253	45,058
Merchant Service Fees	-	-	32,071	32,071	32,071
Family and Legal Assistance	1,101,773	-	-	-	1,101,773
Commissary - Inmate Personal Items	90,887	-	-	-	90,887
Insurance	18,810	8,061	-	8,061	26,871
Office, Shipping, Religious Supplies and Other	669,162	37,593	45,112	82,705	751,867
Payroll Processing Service	2,069	2,783	2,284	5,067	7,136
Postage, Postal Equipment and Delivery	19,702	1,037	-	1,037	20,739
Professional Fees	-	7,843	-	7,843	7,843
Printing and Reproduction	-	23,666	-	23,666	23,666
Project Development	182,890	-	-	-	182,890
Prison Visitation	249,068	-	-	-	249,068
Food and other cost	25,423	-	-	-	25,423
Religious Education	13,513	-	-	-	13,513
Rent Expense	53,550	3,150	6,300	9,450	63,000
Telephone and Internet	32,159	1,848	2,957	4,805	36,964
Travel and Auto	75,352	-	15,433	15,433	90,785
Total Expenses	3,206,920	191,073	378,606	569,679	3,776,599
TOTAL FUNCTIONAL EXPENSES	\$ 4,889,708	\$ 491,437	\$ 671,160	\$ 1,162,597	\$ 6,052,305

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

**THE ALEPH INSTITUTE, INC.
SCHEDULE OF PROGRAM EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018**

	Prison Visitation Expenses	Military Expenses	Family Services	Total Program Expenses
Salaries and Wages	\$ 814,947	\$ 316,924	\$ 377,290	\$ 1,509,161
Parsonage Compensation	67,209	16,348	7,266	90,823
Payroll Taxes	44,714	17,389	20,701	82,804
Total Salaries and Related Expenses	926,870	350,661	405,257	1,682,788
Donated Rent and Utilities	\$ 97,787	\$ 60,337	\$ 49,934	\$ 208,057
Health Insurance	26,602	7,390	39,903	73,895
Aleph House Military Chaplaincy	-	149,205	-	149,205
Tuition Stipends	60,806	16,504	9,555	86,865
Re-entry program	35,560	-	-	35,560
Computers, Software and Technology	22,687	11,129	8,989	42,805
Family and Legal Assistance	-	-	1,101,773	1,101,773
Commissary - Inmate Personal Items	90,887	-	-	90,887
Insurance	13,355	2,633	2,821	18,810
Office and Shipping Supplies and Other	347,964	173,982	147,216	669,162
Payroll Processing Service	1,117	434	517	2,069
Postage, Postal Equipment and Delivery	10,442	5,123	4,137	19,702
Project Development	-	-	182,890	182,890
Prison visitation and education	249,068	-	-	249,068
Food and other costs	25,423	-	-	25,423
Religious Education	9,459	4,054	-	13,513
Rent: Not Donated	24,633	16,065	12,852	53,550
Grant Program Director	-	-	12,395	12,395
Case Management	63,781	-	-	63,781
Telephone and Internet	15,436	9,326	7,397	32,159
Travel and Auto	67,063	6,781	1,507	75,351
Total Expenses	1,162,071	462,963	1,581,886	3,206,920
TOTAL PROGRAM EXPENSES	\$ 2,088,941	\$ 813,624	\$ 1,987,143	\$ 4,889,708

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