

Financial Statements and Report of  
Independent Certified Public Accountants

**FRIENDS OF THE ISRAEL DEFENSE FORCES**

December 31, 2016 and 2015

# FRIENDS OF THE ISRAEL DEFENSE FORCES

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the 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 statement of financial position as of December 31, 2016, 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.

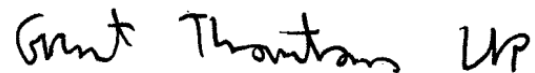
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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, 2016, 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.

**Other Matter**

The financial statements of Friends of the Israel Defense Forces as of and for the year ended December 31, 2015 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2015 financial statements in their report dated June 9, 2016. The accompanying summarized comparative information as of and for the year ended December 31, 2015 has not been audited, reviewed, or compiled by us, and accordingly, we do not express an opinion or any other form of assurance on it.

Handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York  
July 12, 2017

**FRIENDS OF THE ISRAEL DEFENSE FORCES**  
**Statements of Financial Position**  
**As of December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 521,990	\$ 703,016
Investments (Note 3)	96,982,005	93,661,920
Foreign currency forward contracts (Notes 3 and 4)	-	754,569
Contributions receivable - net (Note 5)	90,243,707	72,417,884
Prepaid expenses and other assets	716,189	455,159
Beneficial interest in remainder trust (Note 7)	874,572	281,278
Fixed assets - net (Note 6)	<u>968,700</u>	<u>347,890</u>
Total assets	<u>\$ 190,307,163</u>	<u>\$ 168,621,716</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 2,067,570	\$ 1,856,005
Foreign currency forward contracts payable (Notes 3 and 4)	-	761,762
Grants payable for capital projects (Note 8)	13,284,911	21,369,895
Annuities payable (Note 7)	<u>6,764,849</u>	<u>4,718,299</u>
Total liabilities	<u>22,117,330</u>	<u>28,705,961</u>
<b>NET ASSETS</b>		
Unrestricted	39,556,453	33,613,606
Temporarily restricted (Note 12)	121,761,417	102,822,186
Permanently restricted (Note 12)	<u>6,871,963</u>	<u>3,479,963</u>
Total net assets	<u>168,189,833</u>	<u>139,915,755</u>
Total liabilities and net assets	<u>\$ 190,307,163</u>	<u>\$ 168,621,716</u>

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

# FRIENDS OF THE ISRAEL DEFENSE FORCES

## Statement of Activities

For the year ended December 31, 2016 with summarized totals for the year ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
REVENUES, GAINS, LOSSES AND OTHER SUPPORT					
Contributions	\$ 6,946,905	\$ 34,123,173	\$ 3,392,000	\$ 44,462,078	\$ 34,264,553
Bequests	2,208,384	272,973	-	2,481,357	4,934,803
Special events income (Note 2)	\$ 68,997,947				
Direct costs of special events	<u>(5,999,307)</u>				
Special events income, net	15,231,105	47,767,535	-	62,998,640	56,621,482
In-kind contributions (Note 2)	648,130	17,000	-	665,130	148,991
Investment income (Note 3)	621,806	181,305	-	803,111	407,157
Foreign exchange gain (loss)	27,237	7,193	-	34,430	103,458
Change in split interest agreements	424,233	336,358	-	760,591	(1,245,380)
Net assets released from restrictions (Note 12)	<u>59,017,143</u>	<u>(59,017,143)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains, losses and other support	<u>85,124,943</u>	<u>23,688,394</u>	<u>3,392,000</u>	<u>112,205,337</u>	<u>95,235,064</u>
EXPENSES					
Program services					
Construction programs – transfers (cash)	\$ 16,444,245				
Construction programs – change in grants payable	<u>(8,084,984)</u>				
Construction programs	8,359,261	-	-	8,359,261	14,303,571
Educational and scholarship programs	21,897,135	-	-	21,897,135	16,509,137
Wellbeing and recreational programs	<u>27,704,419</u>	<u>-</u>	<u>-</u>	<u>27,704,419</u>	<u>25,478,575</u>
Total program services	<u>57,960,815</u>	<u>-</u>	<u>-</u>	<u>57,960,815</u>	<u>56,291,283</u>
Supporting services					
Management and general	10,368,451	-	-	10,368,451	8,764,799
Fundraising	<u>10,580,558</u>	<u>-</u>	<u>-</u>	<u>10,580,558</u>	<u>9,039,462</u>
Total supporting services	<u>20,949,009</u>	<u>-</u>	<u>-</u>	<u>20,949,009</u>	<u>17,804,261</u>
Bad debt expense from uncollectible pledges	<u>272,272</u>	<u>4,749,163</u>	<u>-</u>	<u>5,021,435</u>	<u>4,064,103</u>
Total expenses	<u>79,182,096</u>	<u>4,749,163</u>	<u>-</u>	<u>83,931,259</u>	<u>78,159,647</u>
Change in net assets	5,942,847	18,939,231	3,392,000	28,274,078	17,075,417
Net assets - beginning of year	<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>
Net assets - end of year	<u>\$ 39,556,453</u>	<u>\$ 121,761,417</u>	<u>\$ 6,871,963</u>	<u>\$ 168,189,833</u>	<u>\$ 139,915,755</u>

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

# FRIENDS OF THE ISRAEL DEFENSE FORCES

## Statement of Functional Expenses

For the year ended December 31, 2016 with summarized totals for the year ended December 31, 2015

	Program Services				Supporting Services			Total	
	Construction Programs	Educational and Scholarship Programs	Wellbeing and Recreational Programs	Total	Management and General	Fundraising	Direct Costs of Special Events	2016	2015
Grants for projects and programs (including direct payments to vendors)	\$ 7,981,103	\$ 20,305,150	\$ 25,344,811	\$ 53,631,064	\$ -	\$ -	\$ -	\$ 53,631,064	\$ 52,540,624
Salaries	205,495	761,510	1,342,840	2,309,845	4,875,791	3,151,188	-	10,336,824	9,553,709
Payroll taxes and employee benefits	46,147	197,454	254,520	498,121	924,376	565,090	-	1,987,587	1,925,532
Occupancy	10,552	51,161	4,397	66,110	688,998	455,151	-	1,210,259	802,665
Telephone and internet	5,127	24,591	2,106	31,824	154,473	102,044	-	288,341	297,837
Office supplies	3,975	13,919	1,438	19,332	72,353	19,427	-	111,112	127,652
Postage and freight	698	773	1,421	2,892	60,517	405,957	-	469,366	451,359
Consulting and outside services	47,610	11,903	19,838	79,351	66,525	119,025	-	264,901	176,706
Professional fees	11,712	324,307	78,526	414,545	2,178,273	3,388,960	-	5,981,778	4,639,456
Travel and conferences	45,268	120,083	605,692	771,043	323,753	330,361	1,479,746	2,904,903	2,629,719
Non-capitalizable equipment purchases	-	886	-	886	28,285	-	-	29,171	22,153
Advertising	-	63,880	-	63,880	18,294	939,700	-	1,021,874	547,684
Printing and publications	406	2,275	22	2,703	30,316	644,004	-	677,023	434,097
Photo and video services	1,168	103	760	2,031	606	68,031	102,050	172,718	90,641
Insurance	-	-	-	-	163,524	257	-	163,781	130,956
Credit card and bank fees	-	-	-	-	400,025	-	-	400,025	390,119
Catering/refreshments	-	15,509	33,502	49,011	116,523	137,583	3,364,869	3,667,986	3,606,991
Entertainment/speakers	-	96	4,739	4,835	6,770	117,205	533,559	662,369	555,500
Promotional items and awards	-	3,535	9,807	13,342	13,158	136,575	519,083	682,158	766,588
Depreciation and amortization	-	-	-	-	202,279	-	-	202,279	207,860
Miscellaneous	-	-	-	-	43,612	-	-	43,612	41,507
	8,359,261	21,897,135	27,704,419	57,960,815	10,368,451	10,580,558	5,999,307	84,909,131	79,939,355
Less expenses deducted directly from revenue on the statement of activities	-	-	-	-	-	-	(5,999,307)	(5,999,307)	(5,843,811)
Total expenses before bad debt expense	\$ 8,359,261	\$ 21,897,135	\$ 27,704,419	\$ 57,960,815	\$ 10,368,451	\$ 10,580,558	\$ -	78,909,824	74,095,544
Bad debt expense								5,021,435	4,064,103
Total expenses								\$ 83,931,259	\$ 78,159,647

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

**FRIENDS OF THE ISRAEL DEFENSE FORCES**  
**Statements of Cash Flows**  
**For the years ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 28,274,078	\$ 17,075,417
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	202,279	207,860
Contributions restricted for endowments	(3,392,000)	(230,000)
Change in split interest agreements	(760,591)	1,245,380
Contributions restricted for split interest agreements	(4,207,082)	(156,987)
Realized gain on investments	(81,978)	(51,086)
Unrealized loss on investments	407,707	686,071
Unrealized (gain) loss on foreign currency forward contracts	(7,193)	49,809
(Increase) decrease in assets		
Contributions receivable	(17,825,823)	1,523,750
Prepaid expenses and other assets	(261,030)	(149,746)
Beneficial interest remainder trust	(593,294)	489,088
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	211,565	(289,386)
Grants payable for capital projects	(8,084,984)	(2,835,561)
Net cash (used in) provided by operating activities	<u>(6,118,346)</u>	<u>17,564,609</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of fixed assets	(823,089)	(74,400)
Purchase of investments and securities	(42,442,286)	(37,526,800)
Proceeds from sale of investments and securities	38,796,472	21,200,937
Net cash used in investing activities	<u>(4,468,903)</u>	<u>(16,400,263)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contribution for endowment	3,392,000	230,000
Proceeds from investments subject to split interest agreements	7,235,499	504,293
Proceeds (loss) from investment income subject to split interest agreements	966,919	(829,382)
Payment of annuity obligations	(1,188,195)	(877,028)
Net cash provided by (used in) financing activities	<u>10,406,223</u>	<u>(972,117)</u>
Net change in cash and cash equivalents	(181,026)	192,229
Cash and cash equivalents - beginning of year	703,016	510,787
Cash and cash equivalents - end of year	<u>\$ 521,990</u>	<u>\$ 703,016</u>

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



# **FRIENDS OF THE ISRAEL DEFENSE FORCES**

## **Notes to Financial Statements**

### **December 31, 2016 and 2015**

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#### **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. FIDF 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. Other 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! Scholarship Program* grants full 4-year scholarships to Israeli soldiers who have completed their military service. The personal nature of the program enables sponsors to directly see the “impact” of their donations on veterans’ lives, and offers the opportunity to build relationships which last way beyond the completion of the recipient’s studies. To be eligible, veterans must come from a combat or combat-support unit and a disadvantaged socioeconomic background that prevents 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. FIDF partners with 17 organizations which empower the students to help their communities and improve their environment. During 2016, FIDF was able to fund approximately 4,000 scholarships for the 2016-2017 academic year of college or university study representing approximately \$13.9 million of scholarship assistance.

During 2016, FIDF also sponsored approximately \$6.4 million of educational programs which provide for a successful continuum from high school to higher education, or for soldiers to enter directly into the job market. These programs utilize seminars, workshops, discussion groups and field trips to also assist new immigrant soldiers in their assimilation process, provide enrichment opportunities to soldiers with special needs, and develop educational resources. During 2016 about 10,400 soldiers participated in such activities.

#### **Wellbeing and Recreational Programs**

*The Dignity Program* eases the burden by providing 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 2016, FIDF provided approximately \$4.1 million for such assistance to about 8,000 soldiers.

*The Lone Soldiers Program* ensures Lone Soldiers never feel truly alone by enabling 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 their families in their home countries during

# FRIENDS OF THE ISRAEL DEFENSE FORCES

## Notes to Financial Statements

### December 31, 2016 and 2015

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their period of service. During 2016, FIDF provided approximately \$4.1 million to assist over 2,800 lone soldiers through these programs.

*The Legacy Program* provides comfort and care by helping those families who have suffered a devastating loss of a loved one fallen during military service. Through recreational vacations in Israel with activities such as workshops, shows, excursions, entertainment by popular Israeli artists, sports activities, and more, FIDF stands united by the side of these beloved families through their lives. 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 2016, FIDF provided approximately \$0.7 million for such activities, aiding over 1,300 members of bereaved families, including trips to the United States for approximately 40 children of various ages.

*The Spirit Program* provides a week of rest and recuperation for active-duty combat units. Soldiers enjoy a week of rest and recreation at recreation centers which are fully equipped with lodging and dining facilities, swimming pools, fitness rooms, and other amenities. During 2016, FIDF provided approximately \$2 million for such activities, sponsoring 33 weeks of such programs for a total of about 15,700 soldiers.

*The Rest and Recreation Program* sponsors various units with wellbeing gifts such as fleeces, hats, and other personal items, as well as fun days, trips and sports events. During 2016, FIDF sponsored such wellbeing needs with approximately \$0.6 million.

*The Adopt a Brigade Program* provides support for the DIGNITY Program, SPIRIT Program, the Lone Soldiers Program and general wellbeing activities of the designated brigades. During 2016, FIDF provided approximately \$2.3 million to sponsor the general wellbeing needs of the 8 brigades adopted by FIDF (approximately 30,000 soldiers).

*The Adopt a Battalion Program* provides year-long recreational activities for designated battalions. During 2016, FIDF provided approximately \$1.6 million to sponsor ceremonies, trips and other wellbeing activities for the 68 battalions adopted by FIDF (approximately 23,000 soldiers).

*The Wounded Veterans Program* offered a second chance at a life without limitations in 2016 with approximately \$3.5 million to sponsor activities supporting over 700 wounded veterans.

*The Spiritual Needs Program*, in cooperation with the IDF rabbinate, provides for Judaica and ritual articles, holiday celebrations and activities and other educational and social activities. During 2016, FIDF provided approximately \$4.3 million to sponsor such articles and activities.

#### *Construction Programs*

FIDF helps provide a 'home away from home' by sponsoring the construction, refurbishment and maintenance of recreation and sports centers, cultural and educational facilities, synagogues, memorial rooms, auditoriums, and soldier 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 2016 was as follows: 8 construction projects were completed, with a total budget of approximately \$23.5 million, 8 additional projects were under construction, with a total budget of approximately \$5.1 million, and 7 projects were in the design and

# **FRIENDS OF THE ISRAEL DEFENSE FORCES**

## **Notes to Financial Statements**

### **December 31, 2016 and 2015**

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bidding stage, with a total budget of approximately \$23.8 million. In addition, 62 smaller facilities renovation and refurbishment projects were completed, with a total budget of approximately \$2 million.

## **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 (“US GAAP”) 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.

### **Summarized Financial Information**

The financial statements include certain prior-year summarized comparative totals but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with FIDF’s financial statements for the year ended December 31, 2015, from which the summarized totals were 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.

### **Fair Value Measurements**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by U.S. Generally Accepted Accounting Principles for fair value measurement, FIDF uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

# FRIENDS OF THE ISRAEL DEFENSE FORCES

## Notes to Financial Statements

December 31, 2016 and 2015

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The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3 - Securities that have little to no observable pricing. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by FIDF. FIDF considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to FIDF's perceived risk of that instrument.

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, 2016 as compared to December 31, 2015.

*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 and common trust 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.

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.

# **FRIENDS OF THE ISRAEL DEFENSE FORCES**

## **Notes to Financial Statements**

### **December 31, 2016 and 2015**

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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, 2016 and 2015.

#### **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. The amortization of discounts in 2016 is included in contribution revenues on the accompanying statement of activities for the year ended December 31, 2016. Conditional promises to give are not accrued as receivable until the conditions are substantially met. Interest is not charged on outstanding receivables.

#### **Allowance for Doubtful Accounts**

FIDF determines whether an allowance for doubtful accounts should be provided for contributions and other accounts receivable. Such estimates are based on management's assessments of its receivable balances, 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 accompanying statement of financial position 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 with an estimated useful life of more than one year are capitalized at cost. Depreciation is recorded under 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.

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**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.

**Contributions**

Unconditional contributions including promises to give cash and other assets are reported at fair value at the date the contribution is received. Such 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 accompanying statement of activities as net assets released from restrictions.

For the years ended December 31, 2016 and 2015, approximately 32% and 22%, respectively, of contribution revenues were provided by five donors.

**Bequests**

Bequest income is recorded when notification of the bequest is received, the will is declared valid by the probate court and the proceeds are reasonably determinable.

**In-kind Contributions**

Donated legal services with a fair value of \$648,130 and \$148,991 for the years ended December 31, 2016 and 2015, respectively, were recognized at the date the services were received and are reported as in-kind contributions and professional fees in the accompanying statements of activities and functional expenses, respectively. Promotional items and awards received for the purposes of special events with a fair value of \$335,754 and \$537,981 for the years ended December 31, 2016 and 2015, respectively, were recognized at the date of the donation and are reported within special events income and direct costs of special events in the accompanying statement of activities.

**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 Payable**

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 over the terms of the leases.

**Advertising**

Advertising costs are expensed when incurred.

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**Reclassifications**

Certain amounts in the statement of functional expenses for the year ended December 31, 2015 were reclassified to conform to the current year presentation.

**Uncertainty in Income Taxes**

Guidance in the area of “Accounting for Uncertainty in Income Taxes” under FASB ASC 740, clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is “more-likely-than-not” to be sustained, if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The years ended December 31 2013, 2014, 2015 and 2016 remain open to audit for both federal and state purposes. FIDF has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income, if any; to determine its filing and tax obligations in jurisdictions for which it has nexus; and, to identify and evaluate other matters that may be considered tax positions.

**Subsequent Events**

Subsequent events have been evaluated through July 12, 2017, which is the date the financial statements were available to be issued.

**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, 2016 and 2015:

	<b>2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments				
U.S. Treasury and government agency guaranteed obligations	\$ -	\$ 17,261,022	\$ -	\$ 17,261,022
Mutual funds and ETFs*	6,051,352	2,982,091	-	9,033,443
Common trust funds*	-	10,901,620	-	10,901,620
Common stock	158,372	-	-	158,372
State of Israel bonds	-	6,395,746	-	6,395,746
Total investments reported on the fair value hierarchy	<u>6,209,724</u>	<u>37,540,479</u>	<u>-</u>	43,750,203
Cash and cash equivalents				29,547,958
Certificates of deposit				<u>23,683,844</u>
Total investments				<u>\$ 96,982,005</u>

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	<b>2015</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>ASSETS</b>				
Investments				
U.S. Treasury and government agency guaranteed obligations	\$ -	\$ 17,253,845	\$ -	\$ 17,253,845
Mutual funds and ETFs*	2,646,932	1,553,880	-	4,200,812
Common trust funds*	-	5,890,538	-	5,890,538
Common stock	1,266,735	-	-	1,266,735
State of Israel bonds	-	6,489,810	-	6,489,810
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				49,126,296
Certificates of deposit				<u>9,433,884</u>
Total investments				<u>\$ 93,661,920</u>
Other assets				
Foreign currency forward contracts	<u>\$ -</u>	<u>\$ 754,569</u>	<u>\$ -</u>	<u>\$ 754,569</u>
<b>LIABILITIES</b>				
Foreign currency forward contracts payable	<u>\$ -</u>	<u>\$ 761,762</u>	<u>\$ -</u>	<u>\$ 761,762</u>

\* Mutual funds, common trust funds and ETFs consisted of the following at December 31, 2016 and 2015:

	<b>2016</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Large Cap Domestic Equities	\$ 2,772,924	\$ 3,328,673	\$ 6,101,597
Mid Cap Domestic Equities	638,852	714,949	1,353,801
Small Cap Domestic Equities	176,150	608,907	785,057
Blended Domestic Equities	604,826	-	604,826
International Equities	1,362,754	3,622,695	4,985,449
Fixed Income	20,617	4,665,826	4,686,443
Diversified Funds	<u>475,229</u>	<u>942,661</u>	<u>1,417,890</u>
Total mutual funds, common trust funds and ETFs	<u>\$ 6,051,352</u>	<u>\$ 13,883,711</u>	<u>\$ 19,935,063</u>



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	<b>2015</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
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	234,573	311,226	545,799
	<u>2,646,932</u>	<u>7,444,418</u>	<u>10,091,350</u>
Total mutual funds, common trust funds and ETFs	<u>\$ 2,646,932</u>	<u>\$ 7,444,418</u>	<u>\$ 10,091,350</u>

FIDF's investment in common trust funds as of December 31, 2016 and 2015 consisted of holdings in nine funds each year. The redemption terms for these funds vary from daily to semi-monthly and there are no unfunded commitments relative to the funds as of December 31, 2016 and 2015.

Investment income consisted of the following as of December 31:

	<b>2016</b>	<b>2015</b>
Interest and dividend income	\$ 1,128,840	\$ 1,042,142
Realized gain on investments	81,978	51,086
Unrealized loss on investments	<u>(407,707)</u>	<u>(686,071)</u>
	<u>\$ 803,111</u>	<u>\$ 407,157</u>
Total investment income	<u>\$ 803,111</u>	<u>\$ 407,157</u>

#### 4. FOREIGN EXCHANGE, DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

ASC 815 - *Derivatives and Hedging* requires FIDF to recognize all derivatives in the statement of financial position 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, 2016 and 2015, net unrealized loss on FIDF's foreign currency forward contracts amounted to \$0 and \$49,809, 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 statements of financial position.

For the years ended December 31, 2016 and 2015, the net realized foreign exchange gain on FIDF's foreign currency transactions amounted to \$4,936 and \$165,275, respectively.

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In addition, at December 31, 2016, unrealized gain on foreign currency held in the bank amounted to \$22,301 (\$12,008 unrealized loss at December 31, 2015), representing the difference between the carrying value of the currency in the accompanying statements of financial position and the purchase cost of that currency.

**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>2016</u>	<u>2015</u>
Less than one year	\$ 62,100,996	\$ 47,314,004
One to five years	36,771,996	31,317,663
More than five years	<u>112,000</u>	<u>140,000</u>
	98,984,992	78,771,667
Less discount to present value	<u>(1,835,547)</u>	<u>(1,456,122)</u>
	97,149,445	77,315,545
Less allowance for doubtful accounts	<u>(6,905,738)</u>	<u>(4,897,661)</u>
Present value of contributions receivable	<u>\$ 90,243,707</u>	<u>\$ 72,417,884</u>

Contributions receivable at December 31, 2016 and 2015 included outstanding pledges from five donors, which collectively represented approximately 46% and 36%, respectively, of total outstanding gross contributions receivable.

**6. FIXED ASSETS**

Fixed assets at December 31, 2016 and 2015 consisted of the following:

	<b>Estimated Useful Life</b>	<u>2016</u>	<u>2015</u>
Office equipment	5 years	\$ 53,864	\$ 41,267
Computer hardware and software	3-5 years	563,204	507,646
Furniture and fixtures	7 years	135,646	117,224
Leasehold improvements	2-15 years	<u>765,915</u>	<u>221,530</u>
		1,518,629	887,667
Less accumulated depreciation and amortization		<u>(549,929)</u>	<u>(539,777)</u>
		<u>\$ 968,700</u>	<u>\$ 347,890</u>

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Depreciation expense for the years ended December 31, 2016 and 2015 was \$202,279 and \$207,860, respectively.

**7. SPLIT-INTEREST AGREEMENTS**

FIDF's investments include funds pertaining to 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, along with a related liability representing 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 accompanying statement of activities.

The fair value of investments held for annuities and trusts totaled \$15,128,024 and \$8,615,196 at December 31, 2016 and 2015, 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 \$874,572 and \$281,278 at December 31, 2016 and 2015, respectively.

**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.

These grants were due to be paid as follows as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Current	\$ 8,953,334	\$ 11,861,412
One to five years	<u>4,461,524</u>	<u>9,916,733</u>
	13,414,858	21,778,145
Less discount to present value (3%)	<u>(129,947)</u>	<u>(408,250)</u>
Present value of grants payable	<u>\$ 13,284,911</u>	<u>\$ 21,369,895</u>

Commitments denominated in NIS have been converted to U.S. dollars at the exchange rate in effect at December 31, 2016 and 2015.

**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 2017 and 2031, however, certain

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facilities are rented on a month-to-month basis. The minimum annual rental obligations in connection with lease commitments are as follows for the years ended December 31:

2017	\$ 1,110,488
2018	949,396
2019	861,982
2020	783,311
2021	772,120
2022 and thereafter	<u>8,638,460</u>
	<u>\$ 13,115,757</u>

The minimum annual rental obligation reported above includes a 15-year lease commitment for office space totaling \$12,475,840. The security deposit for the lease is provided via a letter of credit in the amount of \$452,822.

Rent expense for 2016 and 2015 was \$1,176,117 and \$718,738, respectively. Included in accounts payable and accrued expenses on the accompanying statement of financial position is deferred rent in the amount of \$488,304 and \$24,737 at December 31, 2016 and 2015, respectively, which represented the effect of straight-lining the total minimum lease payments over the respective lease terms.

**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.

**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 of up to 3%. Retirement plan expense for the years ended December 31, 2016 and 2015 was \$178,384 and \$144,803, respectively.

**12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following programs as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Construction programs	\$ 12,551,570	\$ 14,069,468
Educational and scholarship programs	49,594,933	45,958,512
Wellbeing and recreational programs	48,580,184	36,726,185
Split-interest agreements	<u>11,034,730</u>	<u>6,068,021</u>
	<u>\$ 121,761,417</u>	<u>\$ 102,822,186</u>

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Temporarily restricted net assets were released from donor restrictions by satisfying the following for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Construction programs	\$ 15,044,312	\$ 15,911,170
Educational and scholarship programs	20,260,837	15,220,204
Wellbeing and recreational programs	23,711,994	22,559,337
Satisfaction of time restrictions	<u>-</u>	<u>3,015</u>
	<u>\$ 59,017,143</u>	<u>\$ 53,693,726</u>

**Endowments**

Permanently restricted net assets consist of twelve individual donor-restricted endowment funds established to support activities of FIDF, as well as accumulation of income. 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.

**Interpretation of Relevant Law**

The Organization has interpreted the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) as requiring the preservation of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, FIDF classifies as permanently restricted net assets (a) the original value of the 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 FIDF in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, FIDF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of FIDF and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of FIDF
- The investment policies of FIDF
- Where appropriate, alternatives to spending from the donor-restricted endowment fund and the possible effects of FIDF

**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

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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 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Wellbeing and recreational programs	\$ 993,933	\$ 743,933
Educational and scholarship programs	5,576,527	2,434,527
Operations	<u>301,503</u>	<u>301,503</u>
	<u>\$ 6,871,963</u>	<u>\$ 3,479,963</u>

### Changes in Endowment Net Assets for the Years Ended December 31, 2016 and 2015

	<u>2016</u>		
	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 3,479,963	\$ 3,479,963
Interest and dividends	48,637	-	48,637
Contributions	-	3,392,000	3,392,000
Appropriation for expenditure	<u>(48,637)</u>	<u>-</u>	<u>(48,637)</u>
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 6,871,963</u>	<u>\$ 6,871,963</u>
	<u>2015</u>		
	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 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>
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 3,479,963</u>	<u>\$ 3,479,963</u>

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**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.