

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

AND

INDEPENDENT AUDITORS' REPORT

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Armenian General Benevolent Union

We have audited the accompanying financial statements of Armenian General Benevolent Union (a nonprofit organization) which comprise the statement of financial position as of December 31, 2018 and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We 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 Armenian General Benevolent Union as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 2 to the financial statements, the Armenian General Benevolent Union, adopted the Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively. Our opinion is not modified with respect to this matter.

As discussed in Note 16 to the financial statements, the Organization's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which in March 2020, was declared a pandemic by the World Health Organization. The ultimate disruption which may be caused by the outbreak is uncertain. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Friedman LLP". The signature is written in a cursive, slightly slanted style.

April 29, 2020

ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

ASSETS

Current assets

| | |
|----------------------------|------------------|
| Cash | \$ 3,187,550 |
| Certificates of deposit | 6,183,577 |
| Investments | 6,559,013 |
| Contributions receivable | 3,550,000 |
| Other receivables | 1,023,631 |
| Other asset | 4,480,000 |
| Due from related party | 668,260 |
| <hr/> Total current assets | <hr/> 25,652,031 |

Endowment investments 180,689,370

Property and equipment, at cost less accumulated depreciation
and amortization 31,787,020

\$ 238,128,421

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable and other liabilities \$ 3,043,852

Net assets

Without donor restrictions (deficit)

| | |
|----------------------------|-------------------|
| Without donor restrictions | (31,964,344) |
| Designated for real estate | 26,459,491 |
| <hr/> | <hr/> (5,504,853) |

| | |
|-------------------------|----------------------|
| With donor restrictions | 240,589,422 |
| <hr/> | <hr/> 235,084,569 |
| <hr/> | <hr/> \$ 238,128,421 |

See notes to financial statements.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

STATEMENT OF ACTIVITIES

| | Year Ended December 31, 2018 | | |
|--|----------------------------------|-------------------------------|-----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Public support and revenues | | | |
| Public support | | | |
| Contributions | \$ 6,034,543 | \$ 11,407,795 | \$ 17,442,338 |
| Membership dues | 27,595 | - | 27,595 |
| Special events and other income | 1,482,163 | - | 1,482,163 |
| | <u>7,544,301</u> | <u>11,407,795</u> | <u>18,952,096</u> |
| Revenues | | | |
| Net investment return | (102,855) | (12,651,484) | (12,754,339) |
| Rental and royalty income | 66,302 | 6,105 | 72,407 |
| Tuition and other school income | 941,742 | - | 941,742 |
| | <u>905,189</u> | <u>(12,645,379)</u> | <u>(11,740,190)</u> |
| | 8,449,490 | (1,237,584) | 7,211,906 |
| Net assets released from donor restrictions | 7,928,942 | (7,928,942) | - |
| | <u>16,378,432</u> | <u>(9,166,526)</u> | <u>7,211,906</u> |
| Program and administrative expenses | | | |
| Program | | | |
| Educational | 7,182,036 | - | 7,182,036 |
| Cultural | 7,118,070 | - | 7,118,070 |
| Religious | 1,218,174 | - | 1,218,174 |
| Humanitarian | 1,154,274 | - | 1,154,274 |
| | <u>16,672,554</u> | <u>-</u> | <u>16,672,554</u> |
| Administrative | 5,892,366 | - | 5,892,366 |
| Fundraising | 810,547 | - | 810,547 |
| | <u>23,375,467</u> | <u>-</u> | <u>23,375,467</u> |
| Changes in net assets from operations | (6,997,035) | (9,166,526) | (16,163,561) |
| Investment return appropriated and released for current operations from donor-restricted endowment | 5,341,318 | (5,341,318) | - |
| Equity transfer | 71,404 | 3,429,751 | 3,501,155 |
| Changes in net assets | <u>(1,584,313)</u> | <u>(11,078,093)</u> | <u>(12,662,406)</u> |
| Net assets (deficit), beginning of year | (1,770,412) | 249,517,387 | 247,746,975 |
| Restatement | (2,150,128) | 2,150,128 | - |
| Net assets (deficit), beginning of year as restated | <u>(3,920,540)</u> | <u>251,667,515</u> | <u>247,746,975</u> |
| Net assets (deficit), end of year | <u>\$ (5,504,853)</u> | <u>\$ 240,589,422</u> | <u>\$ 235,084,569</u> |

See notes to financial statements.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

| | |
|---|---------------------|
| Cash flows from operating activities | |
| Changes in net assets | \$ (12,662,406) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | |
| Depreciation and amortization | 1,286,648 |
| Contributions restricted for endowments | (1,734,436) |
| Donated stock | 285,305 |
| Net realized gain on sale of investments | (2,084,996) |
| Net unrealized loss on investments | 18,016,756 |
| Bad debt expense - related party | 78,108 |
| Changes in assets and liabilities | |
| Contributions receivable | (671,121) |
| Other receivables | 4,119,041 |
| Other asset | (960,000) |
| Accounts payable and other liabilities | 1,589,812 |
| Net cash provided by operating activities | 7,262,711 |
| Cash flows from investing activities | |
| Loan to related party | (324,921) |
| Purchase of real estate | (699,770) |
| Purchase of furniture and equipment | (203,501) |
| Proceeds from sale of investments | 26,419,642 |
| Purchase of investments | (34,497,022) |
| Purchase certificates of deposit | 194,443 |
| Net cash used in investing activities | (9,111,129) |
| Cash flows from financing activities | |
| Proceeds from contributions restricted for endowments | 1,734,436 |
| Net decrease in cash | (113,982) |
| Cash, beginning of year | 3,301,532 |
| Cash, end of year | \$ 3,187,550 |

See notes to financial statements.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

| | Educational | Cultural | Religious | Humanitarian | Total Program | Management and General | Fundraising | Total |
|--|--------------|--------------|--------------|--------------|---------------|---------------------------|-------------|---------------|
| Grants | \$ 6,512,908 | \$ 2,857,984 | \$ 1,218,174 | \$ 1,129,469 | \$ 11,718,535 | \$ - | \$ - | \$ 11,718,535 |
| Program activities | 61,974 | 1,223,381 | - | - | 1,285,355 | - | - | 1,285,355 |
| Salaries and wages | 52,207 | 746,275 | - | - | 798,482 | 2,361,329 | 515,403 | 3,675,214 |
| Retirement plan contribution and expense | 25,753 | - | - | - | 25,753 | 133,446 | 12,445 | 171,644 |
| Employee benefits | - | 172,667 | - | - | 172,667 | 342,270 | 96,683 | 611,620 |
| Payroll taxes | 17,239 | 51,184 | - | - | 68,423 | 176,534 | 39,041 | 283,998 |
| Accounting fees | - | - | - | - | - | 91,514 | 13,954 | 105,468 |
| Legal fees | 2,000 | 2,745 | - | - | 4,745 | 32,917 | - | 37,662 |
| Consulting fees | 17,088 | 48,974 | - | - | 66,062 | 91,814 | 25,572 | 183,448 |
| Other professional services | 217,618 | 876,233 | - | 24,700 | 1,118,551 | 644,095 | 1,417 | 1,764,063 |
| Telephone | 123 | 12,974 | - | - | 13,097 | 10,596 | 16 | 23,709 |
| Postage and shipping | 993 | 108,706 | - | - | 109,699 | 27,822 | - | 137,521 |
| Occupancy | 27,988 | 128,608 | - | - | 156,596 | 182,556 | - | 339,152 |
| Equipment rental and maintenance | 65,029 | 204,356 | - | - | 269,385 | 42,355 | 450 | 312,190 |
| Travel | 58,918 | 25,010 | - | - | 83,928 | 107,907 | 5,843 | 197,678 |
| Conferences, conventions, and meetings | 10,887 | 21,362 | - | - | 32,249 | 145,906 | 20,767 | 198,922 |
| Depreciation and amortization | 28,966 | 3,187 | - | - | 32,153 | 1,254,495 | - | 1,286,648 |
| Publication and printing | 3,036 | 283,778 | - | - | 286,814 | - | 74,746 | 361,560 |
| Office expense | 9,989 | 111,465 | - | - | 121,454 | 67,674 | 3,400 | 192,528 |
| Insurance | - | 102,800 | - | - | 102,800 | 51,709 | - | 154,509 |
| Miscellaneous expense | 49,969 | 124,528 | - | - | 174,497 | 51,893 | - | 226,390 |
| Advertising | 5,628 | 10,084 | - | 105 | 15,817 | 12,918 | 810 | 29,545 |
| Bad debt expense | 13,723 | 1,769 | - | - | 15,492 | 62,616 | - | 78,108 |
| | \$ 7,182,036 | \$ 7,118,070 | \$ 1,218,174 | \$ 1,154,274 | \$ 16,672,554 | \$ 5,892,366 | \$ 810,547 | \$ 23,375,467 |

See notes to financial statements.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

NOTES TO FINANCIAL STATEMENTS

1 - ORGANIZATION AND NATURE OF ACTIVITIES

The Armenian General Benevolent Union (the "Organization") is incorporated under the laws of the State of Delaware. The Organization's stated purpose is to promote the prosperity and well-being of all Armenians through educational, cultural, humanitarian, and social development programs and projects and economic initiatives.

The financial statements include the accounts of the Central Board (consisting of the worldwide administrative headquarters whose books reflect the majority of the Organization's assets) and all of the chapters located throughout the United States of America.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP").

Adoption of Accounting Principle

The financial statement presentation is in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958, "Not-for-Profit Entities," as amended by Accounting Standards Update ("ASU") No. 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities". The Organization adopted ASU 2016-14 for the year ended December 31, 2018.

The provisions of the ASU was intended to improve presentation and disclosure and to provide more relevant information about resources and changes in resources to donors, grantors and other users. There are qualitative and quantitative requirements in several areas including the following:

Temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions. The unrestricted net asset class has been renamed net assets without donor restrictions. The table below illustrates the impact, caused by adopting ASU No. 2016-14, on classifications of opening net asset balances as of January 1, 2018 as follows (also see Note 14):

| Opening Net Asset Reclassification for ASU No. 2016-14 | | | |
|--|-------------------------------|----------------------------|------------------|
| Net Asset Classifications | Without Donor Restrictions | With Donor Restrictions | Total Net Assets |
| As previously presented: | | | |
| Unrestricted | \$ (1,770,412) | \$ - | \$ (1,770,412) |
| Temporarily restricted | - | 53,181,785 | 53,181,785 |
| Permanently restricted | - | 196,335,602 | 196,335,602 |
| | \$ (1,770,412) | \$ 249,517,387 | \$ 247,746,975 |

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of Accounting Principles (Continued)

Under ASC 958, the Organization's net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions into the following categories:

Without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions are available for use in general operations.

With Donor Restrictions: Net assets that are restricted by a donor for use for a specific purpose or in a future period. Some donor-imposed restrictions are temporary in nature and are expected to be met, either by action of the Organization and/or the passage of time.

Other donor-imposed restrictions included in this category are permanent in nature and must be maintained permanently by the Organization. Generally, the donor of these assets would permit the Organization to use all or part of the income earned on investments for general or specific purposes.

Other major changes resulting from ASU 2016-14 include (a) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (c) presenting investment return net of external and direct internal investment expenses, and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restriction. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from donor restrictions.

Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions, unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Unconditional gifts expected to be collected within one year are reported at their net realizable value and classified as without donor restrictions. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows.

Designation of Net Assets Without Donor Restrictions

Designation of net assets without donor restrictions represent limits imposed by the board of directors to support specific purposes. Within this designation is a reserve that has been established in accordance with the Organization's by-laws to restore the permanently restricted pooled endowment funds in the event that sales from the investment portfolio or market fluctuations and other unforeseen events, generate substantial losses. This reserve has been absorbed by unrealized losses on investments in marketable securities and cumulative income distributions as of December 31, 2018.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash balances, money market accounts and other securities. Financial instruments in financial institutions are insured by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation are subject to certain limitations.

The Organization invests in various investment securities including alternatives. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could reduce market values to below cost. The Organization, at times, may have underlying investments in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the markets' perception of the issuers and changes in interest rates.

Promises to Give

Contributions are recognized when the donor makes a pledge that is in substance an unconditional promise to give to the Organization and is included in with donor restrictions net assets. Contributions dated prior to the year end and received in the subsequent period are recorded as contributions receivable at year end.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Receivables

Accounts and other receivables include tuition, rent, interest, and hedge fund redemption receivable, which are stated at their net realizable value. An allowance is established for accounts deemed potentially uncollectible. When all collection efforts have been exhausted, the receivable is written off against the related reserve. The Organization did not provide for any doubtful accounts for the year ended December 31, 2018 as management has determined that substantially all accounts are deemed to be collectible.

Other Asset

The Organization has been gifted a partial interest over time in a building in Armenia used for programs. The ownership percentage at December 31, 2018 totals approximately 70%. The discounted present value of the aggregate ownership interest transferred, totaling \$4,480,000, is included in other asset.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Long-Lived Assets

The Organization reviews the carrying values of its long-lived assets whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Management has determined that no assessment was required for the year ended December 31, 2018.

Property and Equipment

Property and equipment purchased by the Organization are recorded at cost. Donated property used by the Organization is recorded at fair market value on the date contributed. Depreciation is provided by the straight line method over the estimated useful lives of the assets, which range from 5 to 40 years. Leasehold improvements are amortized over the estimated useful life or term of the lease, whichever is shorter.

It is the Organization's policy to capitalize all property and equipment acquisitions in excess of \$10,000, lesser amounts are expensed.

Endowment Funds

In accordance with the provisions of the New York Prudent Management of Institutional Funds act ("NYPMIFA"), donor-restricted endowment funds, and earnings on those funds are appropriated for expenditure by the board in a manner consistent with the standard of prudence prescribed by NYPMIFA, and in accordance with the disclosure provisions set forth by ASC 958-205, *Not-for-Profit Entities*.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Funds (Continued)

Endowments consist of net assets with donor restrictions (a time restriction in perpetuity) the original value of the gifts donated to the donor restricted endowment, the original value of subsequent gifts to the donor restricted endowment, and funds designated by the board of directors to function as endowments. Investment income earned by the donor restricted endowment is classified as net assets with donor restrictions (a purpose restriction) until those amounts are appropriated for expenditure by the Organization in a manner consistent with the donor stipulated purpose within the standard of prudence prescribed by NYPMIFA.

Endowment Investment and Spending Policies

The Organization has adopted investment and spending policies, approved by the board of directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of these endowment assets over the long-term. The Organization's spending and investment policies work together to achieve this objective.

The investment policy of the Organization is to provide for the current and long term needs of the Organization by balancing the goal of capital preservation with the goal of increasing the portfolio value. The Organization seeks to achieve its investment aims by investing its surplus cash in equity and fixed income investments. The majority of the Organization's portfolio is managed by professional investment managers. The Organization, through its Investment Committee, manages some of its portfolio assets internally primarily for generating short term cash and as a means of further controlling the risk on the total portfolio.

The exposure of the Organization's portfolio to equity investments is undertaken through a diverse group of managers in a multitude of investment categories, such as large cap value, large cap growth and others. The fixed income investments are primarily in domestic government and corporate bond issues. The Organization relies on both capital appreciation and current yield (interest and dividends) to gauge the performance of its portfolio and to undertake its budget, grants and assistance.

The Investment Committee reviews, on a regular basis, the performance of the professional investment managers and the portfolio. To assist it in this task, the Organization has retained a third-party consulting company that prepares monthly reviews and analyses of the portfolio and its managers, both external and internal. The consulting firm also advises the Investment Committee in selecting managers and allocating assets among different investment categories.

The spending policy of the Organization calculates the amount of money needed to support the Organization's activities of its endowed funds, grant-making and administration. Investment income is the primary source for endowment funded programs.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Investment and Spending Policies (Continued)

The annual performance of investment income determines the level of distribution to those endowment supported programs, and, if need be, previously established income reserves may be utilized. The support of administration and other programs is provided according to budgeted forecasts and on a special needs basis and are paid via investment income and donations received.

Investment Valuation

GAAP requires certain financial assets and liabilities to be measured at fair value. GAAP defines fair value, provides guidance for measuring fair value, requires certain disclosures and discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). GAAP also provides for a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value into three levels.

The following is a brief description of those three levels:

Level 1: Observable inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Inputs other than quoted market prices, included in Level 1, that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect management's own assumptions.

The Organization has certain alternative investments for which there is not a readily determinable fair value. These investment have financial statements consistent with the measurement principles or attributes of an investment company. For such investments, as a practical expedient, the Organization uses its ownership interest in the entity NAV to determine the fair value.

Investments

The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the fair value hierarchy:

Debt and Equity Securities

Shares of debt and equity securities are stated at fair value based on quoted prices on recognized securities exchanges and are valued at the last reported sales price on the last business day of the Organization's year-end. Investments in debt and equity securities are classified as Level 1 investments.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Money Market Funds

Shares of money market funds are valued at the quoted market price, which represents the net asset value per share held by the Organization at year end. Investments in money market funds are classified as Level 1 investments.

Government Securities

United States Government bonds are valued based upon quoted market prices as of the last reported sales price on the last business day of the Organization's year-end. Investments in United States Government bonds are classified as Level 1 investments.

Mutual Funds

Shares of mutual funds are valued at quoted market prices, which represent the net asset value per share held by the Organization at year end. Investments in these funds are generally classified as Level 1 investments or Level 2 if there is a withdrawal restriction.

Hedge Funds

Investments in hedge funds are determined using the ownership interest in the entity NAV to determine the fair value.

Realized and unrealized gains and losses on investments are determined by comparison of fair value at date of donation or specific cost at date of purchase to proceeds at the time of disposal or fair value at year-end, respectively, and are reported in the statements of activities. Transactions are recorded on a trade date basis. Dividends and interest are recognized when earned.

Split-Interest Agreements

The Organization is the beneficiary of a split-interest agreement. The assets are included in the Statement of Financial Position, because the account is in the Organization's name and the decedent's other beneficial interest is negligible. Accordingly the fair value of the underlying investments are included in pooled endowments.

Certificates of Deposit

The certificates of deposit have varying terms and earn interest at rates ranging from 2.0% to 4.5%. Upon maturity, the proceeds are usually re-invested for terms ranging from three to twelve months.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis. Some costs are directly charged to each service area as they are clearly identified as program services or supporting services. Indirect costs are allocated to the different programs and supporting services benefitted on a reasonable basis that is consistently applied. All allocable indirect expenses are allocated between management and general and fundraising based upon time and effort.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from Federal and state income taxes under Internal Revenue Code Section 501(c)(3), and is classified as a publicly supported charitable organization as described in Section 509(a).

Subsequent Events

These financial statements were approved by management and available for issuance on April 29, 2020. Management has evaluated subsequent events through this date.

3 - LIQUIDITY

Financial assets consist of the Organization's cash and cash equivalents, investments and net pledges receivable. The following represents the Organization's financial assets as of December 31, 2018, reduced by an amount not available for general use within one year of December 31, 2018 because of contractual or donor-imposed restrictions:

| | |
|--|------------------------|
| Cash and cash equivalents | \$ 3,187,550 |
| Certificates of deposit | 5,367,224 |
| Investments, at fair value | 187,248,383 |
| Contributions receivable | 2,560,000 |
| Other receivables | 1,023,631 |
| Total financial assets as of December 31, 2018 | 199,386,788 |
| Less – amounts unavailable for general expenditures within one year due to: | |
| Restricted by donors with time and purpose restrictions | (23,828,832) |
| Endowments: | |
| Unexpended income | (21,921,063) |
| Restricted by donors in perpetuity | (179,699,369) |
| | (225,449,264) |
| Deficit in financial assets available to meet cash needs for general expenditures within one year | \$ (26,062,476) |

The investments, at fair value reflect an unrealized loss of approximately \$18 million at December 31, 2018 that is expected to be recouped. The Organization and its worldwide chapters and districts have extensive appreciated real estate holdings with market values that far exceed their respective depreciated basis. These significantly appreciated holdings, the proceeds of which if sold, could be used to satisfy the liquidity deficit.

**ARMENIAN GENERAL BENEVOLENT UNION
(A NONPROFIT CORPORATION)**

NOTES TO FINANCIAL STATEMENTS

3 - LIQUIDITY (Continued)

The Organization's goal is to maintain liquidity to meet operational and strategic needs. Ongoing liquidity needs of the Organization are monitored to ensure that minimum cash flow requirements are met. As part of the Organization's liquidity management, it has a policy to structure its financial assets, primarily cash, to be available as its general expenditures, liabilities, and other obligations become due. To help manage unanticipated liquidity needs, the Organization has Board Designated net assets without donor restrictions that could be made available for current operations, if necessary.

4 - OTHER RECEIVABLES

Other receivables consist of the following:

| | |
|----------------------------------|--------------|
| Accounts and other receivables | \$ 553,766 |
| Interest receivable | 188,814 |
| Hedge fund redemption receivable | 281,051 |
| | \$ 1,023,631 |

5 - INVESTMENTS

Investments at fair value or net asset value are summarized as follows:

| | Level 1 | Level 2 | Measured at net asset value | Total |
|---------------------|----------------|--------------|--------------------------------|----------------|
| Debt securities | \$ 10,983,591 | \$ - | \$ - | \$ 10,983,591 |
| Equity securities | 43,083,491 | - | - | 43,083,491 |
| Money market funds | 38,756,211 | - | - | 38,756,211 |
| US government bonds | 11,430,302 | - | - | 11,430,302 |
| Hedge funds | - | - | 59,984,620 | 59,984,620 |
| Mutual funds | 15,669,526 | 7,340,642 | - | 23,010,168 |
| | \$ 119,923,121 | \$ 7,340,642 | \$ 59,984,620 | \$ 187,248,383 |

Investments measured at net asset value are included in the fair value table for purposes of investment reconciliation to amounts in the statement of financial position.

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NOTES TO FINANCIAL STATEMENTS

5 - INVESTMENTS (Continued)

The following table provides additional information about alternative investments measured at NAV:

| | Measured at net asset value | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|-----------------------------------|---|-----------------------------|
| Kylin Offshore Fund Ltd | \$ 353,598 | - | - |
| Davidson Kempner International (BVI) Ltd | 5,919,144 | Quarterly | 60 Days |
| Farallon Capital Institutional Partners LP | 4,765,734 | Quarterly | 60 Days |
| VanEck Global Hard Assets Fund - I | 1,859,533 | Daily | - |
| AKO European Long-Only Fund Ltd | 5,878,830 | Quarterly | 33 Days |
| SRS Partners Ltd | 5,123,024 | Quarterly | 60 Days |
| Baxter Street Offshore Fund, Ltd | 3,680,916 | Quarterly | 30 Days |
| Green Light Capital Offshore Investors, Ltd | 1,122,528 | Quarterly | 45 Days |
| Lakewood Capital Offshore Fund, Ltd | 6,281,221 | Quarterly | 60 Days |
| The Kiltearn Global Equity Fund | 6,588,965 | Monthly | 6 Days |
| Franklin Templeton Emerging Market Debt Opp Fund Ltd | 6,353,722 | Monthly | 30 Days |
| Kensico Offshore Fund II Ltd | 4,783,713 | Triennial | 90 Days |
| Orbis Institutional Global Equity LP | 2,660,763 | Daily | - |
| Whale Rock Flagship Fund Ltd | 4,593,862 | Quarterly | 45 Days |
| Various other positions | 19,067 | - | - |
| | <u>\$ 59,984,620</u> | | |

Investments are classified as follows:

| | |
|------------------------------------|-----------------------|
| Investments - current | \$ 6,559,013 |
| Endowment investments - noncurrent | 180,689,370 |
| | <u>\$ 187,248,383</u> |

Investment return, net is summarized as follows:

| | |
|------------------------------------|------------------------|
| Net realized gain on investments | \$ 2,084,996 |
| Net unrealized loss on investments | (18,016,756) |
| Interest and dividends | 3,660,621 |
| Investment fees | (483,200) |
| | <u>\$ (12,754,339)</u> |

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6 - RELATED PARTY TRANSACTIONS

The related party receivable balance of \$668,260 at December 31, 2018 reflects amounts advanced to unconsolidated related parties, net of amounts received for operating expenses.

7 - PROPERTY AND EQUIPMENT

Property and equipment consist of real estate, including construction in progress; land and furniture, equipment, vehicles and leasehold improvements, located in the following countries at December 31, 2018:

| Country | Furniture, Equipment, Vehicles, Leasehold Improvements | Real Estate | Land | Total |
|--|--|---------------|---------------|---------------|
| Argentina | \$ - | \$ 6,146,932 | \$ 1,290,323 | \$ 7,437,255 |
| Armenia | 576,538 | 12,176,488 | 1,392,985 | 14,146,011 |
| Australia | - | 3,068,765 | 1,142,657 | 4,211,422 |
| Canada | - | - | 1,305 | 1,305 |
| Iran | - | 424,726 | 141,575 | 566,301 |
| United States | 2,976,695 | 24,515,071 | 6,179,138 | 33,670,904 |
| Uruguay | - | 2,062,266 | 333,893 | 2,396,159 |
| | 3,553,233 | 48,394,248 | 10,481,876 | 62,429,357 |
| Less - Accumulated depreciation and amortization | (3,003,703) | (27,638,634) | - | (30,642,337) |
| | \$ 549,530 | \$ 20,755,614 | \$ 10,481,876 | \$ 31,787,020 |

Depreciation and amortization expense is allocated between administrative and program expense as follows:

| | |
|------------------------|--------------|
| Program expense | \$ 32,153 |
| Administrative expense | 1,254,495 |
| | \$ 1,286,648 |

8 - DONATED SERVICES

A substantial number of volunteers have donated significant amounts of their time to the Organization's program services and its fundraising activities; however, no amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services.

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NOTES TO FINANCIAL STATEMENTS

9 - ENDOWMENT FUNDS

Endowment net asset classification, excluding real estate, by type of restriction is as follows:

| | |
|--|----------------|
| With donor restriction - Unexpended endowment earnings | \$ 21,921,063 |
| With donor restriction - Endowments | 180,689,370 |
| | \$ 202,610,433 |

Changes in endowment net assets, excluding real estate are as follows:

| | Unexpended Endowment Earnings | Endowments | Total |
|--|-------------------------------------|----------------|----------------|
| Endowment net assets, beginning of year | \$ 19,010,900 | \$ 182,277,258 | \$ 201,288,158 |
| Contributions | - | 1,734,436 | 1,734,436 |
| Investment income (loss) | (12,676,727) | - | (12,676,727) |
| Capitalization | (107,069) | 107,069 | - |
| Appropriation of endowment earnings for expenditure | (3,911,580) | - | (3,911,580) |
| Investment return appropriated and released for current operations | (5,132,216) | - | (5,132,216) |
| Equity transfer | - | 1,993,000 | 1,993,000 |
| Restatement of net assets | 24,737,755 | (5,422,393) | 19,315,362 |
| Endowment net assets, end of year | \$ 21,921,063 | \$ 180,689,370 | \$ 202,610,433 |

10 - NET ASSETS WITH DONOR RESTRICTIONS

Changes in net assets with donor restrictions are as follows:

| | Time or purpose restriction | Restriction in perpetuity | Total |
|--|--------------------------------|------------------------------|----------------|
| Balance at beginning of year | \$ 53,181,785 | \$ 196,335,602 | \$ 249,517,387 |
| Contributions and other income | 9,679,464 | 1,734,436 | 11,413,900 |
| Investment income (loss) | (12,651,484) | - | (12,651,484) |
| Capitalization | (107,069) | 107,069 | - |
| Satisfaction of restrictions | (7,928,942) | - | (7,928,942) |
| Investment return appropriated and released for current operations | (5,341,318) | - | (5,341,318) |
| Equity transfer | 1,436,751 | 1,993,000 | 3,429,751 |
| Restatement of net assets | 7,572,521 | (5,422,393) | 2,150,128 |
| | \$ 45,841,708 | \$ 194,747,714 | \$ 240,589,422 |

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10 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets with purpose or time donor restrictions are available for the following purposes:

| | |
|------------------|---------------|
| Educational | \$ 18,270,125 |
| Cultural | 6,323,314 |
| Humanitarian | 7,784,392 |
| Religious | 810,742 |
| Life estate | 209,252 |
| General programs | 6,152,539 |
| General purpose | 2,089,159 |
| Other | 4,202,185 |
| | \$ 45,841,708 |

Net assets with purpose or time donor restrictions also include the accumulated balance of unexpended endowment earnings of \$21,921,063, which are classified in the various categories above in accordance with the underlying donor restricted endowment's purpose.

Net assets were released from donor restrictions, by incurring expenses satisfying the purpose or time restrictions specified by donors, as follows:

| | |
|-------------------|--------------|
| Educational | \$ 4,326,872 |
| Cultural programs | 1,177,261 |
| Humanitarian | 1,057,062 |
| Religious | 1,128,688 |
| Other | 239,059 |
| | \$ 7,928,942 |

Net assets with donor restrictions in perpetuity are restricted for the following purposes:

| | |
|-----------------|----------------|
| Real estate | \$ 14,058,344 |
| Educational | 68,727,284 |
| Cultural | 7,235,319 |
| Humanitarian | 13,429,633 |
| Religious | 10,587,200 |
| General purpose | 80,709,934 |
| | \$ 194,747,714 |

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11 - INCOME DISTRIBUTION

The Board of Directors designates a percentage of investment earnings, annually, to be allocated for endowment purposes. The gross income distribution, \$7,983,540 for 2018, represents 4% (gross), of endowment principal, including donations received during the year on a pro-rata basis, and the corresponding reserve balance at December 31, 2018.

Of these earnings, 10% is added to reserves and 15% is allocated as “management” fee. The net (75%) balance is allocated to net assets with temporary donor restrictions according to the purpose as designated by the donors or their trustee. The net earnings are either transferred to unrestricted net assets and spent, or added to the unexpended balance, or capitalized and considered part of the endowments' principal.

The income distribution is allocated as follows:

| | |
|---|--------------------------|
| Reserves - net assets without donor restrictions | \$ 798,354 |
| Management fee – net assets without donor restrictions | 1,197,531 |
| | <hr/> 1,995,885 |
| Unexpended endowment earnings – net assets with donor restrictions (see Notes 5 and 9) | 5,987,655 |
| | <hr/> <hr/> \$ 7,983,540 |

12 - RETIREMENT PLAN

The Organization has a defined contribution retirement plan covering all eligible Central Board New York and Pasadena, California employees. Contributions to the plan totaled approximately \$85,000 in 2018. All employees are also eligible to participate in a non-contributory salary deferral 401(k) plan.

13 - CONCENTRATIONS

Major donors

The Organization received contributions from one major donor totaling approximately 12% of total contributions for the year ended December 31, 2018.

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NOTES TO FINANCIAL STATEMENTS

14 - EQUITY TRANSFER

The Organization’s worldwide consolidated financial statements include the activities of related parties, including Union Generale Aremienne de Bienfaisance (“UGAB Suisse”), a Swiss Association and numerous local chapters and districts throughout the world. Contributions with donor restrictions totaling \$3,501,155, recognized as revenue by a related party in a prior period, were transferred to the Organization in 2018. The opening balance of net assets with donor restrictions has been restated accordingly.

15 - RESTATEMENT

In prior periods, certain board designated funds were reported as net assets with donor purpose and time restrictions totaling \$7,206,539 and endowments in perpetuity totaling \$5,422,393. In prior periods, accumulated depreciation on contributions of real estate restricted in perpetuity was reported as a reduction of net assets without donor restriction totaling \$9,309,076. Additionally, accumulated unrealized gains on investments was reported as net assets without donor restrictions totaling \$24,088,137. The opening balance of net assets has been restated to reflect the correct classification as follows:

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total Net Assets |
|---|---|--|------------------|
| Balance, December 31, 2017 as reclassified (See Note 2): | \$ (1,770,412) | \$ 249,517,387 | \$ 247,746,975 |
| Board designated funds reported with purpose or time restriction | 7,206,539 | (7,206,539) | - |
| Board designated funds reported as endowments in perpetuity | 5,422,393 | (5,422,393) | - |
| Accumulated depreciation on contributions of real estate restricted in perpetuity | 9,309,076 | (9,309,076) | |
| Unrealized gain on investments as of December 31, 2017 | (24,088,137) | 24,088,137 | - |
| | (2,150,129) | 2,150,129 | - |
| Balance, December 31, 2018 as restated | \$ (3,920,541) | \$ 251,667,516 | \$ 247,746,975 |

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16 - SUBSEQUENT EVENT

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets, accordingly, through the date of issuance, the Organization has suffered significant diminution in the fair value of its investments. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Organization is unable to determine if it will have a material impact to its operations.

As a result of COVID-19, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act (the “Act”) was signed into law. The Act amends the Small Business Act to include a new guaranteed, unsecured loan program (the “Paycheck Protection Program”). The Organization’s application for a loan under the Paycheck Protection Program is pending as of the date of this financial statement.