

Financial Statements and Report of
Independent Certified Public Accountants

FRIENDS OF THE ISRAEL DEFENSE FORCES

December 31, 2017
with comparative summarized information
for the year ended December 31, 2016

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

We have audited the accompanying financial statements of Friends of the Israel Defense Forces (the “FIDF”), which comprise the statement of financial position as of December 31, 2017, 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 FIDF’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 FIDF’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.

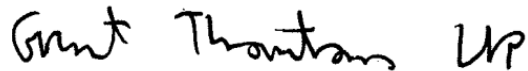
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017, 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 2016 summarized comparative information

We have previously audited FIDF's 2016 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 12, 2017. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

New York, New York
November 30, 2018

FRIENDS OF THE ISRAEL DEFENSE FORCES

Statements of Financial Position

As of December 31, 2017, with summarized comparative information as of December 31, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 366,281	\$ 521,990
Investments (Note 3)	96,961,669	96,982,005
Contributions receivable - net (Note 5)	112,044,716	90,243,707
Prepaid expenses and other assets	1,138,138	716,189
Beneficial interest in remainder trust (Note 7)	1,915,551	874,572
Fixed assets - net (Note 6)	<u>897,615</u>	<u>968,700</u>
Total assets	<u>\$ 213,323,970</u>	<u>\$ 190,307,163</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,087,414	\$ 2,067,570
Grants payable for capital projects (Note 8)	12,042,348	13,284,911
Annuities payable (Note 7)	<u>8,766,879</u>	<u>6,764,849</u>
Total liabilities	<u>22,896,641</u>	<u>22,117,330</u>
NET ASSETS		
Unrestricted	38,434,206	39,556,453
Temporarily restricted (Note 12)	143,956,710	121,761,417
Permanently restricted (Note 12)	<u>8,036,413</u>	<u>6,871,963</u>
Total net assets	<u>190,427,329</u>	<u>168,189,833</u>
Total liabilities and net assets	<u>\$ 213,323,970</u>	<u>\$ 190,307,163</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, 2017, with summarized comparative information for the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2017	2016
REVENUES, GAINS, LOSSES AND OTHER SUPPORT					
Contributions	\$ 7,649,441	\$ 32,914,074	\$ 1,164,450	\$ 41,727,965	\$ 44,462,078
Bequests	5,842,385	474,373	-	6,316,758	2,481,357
Special events income (Note 2)	\$ 79,638,805				
Direct costs of special events	<u>(7,300,967)</u>				
Special events income, net	18,014,609	54,323,229	-	72,337,838	62,998,640
In-kind contributions (Note 2)	457,138	-	-	457,138	665,130
Investment income (Note 3)	925,886	913,109	-	1,838,995	803,111
Foreign exchange gain (loss)	26,196	-	-	26,196	34,430
Change in split interest agreements	290,653	(157,208)	-	133,445	760,591
Net assets released from restrictions (Note 12)	<u>61,967,087</u>	<u>(61,967,087)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains, losses and other support	<u>95,173,395</u>	<u>26,500,490</u>	<u>1,164,450</u>	<u>122,838,335</u>	<u>112,205,337</u>
EXPENSES					
Program services:					
Construction programs - transfers (cash)	\$ 16,431,927				
Construction programs - change in grants payable	<u>(1,242,563)</u>				
Construction programs	15,189,364	-	-	15,189,364	8,359,261
Educational and scholarship programs	25,001,296	-	-	25,001,296	21,897,135
Wellbeing and recreational programs	<u>33,482,359</u>	<u>-</u>	<u>-</u>	<u>33,482,359</u>	<u>27,704,419</u>
Total program services	<u>73,673,019</u>	<u>-</u>	<u>-</u>	<u>73,673,019</u>	<u>57,960,815</u>
Supporting services:					
Management and general	10,285,616	-	-	10,285,616	10,368,451
Fundraising	<u>12,230,395</u>	<u>-</u>	<u>-</u>	<u>12,230,395</u>	<u>10,580,558</u>
Total supporting services	<u>22,516,011</u>	<u>-</u>	<u>-</u>	<u>22,516,011</u>	<u>20,949,009</u>
Bad debt expense from uncollectible pledges	<u>106,612</u>	<u>4,305,197</u>	<u>-</u>	<u>4,411,809</u>	<u>5,021,435</u>
Total expenses	<u>96,295,642</u>	<u>4,305,197</u>	<u>-</u>	<u>100,600,839</u>	<u>83,931,259</u>
Change in net assets	(1,122,247)	22,195,293	1,164,450	22,237,496	28,274,078
Net assets - beginning 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>
Net assets - end of year	<u>\$ 38,434,206</u>	<u>\$ 143,956,710</u>	<u>\$ 8,036,413</u>	<u>\$ 190,427,329</u>	<u>\$ 168,189,833</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, 2017, with summarized comparative information for the year ended December 31, 2016

	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	2017	2016
Grants for projects and programs (including direct payments to vendors)	\$ 14,650,476	\$ 23,231,969	\$ 31,001,473	\$ 68,883,918	\$ -	\$ -	\$ -	\$ 68,883,918	\$ 53,631,064
Salaries	312,382	958,436	1,363,896	2,634,714	4,929,020	3,245,952	-	10,809,686	10,336,824
Payroll taxes and employee benefits	74,214	256,840	290,581	621,635	1,028,320	676,809	-	2,326,764	1,987,587
Occupancy	15,254	70,550	6,356	92,160	765,596	510,397	-	1,368,153	1,210,259
Telephone and internet	7,152	31,572	2,980	41,704	123,666	82,444	-	247,814	288,341
Office supplies	804	30,894	1,400	33,098	65,006	18,496	-	116,600	111,112
Postage and freight	770	742	390	1,902	9,454	500,939	-	512,295	469,366
Consulting and outside services	53,487	13,372	22,286	89,145	74,287	294,380	-	457,812	264,901
Professional fees	27,448	179,165	90,554	297,167	1,847,911	4,429,502	-	6,574,580	5,981,778
Travel and conferences	44,893	163,555	660,948	869,396	391,984	419,817	2,257,424	3,938,621	2,904,903
Non-capitalizable equipment purchases	-	-	71	71	16,531	-	-	16,602	29,171
Advertising	71	51,041	5,014	56,126	2,000	1,073,175	-	1,131,301	1,021,874
Printing and publications	2	1,328	1,521	2,851	12,997	552,370	-	568,218	677,023
Photo and video services	1,510	1,992	16	3,518	288	102,380	60,609	166,795	172,718
Insurance	-	-	-	-	220,146	3,550	-	223,696	163,781
Credit card and bank fees	-	-	-	-	504,569	-	-	504,569	400,025
Catering/refreshments	-	7,092	28,921	36,013	37,548	108,329	3,813,086	3,994,976	3,667,986
Entertainment/speakers	-	2,077	693	2,770	7,734	117,081	699,300	826,885	662,369
Promotional items and awards	901	671	5,259	6,831	9,774	94,774	470,548	581,927	682,158
Depreciation and amortization	-	-	-	-	191,563	-	-	191,563	202,279
Miscellaneous	-	-	-	-	47,222	-	-	47,222	43,612
	<u>15,189,364</u>	<u>25,001,296</u>	<u>33,482,359</u>	<u>73,673,019</u>	<u>10,285,616</u>	<u>12,230,395</u>	<u>7,300,967</u>	<u>103,489,997</u>	<u>84,909,131</u>
Less expenses deducted directly from revenue on the statement of activities	-	-	-	-	-	-	(7,300,967)	(7,300,967)	(5,999,307)
Total expenses before bad debt expense	<u>15,189,364</u>	<u>25,001,296</u>	<u>33,482,359</u>	<u>73,673,019</u>	<u>10,285,616</u>	<u>12,230,395</u>	<u>-</u>	<u>96,189,030</u>	<u>78,909,824</u>
Bad debt expense	-	-	-	-	4,411,809	-	-	4,411,809	5,021,435
Total expenses	<u>\$ 15,189,364</u>	<u>\$ 25,001,296</u>	<u>\$ 33,482,359</u>	<u>\$ 73,673,019</u>	<u>\$ 14,697,425</u>	<u>\$ 12,230,395</u>	<u>\$ -</u>	<u>\$ 100,600,839</u>	<u>\$ 83,931,259</u>

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

FRIENDS OF THE ISRAEL DEFENSE FORCES

Statements of Cash Flows

For the year ended December 31, 2017, with summarized comparative information for the year ended December 31, 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 22,237,496	\$ 28,274,078
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	191,563	202,279
Contributions restricted for endowments	(1,164,450)	(3,392,000)
Change in split interest agreements	(133,445)	(760,591)
Contributions restricted for split-interest agreements	(927,854)	(4,207,082)
Realized and unrealized (gain) loss on investments	(494,950)	325,729
Unrealized gain on foreign currency forward contracts	-	(7,193)
(Increase) decrease in assets		
Contributions receivable	(21,801,009)	(17,825,823)
Prepaid expenses and other assets	(421,949)	(261,030)
Beneficial interest remainder trust	(1,040,979)	(593,294)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	19,844	211,565
Grants payable for capital projects	(1,242,563)	(8,084,984)
Net cash used in operating activities	<u>(4,778,296)</u>	<u>(6,118,346)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	(120,478)	(823,089)
Purchase of investments and securities	(43,264,682)	(42,442,286)
Proceeds from sale of investments and securities	<u>43,779,968</u>	<u>38,796,472</u>
Net cash provided by (used in) investing activities	<u>394,808</u>	<u>(4,468,903)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contribution for endowment	1,164,450	3,392,000
Proceeds from investments subject to split-interest agreements	2,328,034	7,235,499
Proceeds from investment income subject to split-interest agreements	2,253,983	966,919
Payment of annuity obligations	<u>(1,518,688)</u>	<u>(1,188,195)</u>
Net cash provided by financing activities	<u>4,227,779</u>	<u>10,406,223</u>
Net change in cash and cash equivalents	(155,709)	(181,026)
Cash and cash equivalents - beginning of year	<u>521,990</u>	<u>703,016</u>
Cash and cash equivalents - end of year	<u>\$ 366,281</u>	<u>\$ 521,990</u>

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

FRIENDS OF THE ISRAEL DEFENSE FORCES

Notes to Financial Statements

December 31, 2017

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 2017, FIDF was able to fund approximately 4,470 scholarships for the 2017-2018 academic year of college or university study representing approximately \$15.8 million of scholarship assistance.

During 2017, FIDF also sponsored approximately \$7.4 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 2017, about 13,400 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 2017, FIDF provided approximately \$5.2 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, 2017

their period of service. During 2017, FIDF provided approximately \$4.3 million to assist over 3,000 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 and siblings of fallen soldiers who share the experience of summer camp in the U.S. with American children of similar age. During 2017, FIDF provided approximately \$1.0 million for such activities, aiding over 1,000 members of bereaved families, including trips to the United States for more than 50 children of various ages.

The Spirit/Rest and Recreation Program sponsors various units with wellbeing needs such as fun days, trips and sports events and wellbeing equipment, and provides a week of rest and recuperation for active-duty combat units. Soldiers enjoy a week of R&R at recreation centers which are fully equipped with lodging and dining facilities, swimming pools, fitness rooms, and other amenities. During 2017, FIDF provided approximately \$3.5 million for such activities, sponsoring 41 weeks of such programs for a total of about 19,200 soldiers.

The Adopt a Brigade Program provides support for the DIGNITY Program, Spirit/Rest and Recreation Program, the Lone Soldiers Program and general wellbeing activities of the designated brigades. During 2017, FIDF provided approximately \$3.1 million to sponsor the general wellbeing needs of the 9 brigades adopted by FIDF (approximately 33,700 soldiers).

The Adopt a Battalion Program provides year-long recreational activities for designated battalions. During 2017, FIDF provided approximately \$1.5 million to sponsor ceremonies, trips and other wellbeing activities for the 69 battalions adopted by FIDF (approximately 23,200 soldiers).

The Wounded Veterans Program offered a second chance at a life without limitations in 2017 with approximately \$5.3 million to sponsor activities supporting over 2,400 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 2017, FIDF provided approximately \$3.8 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 2017 was as follows: 10 construction projects were completed, with a total budget of approximately \$14.0 million, 8 additional projects were under construction, with a total budget of approximately \$21.1 million, and 8 projects were in the design and bidding stage, with a total budget of approximately \$27.3 million. In addition, 96 smaller facilities renovation and refurbishment projects were completed, with a total budget of approximately \$2.6 million.

FRIENDS OF THE ISRAEL DEFENSE FORCES
Notes to Financial Statements
December 31, 2017

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, 2016, 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 US GAAP 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, 2017

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, 2017 as compared to December 31, 2016.

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, 2017

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, 2017.

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 is included in contribution revenues on the accompanying statement of activities for the year ended December 31, 2017. 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.

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.

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 the 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,

FRIENDS OF THE ISRAEL DEFENSE FORCES

Notes to Financial Statements

December 31, 2017

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 year ended December 31, 2017, approximately 31% 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 \$457,138 for the year ended December 31, 2017, 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 \$231,990 for the year ended December 31, 2017, 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.

Uncertainty in Income Taxes

FIDF follows guidance that 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 guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

FIDF is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. FIDF has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated business income; to determine its filing and tax obligations in jurisdictions for which it has a nexus; and to

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identify and evaluate other matters that may be considered tax positions. FIDF has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. In addition, FIDF has not recorded a provision for income taxes as it has no material tax liability from unrelated business income activities.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for FIDF for fiscal year 2020. Early adoption is permitted. FIDF is in the process of evaluating the impact this standard will have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (i.e., fiscal year ending December 31, 2018), with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. FIDF is in the process of evaluating the impact this standard will have on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. For recipients, the effective date of the amendments is for annual periods beginning after December 15, 2018 (i.e., fiscal year ending December 31, 2019). FIDF is in the process of evaluating the impact this standard will have on the financial statements.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the 2016 financial statements.

Subsequent Events

Subsequent events have been evaluated through November 30, 2018, which is the date the financial statements were available to be issued.

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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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
U.S. Treasury and government agency guaranteed obligations	\$ -	\$ 19,555,978	\$ -	\$ 19,555,978
Mutual funds and ETFs	4,127,374	4,027,239	-	8,154,613
Common stock	4,892,473	-	-	4,892,473
State of Israel bonds	<u>-</u>	<u>6,076,022</u>	<u>-</u>	<u>6,076,022</u>
Total investments reported on the fair value hierarchy	<u>\$ 9,019,847</u>	<u>\$ 29,659,239</u>	<u>\$ -</u>	38,679,086
Cash and cash equivalents				26,688,541
Certificates of deposit				20,330,573
Investments at NAV				<u>11,263,469</u>
Total investments				<u>\$ 96,961,669</u>

FIDF's investments at NAV as of December 31, 2017 consisted of holdings in eight funds. The redemption terms for these funds vary from daily to semi-monthly and there are no associated unfunded commitments as of December 31, 2017.

Investment income consisted of the following as of December 31, 2017:

Interest and dividend income	\$ 1,344,045
Realized and unrealized gain on investments	<u>494,950</u>
Total investment income	<u>\$ 1,838,995</u>

4. FOREIGN EXCHANGE

For the year ended December 31, 2017, the net realized foreign exchange loss on FIDF's foreign currency transactions amounted to \$17,040.

In addition, at December 31, 2017, unrealized gain on foreign currency held in the bank amounted to \$43,236, representing the difference between the carrying value of the currency in the accompanying statement of financial position and the purchase cost of that currency.

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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>2017</u>
Less than one year	\$ 61,117,179
One to five years	61,164,114
More than five years	<u>2,535,333</u>
	124,816,626
Less discount to present value	<u>(2,764,686)</u>
	122,051,940
Less allowance for doubtful accounts	<u>(10,007,224)</u>
Present value of contributions receivable	<u>\$ 112,044,716</u>

Contributions receivable at December 31, 2017 included outstanding pledges from five donors, which collectively represented approximately 52% of total outstanding gross contributions receivable.

6. FIXED ASSETS

Fixed assets at December 31, 2017 consisted of the following:

	<u>Estimated Useful Life</u>	<u>2017</u>
Office equipment	5 years	\$ 57,239
Computer hardware and software	3-5 years	638,959
Furniture and fixtures	7 years	166,097
Leasehold improvements	2-15 years	<u>776,812</u>
		1,639,107
Less accumulated depreciation and amortization		<u>(741,492)</u>
		<u>\$ 897,615</u>

Depreciation expense for the year ended December 31, 2017 was \$191,563.

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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 \$18,215,439 at December 31, 2017.

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 \$1,915,551 at December 31, 2017.

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, 2017:

Current	\$ 10,484,656
One to five years	<u>1,617,948</u>
	12,102,604
Less discount to present value (3%)	<u>(60,256)</u>
Present value of grants payable	<u>\$ 12,042,348</u>

Commitments denominated in NIS have been converted to U.S. dollars at the exchange rate in effect at December 31, 2017.

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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 2018 and 2031, however, certain 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 ending December 31:

2018	\$ 1,226,965
2019	1,113,560
2020	893,993
2021	839,693
2022	881,918
2023 and thereafter	<u>7,802,480</u>
	<u>\$ 12,758,609</u>

The minimum annual rental obligation reported above includes a 15-year lease commitment for office space totaling \$11,709,525. The security deposit for the lease is provided via a letter of credit in the amount of \$377,352 and is reflected within prepaid expenses and other assets in the accompanying statement of financial position as of December 31, 2017.

Rent expense for 2017 was \$1,324,954. Included in accounts payable and accrued expenses on the accompanying statement of financial position is deferred rent in the amount of \$531,402 at December 31, 2017, 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 Federal Deposit Insurance Corporation 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 year ended December 31, 2017 was \$217,795.

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12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following programs as of December 31, 2017:

Construction programs	\$ 27,783,682
Educational and scholarship programs	48,527,516
Wellbeing and recreational programs	55,854,882
Split-interest agreements	<u>11,790,630</u>
	<u>\$ 143,956,710</u>

Temporarily restricted net assets were released from donor restrictions by satisfying the following for the year ended December 31, 2017:

Construction programs	\$ 11,113,393
Educational and scholarship programs	22,616,185
Wellbeing and recreational programs	<u>28,237,509</u>
	<u>\$ 61,967,087</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 US GAAP 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

FIDF 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

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- 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 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 2017 consisted of the following:

Wellbeing and recreational programs	\$ 1,032,933
Educational and scholarship programs	6,701,977
Operations	<u>301,503</u>
	<u>\$ 8,036,413</u>

Changes in endowment net assets for the year ended December 31, 2017 consisted of the following:

	<u>Temporary Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 553,700	\$ 6,871,963	\$ 7,425,663
Investment income	913,109	-	913,109
Contributions	-	1,164,450	1,164,450
Appropriation for expenditure	<u>(183,579)</u>	<u>-</u>	<u>(183,579)</u>
Endowment net assets, end of year	<u>\$ 1,283,230</u>	<u>\$ 8,036,413</u>	<u>\$ 9,319,643</u>

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 sought damages in excess of \$34.5 billion and alleged, among other things, civil conspiracy, war crimes, trespass, and pillage. Subsequently, the judge dismissed the case stating lack of jurisdiction. The plaintiffs appealed the dismissal of their case, and lowered the claim's amount to \$1 billion.

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