

FRIENDS OF THE ISRAEL DEFENSE FORCES

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2015

FRIENDS OF THE ISRAEL DEFENSE FORCES

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Independent Auditor's Report

**Board of Directors
Friends of the Israel Defense Forces**

Report on the Financial Statements

We have audited the accompanying financial statements of Friends of the Israel Defense Forces, which comprise the balance sheet as of December 31, 2015, and the related statements of activities, functional expenses and cash flows 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.

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 Friends of the Israel Defense Forces as of December 31, 2015, 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.

Report on Summarized Comparative Information

We have previously audited Friends of the Israel Defense Forces' December 31, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 20, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

June 9, 2016

FRIENDS OF THE ISRAEL DEFENSE FORCES

BALANCE SHEET

DECEMBER 31, 2015

(With Summarized Financial Information for December 31, 2014)

| | <u>2015</u> | <u>2014</u> |
|---------------------------------------------------------------|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 703,016 | \$ 510,787 |
| Investments (Note 3) | 84,228,036 | 70,024,740 |
| Certificates of deposit | 9,433,884 | 7,946,302 |
| Foreign currency forward contracts (Notes 3 and 4) | 754,569 | 6,029,581 |
| Contributions receivable - net (Note 5) | 72,417,884 | 73,941,634 |
| Prepaid expenses and other assets | 385,871 | 224,389 |
| Security deposits | 58,381 | 58,381 |
| Employee advances | 10,907 | 22,643 |
| Beneficial interest in remainder trust (Note 7) | 281,278 | 770,366 |
| Fixed assets - net (Note 6) | 347,890 | 481,350 |
| | <u> </u> | <u> </u> |
| Total assets | <u>\$ 168,621,716</u> | <u>\$ 160,010,173</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,856,005 | \$ 2,145,391 |
| Foreign currency forward contracts payable (Notes 3 and 4) | 761,762 | 5,986,965 |
| Grants payable for capital projects (Note 8) | 21,369,895 | 24,205,456 |
| Annuities payable (Note 7) | 4,718,299 | 4,832,023 |
| | <u> </u> | <u> </u> |
| Total liabilities | <u>28,705,961</u> | <u>37,169,835</u> |
| Net assets (Exhibit B) | | |
| Unrestricted | 33,613,606 | 24,096,721 |
| Temporarily restricted (Note 12) | 102,822,186 | 95,829,028 |
| Permanently restricted (Note 12) | 3,479,963 | 2,914,589 |
| | <u> </u> | <u> </u> |
| Total net assets | <u>139,915,755</u> | <u>122,840,338</u> |
| | <u> </u> | <u> </u> |
| Total liabilities and net assets | <u>\$ 168,621,716</u> | <u>\$ 160,010,173</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

FRIENDS OF THE ISRAEL DEFENSE FORCES

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015
(With Summarized Financial Information
for the Year Ended December 31, 2014)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | |
|-------------------------------------------------|---------------------|-------------------------------|-------------------------------|-------------------|--------------------|
| | | | | <u>2015</u> | <u>2014</u> |
| Revenues, gains, losses and other support | | | | | |
| Contributions | \$ 10,408,884 | \$ 23,625,669 | \$ 230,000 | \$ 34,264,553 | \$ 41,971,224 |
| Bequests | 4,848,803 | 86,000 | - | 4,934,803 | 2,440,204 |
| Special events income (Note 2) | \$ 62,465,293 | | | | |
| Direct costs of special events | <u>(5,843,811)</u> | 41,094,033 | - | 56,621,482 | 56,969,522 |
| In-kind contributions (Note 2) | 148,991 | - | - | 148,991 | 256,984 |
| Investment income (Note 3) | 334,784 | 72,373 | - | 407,157 | 808,096 |
| Foreign exchange gain (loss) | 153,267 | (49,809) | - | 103,458 | (1,234,578) |
| Change in split interest agreements | (1,352,374) | 106,994 | - | (1,245,380) | 754,198 |
| Net assets released from restrictions (Note 12) | <u>53,693,726</u> | <u>(53,693,726)</u> | - | - | - |
| Total revenues, gains, losses and other support | <u>83,763,530</u> | <u>11,241,534</u> | <u>230,000</u> | <u>95,235,064</u> | <u>101,965,650</u> |
| Expenses (Exhibit C) | | | | | |
| Program services | | | | | |
| Construction programs | 14,303,571 | - | - | 14,303,571 | 15,171,092 |
| Educational and scholarship programs | 16,509,137 | - | - | 16,509,137 | 17,126,381 |
| Wellbeing and recreational programs | <u>25,478,575</u> | - | - | <u>25,478,575</u> | <u>21,746,045</u> |
| Total program services | <u>56,291,283</u> | <u>-</u> | <u>-</u> | <u>56,291,283</u> | <u>54,043,518</u> |

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FRIENDS OF THE ISRAEL DEFENSE FORCES

EXHIBIT B

-2-

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015
(With Summarized Financial Information
for the Year Ended December 31, 2014)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | |
|----------------------------------------------------------------|----------------------|-------------------------------|-------------------------------|-----------------------|-----------------------|
| | | | | <u>2015</u> | <u>2014</u> |
| Expenses (Exhibit C) (continued) | | | | | |
| Supporting services | | | | | |
| Management and general | \$ 8,915,900 | \$ - | \$ - | \$ 8,915,900 | \$ 9,263,960 |
| Fund raising | 9,039,462 | - | - | 9,039,462 | 8,634,686 |
| Total supporting services | <u>17,955,362</u> | <u>-</u> | <u>-</u> | <u>17,955,362</u> | <u>17,898,646</u> |
| Total expenses | <u>74,246,645</u> | <u>-</u> | <u>-</u> | <u>74,246,645</u> | <u>71,942,164</u> |
| Change in net assets before bad debt loss and reclassification | 9,516,885 | 11,241,534 | 230,000 | 20,988,419 | 30,023,486 |
| Bad debt loss from uncollectible pledges | - | (3,913,002) | - | (3,913,002) | (3,347,173) |
| Reclassification due to donor intent | - | (335,374) | 335,374 | - | - |
| Change in net assets (Exhibit D) | 9,516,885 | 6,993,158 | 565,374 | 17,075,417 | 26,676,313 |
| Net assets - beginning of year | <u>24,096,721</u> | <u>95,829,028</u> | <u>2,914,589</u> | <u>122,840,338</u> | <u>96,164,025</u> |
| Net assets - end of year (Exhibit A) | <u>\$ 33,613,606</u> | <u>\$ 102,822,186</u> | <u>\$ 3,479,963</u> | <u>\$ 139,915,755</u> | <u>\$ 122,840,338</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015
(With Summarized Financial Information
for the Year Ended December 31, 2014)

| | Program Services | | | | Supporting Services | | | Total | |
|---------------------------------------------------------------------------------------|-----------------------|--------------------------------------|-------------------------------------|----------------------|------------------------|---------------------|--------------------------------|----------------------|----------------------|
| | Construction Programs | Educational and Scholarship Programs | Wellbeing and Recreational Programs | Total | Management and General | Fund Raising | Direct Costs of Special Events | 2015 | 2014 |
| Grants for projects and programs (including direct payments to vendors) | \$ 13,773,227 | \$ 15,339,883 | \$ 23,427,514 | \$ 52,540,624 | \$ - | \$ - | \$ - | \$ 52,540,624 | \$ 50,073,508 |
| Salaries | 296,165 | 656,590 | 1,016,898 | 1,969,653 | 4,403,610 | 3,180,446 | - | 9,553,709 | 9,589,646 |
| Payroll taxes and employee benefits | 63,749 | 169,027 | 205,558 | 438,334 | 893,760 | 593,438 | - | 1,925,532 | 1,785,547 |
| Occupancy | 14,331 | 54,786 | 11,465 | 80,582 | 434,833 | 287,250 | - | 802,665 | 792,030 |
| Telephone and internet | 1,162 | 39,283 | 957 | 41,402 | 154,423 | 102,012 | - | 297,837 | 316,270 |
| Office supplies | 899 | 12,093 | 16,395 | 29,387 | 83,134 | 15,131 | - | 127,652 | 119,605 |
| Postage and freight | 186 | 766 | 1,000 | 1,952 | 99,782 | 349,625 | - | 451,359 | 472,207 |
| Consulting and outside services - program | 37,651 | 7,530 | 30,121 | 75,302 | - | - | - | 75,302 | 103,653 |
| Consulting and outside services - other | - | - | - | - | 1,038,551 | 3,299,262 | - | 4,337,813 | 3,891,829 |
| Professional fees | 85,543 | 80,837 | 220,311 | 386,691 | 412,356 | 4,000 | - | 803,047 | 1,092,718 |
| Travel and conferences | 28,590 | 95,364 | 523,005 | 646,959 | 343,453 | 343,467 | 1,295,840 | 2,629,719 | 3,578,753 |
| Minor equipment purchases | - | - | - | - | 22,153 | - | - | 22,153 | 31,168 |
| Advertising | 1,106 | 23,678 | 763 | 25,547 | 5,150 | 116,987 | - | 147,684 | 105,986 |
| Printing and publications | 159 | 1,200 | 1,242 | 2,601 | 41,662 | 389,834 | - | 434,097 | 447,206 |
| Photo and video services | 803 | 419 | 2,237 | 3,459 | - | 58,233 | 28,949 | 90,641 | 83,336 |
| Insurance | - | - | - | - | 130,956 | - | - | 130,956 | 129,808 |
| Credit card and bank fees | - | - | - | - | 390,119 | - | - | 390,119 | 531,487 |
| Catering/refreshments | - | 7,032 | 10,030 | 17,062 | 54,767 | 101,837 | 3,433,325 | 3,606,991 | 2,927,535 |
| Entertainment/speakers | - | 2,212 | 4,720 | 6,932 | 2,356 | 94,772 | 451,440 | 555,500 | 484,527 |
| Promotional items and awards | - | 18,437 | 6,359 | 24,796 | 4,367 | 103,168 | 634,257 | 766,588 | 568,800 |
| Depreciation and amortization | - | - | - | - | 207,860 | - | - | 207,860 | 189,121 |
| Bad debt expense | - | - | - | - | 151,101 | - | - | 151,101 | 88,703 |
| Miscellaneous | - | - | - | - | 41,507 | - | - | 41,507 | 7,103 |
| Total expenses | 14,303,571 | 16,509,137 | 25,478,575 | 56,291,283 | 8,915,900 | 9,039,462 | 5,843,811 | 80,090,456 | 77,410,546 |
| Less expenses deducted directly from revenue on the statement of activities | - | - | - | - | - | - | (5,843,811) | (5,843,811) | (5,468,382) |
| Total expenses reported by function on the statement of activities (Exhibit B) | \$ 14,303,571 | \$ 16,509,137 | \$ 25,478,575 | \$ 56,291,283 | \$ 8,915,900 | \$ 9,039,462 | \$ - | \$ 74,246,645 | \$ 71,942,164 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D**FRIENDS OF THE ISRAEL DEFENSE FORCES****STATEMENT OF CASH FLOWS****YEARS ENDED DECEMBER 31, 2015 AND 2014**

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------------------------------------------------------------|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets (Exhibit B) | \$ 17,075,417 | \$ 26,676,313 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 207,860 | 189,121 |
| Contributions restricted for endowments | (230,000) | (700,000) |
| Change in split interest agreements | 1,245,380 | (754,198) |
| Contributions restricted for split interest agreements | (156,987) | (475,026) |
| Realized loss on auction rate securities | | 44,692 |
| Realized (gain) loss on investments | (51,086) | 1,026,674 |
| Unrealized loss on investments | 686,071 | 271,361 |
| Unrealized loss on foreign currency forward contracts | 49,809 | 104,994 |
| Decrease (increase) in assets | | |
| Contributions receivable | 1,523,750 | (12,646,777) |
| Prepaid expenses and other assets | (161,482) | 10,482 |
| Security deposits | - | (19,121) |
| Employee advances | 11,736 | (9,716) |
| Beneficial interest remainder trust | 489,088 | (770,366) |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | (289,386) | 926,559 |
| Grants payable for capital projects | (2,835,561) | 1,396,186 |
| Net cash provided by operating activities | <u>17,564,609</u> | <u>15,271,178</u> |
| Cash flows from investing activities | | |
| Acquisition of fixed assets | (74,400) | (128,029) |
| Purchase of investments and securities | (37,526,800) | (40,493,773) |
| Proceeds from sale of investments and securities | <u>21,200,937</u> | <u>23,922,793</u> |
| Net cash used by investing activities | <u>(16,400,263)</u> | <u>(16,699,009)</u> |

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FRIENDS OF THE ISRAEL DEFENSE FORCES

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------------------------------------------------|-------------------|--------------------|
| Cash flows from financing activities | | |
| Proceeds from contribution for endowment | \$ 230,000 | \$ 700,000 |
| Proceeds from investments subject to split interest agreements | 504,293 | 919,000 |
| Proceeds (loss) from investment income subject to split interest agreements | (829,382) | 2,774,019 |
| Payment of annuity obligations | <u>(877,028)</u> | <u>(3,082,748)</u> |
| Net cash provided (used) by financing activities | <u>(972,117)</u> | <u>1,310,271</u> |
| Net change in cash and cash equivalents | 192,229 | (117,560) |
| Cash and cash equivalents - beginning of year | <u>510,787</u> | <u>628,347</u> |
| Cash and cash equivalents - end of year | <u>\$ 703,016</u> | <u>\$ 510,787</u> |

Supplemental disclosure of noncash investing activities:

At December 31, 2015 and 2014, FIDF had a liability for purchased and not yet executed foreign currency forward contracts totaling \$761,762 and \$5,986,965, respectively. The fair value of the forward contracts at December 31, 2015 and 2014 was \$754,569 and \$6,029,581, respectively.

See independent auditor's report.

The accompanying notes are an integral part of these statements.

FRIENDS OF THE ISRAEL DEFENSE FORCES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 1 - PURPOSE OF ORGANIZATION

Friends of the Israel Defense Forces (“FIDF”) was incorporated under the laws of the State of New York on December 15, 1981 and began operations on April 1, 1983. It is a Section 501(c)(3) not-for-profit organization and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the “Code”). FIDF has been classified as a publicly supported organization as described in Section 509(a)(1) of the Code.

FIDF offers educational, cultural, recreational, social services programs, and facilities that provide hope, purpose, and life-changing support for the soldiers who protect Israel. FIDF’s primary sources of revenue are contributions and special event income.

FIDF’s national office and New York regional offices are located in New York City. Additional regional offices are located in or near Atlanta, Baltimore, Boca Raton, Boston, Chicago, Cleveland, Detroit, Houston, Los Angeles, Miami, Philadelphia, San Diego, San Francisco, Washington, D.C. and Tel Aviv, Israel.

FIDF’s support for the soldiers includes the following programs and projects:

Educational and Scholarship Programs

The FIDF IMPACT! Program - The FIDF IMPACT! Program grants full 4-year scholarships to Israeli veterans who have completed their military service. The personal nature of the program enables the sponsors to directly see the “impact” of their donations on veterans’ lives. To be eligible, veterans must come from a combat unit and a disadvantaged socioeconomic background that would prevent them from pursuing higher education. Each scholarship recipient is required to complete 130 hours of community service every year during the full term of the scholarship. The efforts of the students are aimed at helping their communities and improving their environment. During 2015, FIDF was able to fund approximately 3,600 scholarships for the 2015-2016 academic year of college or university study.

Educational programs - Seminars, workshops, discussion groups, and field trips assist new immigrant soldiers in their assimilation process, provide enrichment opportunities to soldiers with special needs, and develop educational resources. During 2015, approximately 5,900 soldiers participated in such activities sponsored by FIDF.

FRIENDS OF THE ISRAEL DEFENSE FORCES**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015****NOTE 1 - PURPOSE OF ORGANIZATION (continued)****Wellbeing and Recreational Programs**

The Dignity Program - The Dignity Program provides economic relief for soldiers who are in financial distress through the provision of cash subsidies, basic furniture and home appliances, holiday gift packages, food vouchers, and other assistance to their families. During 2015, FIDF provided such assistance to nearly 8,000 soldiers.

Lone Soldiers Program - The Lone Soldiers Program enables FIDF to act as a second family for soldiers who have no immediate family in Israel during their military service. FIDF also sponsors flights for lone combat soldiers, enabling them to visit loved ones in their home country during their period of service. During 2015, FIDF assisted approximately 2,700 lone soldiers through these programs.

The Legacy Program - The Legacy Program enables families of fallen soldiers to enjoy recreational vacations in Israel with activities such as workshops, shows, excursions, entertainment by popular Israeli artists, sports activities, and more. The program also sponsors trips to the United States for children of fallen soldiers who share the experience of summer camp in the U.S. with American children of similar age. During 2015, FIDF aided over 6,000 members of bereaved families, including trips to the United States for approximately 140 children of various ages.

The Spirit Program - The Spirit Program provides a week of rest and relaxation for active-duty combat units. Soldiers enjoy a week of R&R at FIDF-supported recreation centers which are fully equipped with lodging and dining facilities, swimming pools, fitness rooms, and other amenities. During 2015, FIDF sponsored 44 weeks of such programs for a total of over 20,000 soldiers.

The Adopt a Brigade Program - The Adopt a Brigade Program provides support for the Dignity Program, Spirit Program, the Lone Soldiers Program and general wellbeing activities of the 7 brigades adopted by FIDF (approximately 25,000 soldiers).

The Adopt a Battalion Program - The Adopt a Battalion Program provides year-long recreational activities for designated battalions. During 2015, FIDF adopted 48 battalions (approximately 16,000 soldiers) and sponsored related ceremonies, trips and other wellbeing activities.

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FRIENDS OF THE ISRAEL DEFENSE FORCES**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015****NOTE 1 - PURPOSE OF ORGANIZATION (continued)****Wellbeing and Recreational Programs (continued)**

The Wounded Veterans Program - The Strides program provides veteran soldier amputees with state-of-the-art prosthetic devices for sports and athletics, together with specialized training in their use. In 2015 we were able to provide 6 such veterans with state-of-the-art prosthetic devices and training. During 2015, FIDF further sponsored other activities supporting approximately 2,200 wounded veterans.

The Spiritual Needs Program - FIDF, in cooperation with the IDF rabbinate, provides for Judaica and ritual articles, holiday gifts and other educational and social activities.

Construction Programs

FIDF sponsors the construction, refurbishment and maintenance of recreational and sports centers, cultural and educational facilities, synagogues, memorial rooms, auditoriums and “soldiers’ recreational homes” for soldiers throughout Israel. These facilities range from individual structures to large wellbeing complexes. FIDF also sponsors the construction and renovation of smaller projects and semi-permanent facilities, such as social clubs, and synagogues that soldiers can use everywhere. Construction activity during 2015 was as follows: 9 construction projects were completed, 6 additional projects were under construction, and 9 projects were in the design and bidding stage. In addition, 77 smaller facility renovation and refurbishment projects were completed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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FRIENDS OF THE ISRAEL DEFENSE FORCES**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Summarized financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with FIDF's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Cash and cash equivalents - Cash and cash equivalents include certain investments in highly liquid instruments with original maturities, when acquired, of three months or less. Cash balances denominated in a foreign currency, primarily the New Israeli Shekel ("NIS"), are reported at the exchange rate effective at the reporting date.

Investments - Investments are recorded at fair value. FIDF invests in various investment securities. These securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could materially affect FIDF's financial statements.

Certificates of deposit - Certificates of deposit with maturity dates of more than three months are considered investments for the purpose of cash flow reporting.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides 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 (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that FIDF has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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FRIENDS OF THE ISRAEL DEFENSE FORCES**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Fair Value Measurements (continued)***

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2015 as compared to December 31, 2014.

U.S. Treasury and government agency guaranteed obligation - Valued using pricing models maximizing the use of observable inputs for similar securities.

Exchange traded funds (ETFs) and common stock - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value (NAV) of shares held at year end.

State of Israel bonds - Fair value is determined using observed pricing for similar instruments, which approximates cost.

Foreign currency forward contracts and foreign currency forward contracts payable - Fair value is determined using observed pricing for similar instruments.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while FIDF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

See Note 3 for a table which sets forth by level, within the fair value hierarchy, the assets and liabilities at fair value as of December 31, 2015.

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FRIENDS OF THE ISRAEL DEFENSE FORCES**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Interest is not charged on outstanding receivables.

Allowance for uncollectibles - FIDF determines whether an allowance for uncollectibles should be provided for contributions receivable. Such estimates are based on management's assessments of its receivables, current economic conditions, subsequent collections and historical information. Receivables are written off when all reasonable collection efforts have been exhausted.

Foreign currency hedging activities - FIDF uses derivative financial instruments designated as fair value hedges to manage the foreign currency exchange risk inherent in its operations. It is FIDF's policy to hedge such risks to the extent practicable. FIDF enters into foreign exchange forward contracts to hedge its exposure related to commitments denominated in NIS to fund program services in Israel. FIDF recognizes in the balance sheet derivative contracts at fair value, as well as changes in the fair value of the related hedged program services and reflects any net gains and losses as a change in net assets in the period of change (see Note 4).

Beneficial interest in remainder trust - The beneficial interest in remainder trust is recorded at its present value based on actuarial valuation.

Fixed assets - Fixed assets are stated at cost. Items of \$500 or more and an estimated useful life over one year are capitalized at cost. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful lives of the assets or remaining lease terms, whichever is shorter.

Unrestricted net assets - Unrestricted net assets include net assets having no restriction as to use or purpose imposed by donors.

Temporarily restricted net assets - Temporarily restricted net assets may be utilized only in accordance with the purpose or time restrictions established by the donors of such funds.

Permanently restricted net assets - Permanently restricted net assets have been restricted by the donor to be maintained in perpetuity and that only the income be utilized for the purpose designated by donor.

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FRIENDS OF THE ISRAEL DEFENSE FORCES**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Contributions - Unconditional contributions including promises to give cash and other assets are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Bequests - Bequest income is recorded at the time the will is declared valid and the proceeds are measurable.

In-kind contributions - In-kind contributions consist of legal fees of \$148,991 as well as \$537,981 of promotional items and awards for special events, which are recorded at fair value at the date of donation.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Grants - Grants are recorded as expenses in the year in which they are awarded, including multi-year awards which are discounted to present value using risk-adjusted discount rates.

Rent expense - Rent expense is recorded on the straight-line basis. Deferred rent payable is recorded when material.

Advertising - Advertising costs are expensed when incurred.

Uncertainty in income taxes - FIDF has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2012 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through June 9, 2016, which is the date the financial statements were available to be issued.

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FRIENDS OF THE ISRAEL DEFENSE FORCES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the assets and liabilities as of December 31, 2015:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------------------------------------------|---------------------|----------------------|----------------|----------------------|
| Assets | | | | |
| Investments | | | | |
| U.S. Treasury and government agency guaranteed obligations | \$ - | \$ 17,253,845 | \$ - | \$ 17,253,845 |
| Mutual funds and ETFs* | 2,646,932 | 7,444,418 | - | 10,091,350 |
| Common stock | 1,266,735 | - | - | 1,266,735 |
| State of Israel bonds | <u>-</u> | <u>6,489,810</u> | <u>-</u> | <u>6,489,810</u> |
| Total investments reported on the fair value hierarchy | <u>\$ 3,913,667</u> | <u>\$ 31,188,073</u> | <u>\$ -</u> | 35,101,740 |
| Cash and cash equivalents | | | | <u>49,126,296</u> |
| Total investments | | | | <u>\$ 84,228,036</u> |
| Other assets | | | | |
| Foreign currency forward contracts | <u>\$ -</u> | <u>\$ 754,569</u> | <u>\$ -</u> | <u>\$ 754,569</u> |
| Liabilities | | | | |
| Foreign currency forward contracts payable | <u>\$ -</u> | <u>\$ 761,762</u> | <u>\$ -</u> | <u>\$ 761,762</u> |

* Mutual funds and ETFs consist of the following at December 31, 2015:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
|-----------------------------|---------------------|---------------------|----------------------|
| Large Cap Domestic Equities | \$ 1,232,075 | \$ 1,689,549 | \$ 2,921,624 |
| Mid Cap Domestic Equities | 201,004 | 305,627 | 506,631 |
| Small Cap Domestic Equities | 47,901 | 327,506 | 375,407 |
| Blended Domestic Equities | 192,777 | | 192,777 |
| International Equities | 713,931 | 1,960,928 | 2,674,859 |
| Fixed Income | 24,671 | 2,849,582 | 2,874,253 |
| Diversified Funds | <u>234,573</u> | <u>311,226</u> | <u>545,799</u> |
| Total Mutual funds and ETFs | <u>\$ 2,646,932</u> | <u>\$ 7,444,418</u> | <u>\$ 10,091,350</u> |

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FRIENDS OF THE ISRAEL DEFENSE FORCES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Investment income consists of the following:

| | <u>2015</u> | <u>2014</u> |
|------------------------------------------|-------------------|-------------------|
| Interest and dividend income | \$ 1,042,142 | \$ 1,021,239 |
| Realized loss on auction rate securities | - | (44,692) |
| Realized gain on investments | 51,086 | 16,135 |
| Unrealized loss on investments | <u>(686,071)</u> | <u>(184,586)</u> |
| Total investment income | \$ <u>407,157</u> | \$ <u>808,096</u> |

NOTE 4 - FOREIGN EXCHANGE, DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

ASC 815 - Derivatives and Hedging requires FIDF to recognize all derivatives in the balance sheet at fair value. As discussed in Note 2, foreign currency hedging activities, FIDF enters into foreign exchange forward contracts to hedge its exposure related to commitments denominated in NIS to fund program services in Israel. FIDF enters into forward contracts to hedge its firm commitment to make grants in NIS primarily to fund the construction of buildings for the benefit of members of the Israel Defense Forces.

For the years ended December 31, 2015 and 2014, net unrealized loss on FIDF's foreign currency forward contracts amounted to \$49,809 and \$104,994, respectively, representing the accumulated change in the difference between the carrying value of the foreign currency forward contracts and the liability to contract counterparties, both as reflected on the accompanying balance sheet.

For the year ended December 31, 2015, the net realized foreign exchange gain on FIDF's foreign currency transactions amounted to \$165,275 (\$1,042,809 loss for the year ended December 31, 2014).

In addition, at December 31, 2015 and 2014, unrealized loss on foreign currency held in the bank amounted to \$12,008 and \$86,775, respectively, representing the difference between the carrying value of the currency in the accompanying balance sheet and the purchase cost of that currency.

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FRIENDS OF THE ISRAEL DEFENSE FORCES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable have been recorded at fair value. Those receivables that are due in more than one year have been discounted to their present value using an estimated discount rate of 3%. The receivables are due as follows:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------------------|----------------------|----------------------|
| Less than one year | \$ 47,314,004 | \$ 50,132,584 |
| One to five years | 31,317,663 | 28,386,023 |
| More than five years | <u>140,000</u> | <u>180,000</u> |
| | 78,771,667 | 78,698,607 |
| Less discount to present value | <u>(1,456,122)</u> | <u>(1,340,383)</u> |
| | 77,315,545 | 77,358,224 |
| Less allowance for doubtful accounts | <u>(4,897,661)</u> | <u>(3,416,590)</u> |
| Present value of contributions receivable | \$ <u>72,417,884</u> | \$ <u>73,941,634</u> |

NOTE 6 - FIXED ASSETS

Fixed assets at December 31, 2015 and 2014 consist of the following:

| | <u>2015</u> | <u>2014</u> | <u>Estimated Useful Life</u> |
|---------------------------------------------------|-------------------|-------------------|----------------------------------|
| Office equipment | \$ 41,267 | \$ 41,267 | 5 years |
| Computer hardware and software | 507,646 | 448,677 | 3-5 years |
| Furniture and fixtures | 117,224 | 112,738 | 7 years |
| Leasehold improvements | <u>221,530</u> | <u>210,585</u> | 2-6 years |
| | 887,667 | 813,267 | |
| Less accumulated depreciation and amortization | <u>(539,777)</u> | <u>(331,917)</u> | |
| | \$ <u>347,890</u> | \$ <u>481,350</u> | |

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FRIENDS OF THE ISRAEL DEFENSE FORCES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 7 - SPLIT-INTEREST AGREEMENTS

FIDF's investments include funds of split-interest agreements with donors, consisting primarily of charitable gift annuities and charitable remainder unitrusts. Contribution revenues for split-interest agreements are recognized at the date the agreement is established, net of the liability recorded for the present value of the future payments to be made to the donor and/or other beneficiaries. The present value of payments to beneficiaries is calculated using discount rates of 3%-6%. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective net asset class in the statement of activities.

The fair value of investments held for annuities and trusts totaled \$8,615,196 and \$9,642,388 at December 31, 2015 and 2014, respectively.

FIDF is also the beneficiary of one charitable remainder unitrust, for which FIDF is not the trustee. The assets of the trust are invested in equity securities. The present value of beneficial interest in the unitrust was \$281,278 and \$770,366 at December 31, 2015 and 2014, respectively.

NOTE 8 - GRANTS PAYABLE FOR CAPITAL PROJECTS

Grants payable for capital projects reflects firm commitments for the construction of capital projects in Israel. The change in the amount payable during the year is reflected in grants for projects and programs in the accompanying statement of activities. The grants are due to be paid as follows as of December 31, 2015:

| | |
|-------------------------------------|----------------------|
| Current | \$ 11,861,412 |
| One to five years | <u>9,916,733</u> |
| | 21,778,145 |
| Less discount to present value (3%) | <u>(408,250)</u> |
| Present value of grants payable | \$ <u>21,369,895</u> |

The commitments denominated in NIS have been converted to U.S. dollars at the exchange rate in effect at December 31, 2015.

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FRIENDS OF THE ISRAEL DEFENSE FORCES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 9 - RENT EXPENSE AND LEASE COMMITMENTS

FIDF leases office space for its national office and regional offices around the United States as well as in Israel. The leases of these facilities expire at various dates between 2016 and 2031. Some facilities are rented on a month-to-month basis. The minimum annual rental obligations in connection with such leases are as follows:

| | |
|---------------------|----------------------|
| 2016 | \$ 536,342 |
| 2017 | 994,080 |
| 2018 | 856,346 |
| 2019 | 807,860 |
| 2020 | 783,311 |
| 2021 and thereafter | <u>9,346,721</u> |
| | <u>\$ 13,324,660</u> |

The minimum annual rental obligation reported above includes a 15-year lease commitment for office space totaling \$12,539,700, which was entered into subsequent to December 31, 2015.

Rent expense for 2015 and 2014 was \$718,738 and \$718,077, respectively. Included in accounts payable and accrued expenses is a deferred rent obligation of \$24,737 and \$42,667 at December 31, 2015 and 2014, respectively, which represents the effect of straight-lining the total minimum lease payments over the lease terms.

NOTE 10 - CONCENTRATIONS

Financial instruments which potentially subject FIDF to a concentration of credit risk are cash accounts with a financial institution in excess of FDIC insurance limits.

NOTE 11 - EMPLOYEE RETIREMENT PLAN

FIDF sponsors a 403(b) defined contribution employee retirement plan that covers substantially all employees in the United States. It is funded through voluntary contributions by participants and employer matching contributions. Retirement plan expense for the years ended December 31, 2015 and 2014 was \$144,803 and \$180,148, respectively.

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FRIENDS OF THE ISRAEL DEFENSE FORCES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 12 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------|-----------------------|----------------------|
| Construction programs | \$ 14,069,468 | \$ 19,949,956 |
| Educational and scholarship programs | 45,958,512 | 33,889,290 |
| Wellbeing and recreational programs | 36,726,185 | 36,158,000 |
| Split-interest agreements | <u>6,068,021</u> | <u>5,831,782</u> |
| | <u>\$ 102,822,186</u> | <u>\$ 95,829,028</u> |

Temporarily restricted net assets were released from donor restrictions by satisfying the following:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------|----------------------|----------------------|
| Construction programs | \$ 15,911,170 | \$ 12,668,780 |
| Educational and scholarship programs | 15,220,204 | 15,442,119 |
| Wellbeing and recreational programs | 22,559,337 | 21,571,064 |
| Lapse of time restrictions | <u>3,015</u> | <u>831,190</u> |
| | <u>\$ 53,693,726</u> | <u>\$ 50,513,153</u> |

Endowments

FIDF's endowments consist of ten individual donor-restricted endowment funds established to support activities of the organization, as well as accumulation of income from these funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

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FRIENDS OF THE ISRAEL DEFENSE FORCES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 12 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS
(continued)

Interpretation of Relevant Law

The Board of Directors of FIDF adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the “historic dollar value” standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. FIDF is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years’ balance. As a result of this interpretation, FIDF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of FIDF is to maintain the principal endowment funds at the historical dollar value designated by the donor by investing in low-risk securities to generate investment income for the programs supported by the endowments. Investment income earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction when appropriations are made for the program for which the endowment fund was established.

Funds with Deficiencies

FIDF does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund

The endowment net asset composition as of December 2015 and 2014 consists of the following:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------|---------------------|---------------------|
| Wellbeing and recreational programs | \$ 743,933 | \$ 732,933 |
| Educational and scholarship programs | 2,434,527 | 1,880,153 |
| Operations | <u>301,503</u> | <u>301,503</u> |
| | <u>\$ 3,479,963</u> | <u>\$ 2,914,589</u> |

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FRIENDS OF THE ISRAEL DEFENSE FORCES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 12 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS
(continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2015

Changes for the year ended December 31, 2015 were as follows:

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|------------------------------------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | | \$ 2,914,589 | \$ 2,914,589 |
| Interest and dividends | \$ 27,748 | | 27,748 |
| Contributions | | 230,000 | 230,000 |
| Reclassification per donor intent | | 335,374 | 335,374 |
| Appropriation of endowments for expenditure | <u>(27,748)</u> | <u> </u> | <u>(27,748)</u> |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 3,479,963</u> | <u>\$ 3,479,963</u> |

NOTE 13 - CONTINGENCIES

In March 2016 an action was brought by certain Palestinians against FIDF, certain of its donors, and numerous other parties, in the United States District Court in the District of Columbia.

The action seeks damages in excess of \$34.5 billion and alleges, among other things, civil conspiracy, war crimes, trespass, and pillage.

FIDF believes this action is totally without merit and intends to defend the claim vigorously.