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OMB APPROVAL
OMB Number: 3235-0123
Expires: August 31, 2020
Estimated average burden hours per response . . . 12.00

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER
8-04218

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 thereunder**

**SEC Mail Processing**  
FEB 28 2018  
Washington, DC

REPORT FOR THE PERIOD BEGINNING 1/01/18 AND ENDING 12/31/18  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER - DEALER: Development Corporation for Israel

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

641 Lexington Avenue, 9<sup>th</sup> Floor

(No. and Street)

New York,  
(City)

NY  
(State)

10022  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Erik Kruger

(212) 446-5807

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Crowe LLP

(Name - if individual, state last, first, middle name)

488 Madison Avenue, Floor 3  
(Address)

New York  
(City)

New York  
(State)

10022  
(Zip Code)

**CHECK ONE:**

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

**FOR OFFICIAL USE ONLY**

[Empty box for official use only]

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

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## OATH OR AFFIRMATION

I, Erik Kruger, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Development Corporation for Israel, as of December 31, 2018, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

MARISA BRAHMS  
Notary Public, State of New York  
No. 02BR6211965  
Qualified in New York County  
Commission Expires September 28, 2021

  
Notary Public

  
Signature

CFO

Title

This report \*\* contains (check applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of Consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**SEC Mail Processing**

FEB 28 2019

**Washington, DC**

Statement of Financial Condition and Report of  
Independent Registered Public Accounting Firm

**DEVELOPMENT CORPORATION FOR ISRAEL**

December 31, 2018

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholder and the Board of Directors of  
Development Corporation for Israel  
New York, New York

**Opinion on the Financial Statement**

We have audited the accompanying statement of financial condition of Development Corporation for Israel (the "Company") as of December 31, 2018, and the related notes (collectively referred to as the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit of the financial statement provides a reasonable basis for our opinion.

*Crowe LLP*  
Crowe LLP

We have served as the Company's auditor since 2016.

New York, New York  
February 22, 2019

**DEVELOPMENT CORPORATION FOR ISRAEL**  
**Statement of Financial Condition**  
**December 31, 2018**

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**ASSETS**

Cash	\$ 8,364,207
Building, furniture, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$4,511,323	4,031,204
Other assets	<u>3,864,532</u>
	<u>\$ 16,259,943</u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**LIABILITIES**

Accounts payable and accrued expenses	\$ 4,659,697
Other liabilities	796,970
Deferred income taxes payable	<u>225,464</u>
	<u>5,682,131</u>
Commitments (Note 4)	
Stockholder's equity	<u>10,577,812</u>
	<u>\$ 16,259,943</u>

*The accompanying notes are an integral part of this statement.*

**DEVELOPMENT CORPORATION FOR ISRAEL**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Development Corporation for Israel (the “Company”) is a registered broker-dealer that serves as underwriter in the United States of America for the sale of State of Israel Bonds (the “Bonds”) on a best-efforts basis. The Company’s revenue is contingent on its continuation as underwriter and marketer for the Bonds pursuant to various underwriting agreements, which results in a selling concession and management fee to be earned on all bonds sold.

The Company is wholly owned by Association for Development of Israel, Inc. (the “Parent”), a corporation organized under the laws of the state of New York. There were no transactions during the reporting period between the Company and its Parent.

**Foreign Currency**

Transactions denominated in foreign currency are translated into U.S. dollars based on exchange rates in effect at the dates of the transactions.

**Building, Furniture, Equipment and Leasehold Improvements**

Depreciation and amortization are provided for using the straight-line method of depreciation/amortization for all capitalized assets in amounts sufficient to relate the cost of capitalized assets to operations over their estimated service lives.

**Fair Value of Financial Instruments**

The Company adopted the guidance issued by Financial Accounting Standards Board (“FASB”) to establish accounting and reporting standards related to fair value measurements. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities (examples include active exchange-traded equity securities, listed derivatives and most U.S. government and agency securities). Bank money market accounts/funds which are redeemable on demand are also reported in Level 1.

Level 2 - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly, and fair value is typically determined through the use of models or other valuation methodologies (examples include restricted stock, corporate or municipal bonds, which trade infrequently and interest rate and currency swaps).

**DEVELOPMENT CORPORATION FOR ISRAEL**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

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Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable and for which there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation (examples include private equity investments, complex derivatives and certain foreign exchange options).

**Other Liabilities**

Other liabilities primarily include deferred rent on the New York leased premises resulting from the provision of free rent and scheduled increases in rent, pursuant to the lease agreement, which is being amortized over the remaining life of the lease obligations.

**Leases**

In February 2016, the FASB issued ASU 2016-02, "Leases – (Topic 842)" that requires for leases longer than one year, a lessee recognize in the statements of financial condition a right-of-use ("ROU") asset, representing the right to use the underlying asset for the lease term, and a lease liability, representing the liability to make lease payments. The accounting update also requires that for finance leases, a lessee recognize interest expense on the lease liability, separately from the amortization of the right-of-use asset in the statements of earnings, while for operating leases, such amounts should be recognized as a combined expense. In addition, this accounting update requires expanded disclosures about the nature and terms of lease agreements.

The accounting update is effective for fiscal years beginning after December 15, 2018 (January 1, 2019 for our company) under a modified retrospective approach and early adoption is permitted. The Company's implementation efforts include reviewing existing leases and service contracts, which may include embedded leases. Upon adoption, our Company will incur a gross up on its statements of financial condition upon recognition of the right-of-use assets and lease liabilities and the amount of the gross up will have a material impact on our financial condition. The company will be recognizing an additional operating liability of approximately \$13.5 million of which approximately \$800,000 of deferred rent is currently recorded in other liability with a corresponding ROU asset of approximately 12.6 million based on the present value of the remaining minimum rental payments for the Company's existing operating leases.

**Cash**

The Company has cash deposits with major financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per legal entity.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**DEVELOPMENT CORPORATION FOR ISRAEL**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

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**2. BANK DEPOSIT ACCOUNTS**

As required by FASB guidance, investments and the bank deposit accounts are classified within the level of the lowest significant input considered in determining fair value. The table below sets forth information about the level within the fair value hierarchy at which the Company's bank deposit accounts are measured at December 31, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Bank deposit accounts	\$ 8,364,207	\$ 8,364,207	\$ -	\$ -
Total	<u>\$ 8,364,207</u>	<u>\$ 8,364,207</u>	<u>\$ -</u>	<u>\$ -</u>

**3. LITIGATION**

In the ordinary course of business the Company is subject to litigation. The Company, after consultation with legal counsel, believes that there is no current material litigation.

**4. COMMITMENTS**

The Company leases sales and administrative offices under long-term lease agreements which include scheduled increases in minimum rents. The Company recognizes these scheduled rent increases on a straight-line basis over the initial lease term. The remaining terms of these leases range from less than one year to eleven years.

Minimum rental payments under non-cancelable leases are approximately:

2019	\$ 1,972,922
2020	2,055,030
2021	2,009,433
2022	1,934,485
2023	1,707,479
Thereafter	<u>8,731,336</u>
	<u>\$ 18,410,685</u>

**DEVELOPMENT CORPORATION FOR ISRAEL**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

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**5. BUILDING, FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Building, furniture, equipment and leasehold improvements consist of the following at December 31, 2018:

	<u>Useful Life</u> <u>(in Years)</u>	
Building (condominium)	31	\$ 3,380,000
Computer equipment and software	3	2,665,770
Furniture and fixtures	3 to 5	1,676,200
Leasehold improvements	*	<u>820,557</u>
		8,542,527
Less accumulated depreciation and amortization		<u>(4,511,323)</u>
		<u>\$ 4,031,204</u>

\*Such leasehold improvements are being amortized over the expected service life of the assets.

**6. NET CAPITAL**

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities and Exchange Commission's ("SEC") Uniform Net Capital Rule, the Company is required to maintain minimum net capital. The Company has elected to use the alternative method, permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balance arising from customer transactions. At December 31, 2018, the Company had net capital of \$2,680,076, which exceeded net capital requirements of \$250,000 by \$2,430,076.

In the normal course of its operations, the Company receives checks from investors payable to the State of Israel to purchase the Bonds. The Company transmits the checks received to the State of Israel's fiscal agent. The Company is subject to the computation for reserve requirements for broker-dealers under Rule 15c3-3. At December 31, 2018, the Company did not have any credits or debits under the reserve requirement computation. The Company does not carry any accounts or hold securities on behalf of customers and as such has no information to report related to Possession of Control Under Rule 15c3-3 at December 31, 2018. The Company has a reserve bank account under Rule 15c3-3 in which a \$1,000 balance is maintained.

**DEVELOPMENT CORPORATION FOR ISRAEL**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

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**7. CONCENTRATION OF REVENUES AND CREDIT RISK**

Pursuant to various underwriting agreements, the State of Israel pays the Company for its underwriting activities on their behalf.

The Company maintains cash balances with several financial institutions. Certain account balances may not be covered by the FDIC, while other accounts, at times, may exceed federally insured limits. The Company believes that risk from concentration of cash balances with such financial institutions is not significant. At December 31, 2018, the Company maintained deposits of substantially all their cash and cash equivalents with two major United States financial institutions.

**8. INCOME TAXES**

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recorded for financial reporting purposes and such amounts as measured in accordance with tax laws. The items which comprise deferred income taxes as of December 31, 2018, are as follows:

**Deferred tax assets (liabilities)**

Prepaid expenses	\$ (717,000)
Deferred rent payable	151,000
Accrued Bonuses	470,000
Fixed Asset Depreciation	(197,000)
Other	<u>67,000</u>
Deferred income taxes payable	<u>\$ (226,000)</u>

As required by the uncertain tax position accounting standards, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For the year ended December 31, 2018, the Company did not have any material uncertain tax positions for which the statute of limitations remained open. Tax years prior to the year ended December 31, 2015, are no longer open to examination by federal, state and local taxing authorities.

**9. SUBSEQUENT EVENTS**

The Company has evaluated events occurring after December 31, 2018 and has concluded that there are no events that require recognition or disclosure in the financial statements.