

Financial Statements and Report of
Independent Certified Public
Accountants

Friends of the Israel Defense Forces

December 31, 2019
with comparative summarized information
for the year ended December 31, 2018

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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 ("FIDF"), which comprise the statement of financial position as of December 31, 2019, 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, 2019, 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 2018 summarized comparative information

We have previously audited FIDF's 2018 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2019. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.



New York, New York
October 13, 2020

Friends of the Israel Defense Forces

STATEMENT OF FINANCIAL POSITION

As of December 31, 2019, with summarized comparative information as of December 31, 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 1,122,901	\$ 1,128,569
Investments (Note 3)	105,979,796	107,311,202
Contributions receivable - net (Note 5)	110,366,839	128,941,879
Prepaid expenses and other assets	507,733	470,870
Fixed assets - net (Note 6)	855,227	796,264
Total assets	\$ 218,832,496	\$ 238,648,784
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,207,166	\$ 3,102,142
Grants payable for capital projects (Note 9)	6,358,311	8,148,792
Annuities payable (Note 8)	9,335,034	8,624,568
Total liabilities	17,900,511	19,875,502
 NET ASSETS		
Without donor restrictions	36,108,270	42,874,229
With donor restrictions (Note 13)	164,823,715	175,899,053
Total net assets	200,931,985	218,773,282
Total liabilities and net assets	\$ 218,832,496	\$ 238,648,784

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, 2019, with summarized comparative information for the year ended December 31, 2018

		Without Donor Restrictions	With Donor Restrictions	Total	
				2019	2018
REVENUES, GAINS, LOSSES AND OTHER SUPPORT					
Contributions		\$ 10,921,329	\$ 24,929,669	\$ 35,850,998	\$ 33,220,863
Bequests		4,723,274	7,787,785	12,511,059	14,278,857
Special events income (Note 2)	\$ 44,472,837				
Direct costs of special events	<u>(7,102,493)</u>				
Special events income, net		11,545,975	25,824,369	37,370,344	83,630,741
In-kind contributions (Note 2)		680,590	-	680,590	704,457
Investment income (Note 3)		1,558,606	1,818,220	3,376,826	804,816
Foreign exchange gain (loss)		(56,267)	-	(56,267)	(40,904)
Change in split interest agreements		1,386,919	(109,028)	1,277,891	(468,251)
Net assets released from restrictions (Note 13)		<u>70,985,666</u>	<u>(70,985,666)</u>	<u>-</u>	<u>-</u>
	Total revenues, gains, losses and other support	<u>101,746,092</u>	<u>(10,734,651)</u>	<u>91,011,441</u>	<u>132,130,579</u>
EXPENSES					
Program services:					
Construction programs - transfers (cash)	\$ 15,096,194				
Construction programs - change in grants payable	<u>(1,790,481)</u>				
Construction programs		13,305,713	-	13,305,713	10,037,387
Educational and scholarship programs		28,239,600	-	28,239,600	24,556,365
Wellbeing and recreational programs		<u>43,066,109</u>	<u>-</u>	<u>43,066,109</u>	<u>37,208,195</u>
	Total program services	<u>84,611,422</u>	<u>-</u>	<u>84,611,422</u>	<u>71,801,947</u>
Supporting services:					
Management and general		11,641,293	-	11,641,293	11,249,671
Fundraising		<u>12,230,464</u>	<u>-</u>	<u>12,230,464</u>	<u>13,074,608</u>
	Total supporting services	<u>23,871,757</u>	<u>-</u>	<u>23,871,757</u>	<u>24,324,279</u>
Bad debt expense from uncollectible pledges		<u>28,872</u>	<u>340,687</u>	<u>369,559</u>	<u>7,658,400</u>
	Total expenses	<u>108,512,051</u>	<u>340,687</u>	<u>108,852,738</u>	<u>103,784,626</u>
Change in net assets		(6,765,959)	(11,075,338)	(17,841,297)	28,345,953
Net assets - beginning of year		<u>42,874,229</u>	<u>175,899,053</u>	<u>218,773,282</u>	<u>190,427,329</u>
Net assets - end of year		<u>\$ 36,108,270</u>	<u>\$ 164,823,715</u>	<u>\$ 200,931,985</u>	<u>\$ 218,773,282</u>

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

Friends of the Israel Defense Forces

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2019, with summarized comparative information for the year ended December 31, 2018

	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	2019	2018
Grants for projects and programs (including direct payments to vendors)	\$ 12,629,186	\$ 26,192,239	\$ 40,526,460	\$ 79,347,885				\$ 79,347,885	\$ 66,425,831
Salaries	362,445	1,137,212	1,466,947	2,966,604	\$ 5,619,551	\$ 4,192,841	\$ -	12,778,996	12,005,590
Payroll taxes and employee benefits	90,302	315,455	333,764	739,521	1,332,331	827,698	-	2,899,550	2,746,524
Occupancy	19,963	95,035	8,318	123,316	811,144	540,763	-	1,475,223	1,470,349
Telephone and internet	4,077	17,937	2,134	24,148	149,011	99,340	-	272,499	257,181
Office supplies	1,630	16,155	1,548	19,333	80,464	22,727	-	122,524	115,035
Postage and freight	314	132	350	796	13,798	373,159	-	387,753	597,023
Consulting and outside services	58,764	14,691	24,485	97,940	81,617	277,690	-	457,247	474,489
Professional fees	96,172	221,905	40,427	358,504	1,945,069	4,155,366	-	6,458,939	6,467,040
Travel and conferences	40,157	165,713	631,423	837,293	428,100	420,125	2,024,863	3,710,381	5,393,134
Non-capitalizable equipment purchases	-	-	-	-	10,010	-	-	10,010	12,454
Advertising	-	37,975	-	37,975	9,171	383,548	-	430,694	1,149,611
Printing and publications	1,064	2,078	723	3,865	10,982	455,678	-	470,525	620,316
Photo and video services	1,639	1,369	3,365	6,373	60	132,386	65,933	204,752	223,119
Insurance	-	-	-	-	288,884	200	-	289,084	272,053
Credit card and bank fees	-	-	-	-	549,467	-	-	549,467	611,750
Catering/refreshments	-	18,660	7,620	26,280	59,380	98,220	4,309,802	4,493,682	3,727,939
Entertainment/speakers	-	2,572	10,940	13,512	6,971	124,044	350,471	494,998	550,001
Promotional items and awards	-	472	7,605	8,077	10,163	126,679	351,424	496,343	589,323
Depreciation and amortization	-	-	-	-	141,545	-	-	141,545	149,912
Miscellaneous	-	-	-	-	93,575	-	-	93,575	94,262
	13,305,713	28,239,600	43,066,109	84,611,422	11,641,293	12,230,464	7,102,493	115,585,672	103,952,936
Less expenses deducted directly from revenue on the statement of activities	-	-	-	-	-	-	(7,102,493)	(7,102,493)	(7,826,710)
Total expenses before bad debt expense	13,305,713	28,239,600	43,066,109	84,611,422	11,641,293	12,230,464	-	108,483,179	96,126,226
Bad debt expense	-	-	-	-	-	-	-	369,559	7,658,400
Total expenses	\$ 13,305,713	\$ 28,239,600	\$ 43,066,109	\$ 84,611,422	\$ 11,641,293	\$ 12,230,464	\$ -	\$ 108,852,738	\$ 103,784,626

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

Friends of the Israel Defense Forces

STATEMENT OF CASH FLOWS

**For the year ended December 31, 2019, with summarized comparative information
for the year ended December 31, 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (17,841,297)	\$ 28,345,953
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	141,545	149,912
Contributions restricted for endowments	(1,181,115)	(117,000)
Change in split interest agreements	(1,277,891)	468,251
Contributions restricted for split-interest agreements	(1,816,881)	(618,812)
Realized and unrealized (gain) loss on investments	(2,173,734)	319,801
(Increase) decrease in assets		
Contributions receivable	18,575,040	(16,897,163)
Prepaid expenses and other assets	(36,863)	667,268
Beneficial interest remainder trust		1,915,551
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(894,976)	1,014,728
Grants payable for capital projects	(1,790,481)	(3,893,556)
	<u>(8,296,653)</u>	<u>11,354,933</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	(200,508)	(48,561)
Purchase of investments and securities	(47,289,460)	(66,103,893)
Proceeds from sale of investments and securities	50,794,600	55,434,559
	<u>3,304,632</u>	<u>(10,717,895)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contribution for endowment	1,181,115	117,000
Proceeds from investments subject to split-interest agreements	2,757,000	1,016,000
Proceeds from investment income subject to split-interest agreements	2,673,220	562,858
Payment of annuity obligations	(1,624,982)	(1,570,608)
	<u>4,986,353</u>	<u>125,250</u>
Net change in cash and cash equivalents	(5,668)	762,288
Cash and cash equivalents - beginning of year	1,128,569	366,281
Cash and cash equivalents - end of year	<u>\$ 1,122,901</u>	<u>\$ 1,128,569</u>

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

Friends of the Israel Defense Forces
NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 - PURPOSE OF ORGANIZATION

Friends of the Israel Defense Forces (“FIDF”) was incorporated under the laws of the State of New York on December 15, 1981 and began operations on April 1, 1983. 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. Each scholarship recipient is required to complete 130 hours of community service every year during the full term of the scholarship. FIDF partners with 20 organizations which empower the students to help their communities and improve their environment. In the 2019-2020 academic year, FIDF was able to fund approximately 4,602 scholarships of college or university study. In 2019, FIDF had granted approximately \$17.7 million of scholarship assistance.

During 2019, FIDF also sponsored approximately \$8.5 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 2019, about 34,197 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 2019, FIDF provided approximately \$6.6 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 their period of service. During 2019, FIDF provided approximately \$5.2 million to assist over 3,500 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,

Friends of the Israel Defense Forces

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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 2019, FIDF provided approximately \$1.4 million for such activities, aiding over 8,325 members of bereaved families, including trips to the United States for more than 47 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 2019, FIDF provided approximately \$2.7 million for such activities, sponsoring 57 weeks of such programs for a total of about 24,800 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 2019, FIDF provided approximately \$4.8 million to sponsor the general wellbeing needs of the 10 brigades adopted by FIDF (approximately 37,500 soldiers).

The Adopt a Battalion Program provides year-long recreational activities for designated battalions. During 2019, FIDF provided approximately \$1.4 million to sponsor ceremonies, trips and other wellbeing activities for the 75 battalions adopted by FIDF (approximately 26,500 soldiers).

The Wounded Veterans Program offered a second chance at a life without limitations in 2019 with approximately \$7.4 million to sponsor activities supporting over 1,305 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 2019, FIDF provided approximately \$3.3 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 2019 was as follows: three construction projects were completed, with a total budget of approximately \$7.2 million, nine additional projects were under construction, with a total budget of approximately \$24.7 million, and 15 projects were in the design and bidding stage, with a total budget of approximately \$45.3 million. In addition, 67 smaller facilities renovation and refurbishment projects were completed, with a total budget of approximately \$5.1 million.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

FIDF classifies its net assets in the following categories:

Net Assets Without Donor Restriction - Represent net assets which are not restricted by donors. Net assets without donor restrictions are funds that are fully available, at the discretion of the Board of

Friends of the Israel Defense Forces

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

Directors and management, for FIDF to utilize in any of its programs or supporting services. Net assets without donor restrictions may be designated for specific purposes FIDF's Board of Directors or may be limited by legal requirements or contractual agreements with outside parties.

Net Assets With Donor Restriction - Represent net assets which are subject to donor-imposed restrictions whose use is restricted by time and/or purpose. A portion of FIDF's net assets with donor restrictions are subject to donor-imposed restrictions that require FIDF to use or expend the gifts as specified, based on purpose or passage of time. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, such net assets are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

Another portion of net assets with donor restrictions stipulates that the corpus of the gifts be maintained in perpetuity, but allow for the expenditure of net investment income and gains earned on the corpus for either specified or unspecified purposes.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 U.S. GAAP. Accordingly, such information should be read in conjunction with FIDF's financial statements for the year ended December 31, 2018, 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. 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.

Friends of the Israel Defense Forces

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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.

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, 2019 as compared to December 31, 2018.

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.

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, 2019.

Friends of the Israel Defense Forces

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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, 2019. Conditional promises to give are not recorded 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.

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.

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 support with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

For the year ended December 31, 2019, approximately 19% 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 \$680,590 for the year ended December 31, 2019 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 \$152,387 for the year ended December 31, 2019 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.

Friends of the Israel Defense Forces

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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 section 501(c)(3) of the Code, 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 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 2021. Early adoption is permitted. 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. The adoption of ASU 2018-08 during 2019 did not materially impact FIDF’s financial statements.

Friends of the Israel Defense Forces

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the assets and liabilities as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Investments				
U.S. Treasury and government agency guaranteed obligations	\$ -	\$ 17,035,563	\$ -	\$ 17,035,563
Mutual funds and ETFs	3,676,378	4,095,812	-	7,772,190
Common stock	7,003,867	-	-	7,003,867
State of Israel bonds	-	6,221,129	-	6,221,129
	<u>\$ 10,680,245</u>	<u>\$ 27,352,504</u>	<u>\$ -</u>	<u>38,032,749</u>
Total investments reported on the fair value hierarchy				
Cash and cash equivalents				50,797,004
Certificates of deposit				5,850,895
Investments at NAV				<u>11,299,148</u>
				<u>\$ 105,979,796</u>

FIDF's investments at NAV as of December 31, 2019 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, 2019.

Investment income consisted of the following as of December 31, 2019:

Interest and dividend income	\$ 1,203,092
Realized and unrealized gain on investments	<u>2,173,734</u>
	<u>\$ 3,376,826</u>

NOTE 4 - FOREIGN EXCHANGE

For the year ended December 31, 2019, the net realized foreign exchange loss on FIDF's foreign currency transactions amounted to \$107,071.

In addition, at December 31, 2019, unrealized gain on foreign currency held in the bank amounted to \$50,804, 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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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable have been recorded at fair value. Those receivables that are due in more than one year have been discounted to their present value using an estimated discount rate of 3%. The receivables are due as follows as of December 31, 2019:

Less than one year	\$ 73,929,855
One to five years	47,425,750
More than five years	<u>2,675,545</u>
	124,031,150
Less: discount to present value	<u>(2,914,899)</u>
	121,116,251
Less: allowance for doubtful accounts	<u>(10,749,412)</u>
Contributions receivable - net	<u>\$ 110,366,839</u>

Contributions receivable at December 31, 2019 included outstanding pledges from five donors, which collectively represented approximately 41% of total outstanding gross contributions receivable.

NOTE 6 - LIQUIDITY AND AVAILABILITY OF RESOURCES

FIDF manages its liquidity and reserves pursuant to a policy that takes into account the timing and stability of cash disbursements, the timing of cash receipts and cash disbursements, willingness to borrow and strategic direction. Based on these factors, our policy set a target of six months of budgeted operating expenses. The policy requires that any excess of the calculated reserve over the unrestricted cash balance at September 30 (the point of the year at which the unrestricted cash balance is historically the lowest), be designated for disbursement for projects and programs in the following year. At September 30, 2019, the amount of the calculated reserve exceeded the unrestricted cash balance, so no such designation for 2020 is required. FIDF monitors cash balances at least quarterly to provide reasonable assurance that obligations will be discharged. During the year ended December 31, 2019, the level of liquidity was managed within the policy requirements.

Financial assets available within one year as of December 31, 2019 are as follows:

Cash and cash equivalents	\$ 1,122,901
Investments	105,979,796
Contributions receivable, net	<u>110,366,839</u>
Total financial assets	217,469,536
Donor-imposed restrictions:	
Investments and contributions receivable, net	(164,823,715)
Contractual and internal restrictions	<u>(27,331,482)</u>
Total financial assets available within one year for general expenditure	<u>\$ 25,314,339</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2019

NOTE 7 - FIXED ASSETS

Fixed assets at December 31, 2019 consisted of the following:

	Estimated useful life		
Office equipment	5 years	\$	67,135
Computer hardware and software	3 - 5 years		767,839
Furniture and fixtures	7 years		241,176
Leasehold improvements	2 - 15 years		812,026
			1,888,176
Less accumulated depreciation and amortization			(1,032,949)
		\$	855,227

Depreciation expense for the year ended December 31, 2019 was \$141,545.

NOTE 8 - 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 \$19,930,274 at December 31, 2019.

NOTE 9 - 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, 2019:

Current		\$	4,270,100
One to three years			2,156,596
			6,426,696
Less: discount to present value (3%)			(68,385)
		\$	6,358,311

Commitments denominated in NIS have been converted to U.S. dollars at the exchange rate in effect at December 31, 2019.

Friends of the Israel Defense Forces

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

NOTE 10 - 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 2020 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:

2020	\$ 1,126,409
2021	1,050,834
2022	1,033,576
2023	921,251
2024	946,321
2025 and thereafter	<u>6,172,307</u>
	<u>\$ 11,250,698</u>

The minimum annual rental obligation reported above includes a 15-year lease commitment for office space totaling \$10,176,895. The security deposit for the lease is provided via a letter of credit in the amount of \$360,782 and is reflected within prepaid expenses and other assets in the accompanying statement of financial position as of December 31, 2019.

Rent expense for 2019 was \$1,429,048. Included in accounts payable and accrued expenses on the accompanying statement of financial position is deferred rent in the amount of \$604,280 at December 31, 2019, which represented the effect of straight-lining the total minimum lease payments over the respective lease terms.

NOTE 11 - 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.

NOTE 12 - 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, 2019 was \$280,337.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets restricted by time and/or purpose were available for the following programs as of December 31, 2019:

Construction programs	\$ 28,669,230
Educational and scholarship programs	64,909,385
Wellbeing and recreational programs	49,739,567
Split-interest agreements	13,122,347
Time restrictions	<u>8,383,186</u>
	<u>\$ 164,823,715</u>

Net assets restricted by time and/or purpose were released from donor restrictions by satisfying the following for the year ended December 31, 2019:

Construction programs	\$ 10,865,714
Educational and scholarship programs	24,017,736
Wellbeing and recreational programs	<u>36,102,216</u>
	<u>\$ 70,985,666</u>

Endowments

Net assets restricted in perpetuity consist of twelve individual donor-restricted endowment funds established to support activities of FIDF, as well as accumulation of income. As required by U.S. 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 net assets with donor restriction (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. 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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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 increases to net assets with donor restriction 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 31, 2019 consisted of the following:

Wellbeing and recreational programs	\$ 1,037,933
Educational and scholarship programs	7,995,092
Operations	<u>301,503</u>
	<u>\$ 9,334,528</u>

Changes in endowment net assets for the year ended December 31, 2019 consisted of the following:

	<u>Net assets with donor restrictions</u>		
	<u>Accumulated unspent earnings</u>	<u>Held in perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 759,594	\$ 8,153,413	\$ 8,913,007
Investment income	1,818,220	-	1,818,220
Contributions	-	1,181,115	1,181,115
Appropriation for expenditure	<u>(124,000)</u>	<u>-</u>	<u>(124,000)</u>
Endowment net assets, end of year	<u>\$ 2,453,814</u>	<u>\$ 9,334,528</u>	<u>\$ 11,788,342</u>

NOTE 14 - CONTINGENCIES

In March 2016, an action was brought in the United States District Court for the District of Columbia by individual Palestinians against numerous parties, including FIDF and some of its donors. The action alleges claims against FIDF for civil conspiracy and war crimes, among other things. Initially, the plaintiffs sought damages in excess of \$34.5 billion, but that claim has since been reduced to \$1 billion.

In August 2017, the District Court granted the defendants' joint motion to dismiss the plaintiffs' amended complaint for lack of subject matter jurisdiction. The plaintiffs appealed in September 2017. In February 2019, the D.C. Circuit reversed the District Court's decision, but also significantly limited the scope of the plaintiffs' claims (including by limiting any claims based on alleged conduct by the Israeli army). On July 3, 2020, the defendants jointly moved to dismiss the amended complaint for multiple reasons not considered by the District Court in its earlier opinion. FIDF and its donors also moved separately to dismiss the amended complaint on the additional basis that the D.C. Circuit's foreclosure of claims based on actions by the Israeli army precludes the plaintiffs' claims against FIDF and its donors. The plaintiffs' response briefs are due on October 2, 2020, and the defendants' reply briefs are due on December 4, 2020.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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

In February 2020, an action was brought in the United States District Court for the District of Columbia by individual Palestinians and American taxpayers against AIPAC and eighteen individuals, including state, federal, and foreign government officials and Susan Levin-Abir, the Executive Director for FIDF's Broward-West Palm Region. The action alleges that the defendants aided and abetted (1) the denationalization and dehumanization of the Palestinian people and (2) genocide and the installation of an "apartheid" regime in the Palestinian territories. The plaintiffs seek damages of \$1 billion against each defendant.

On August 14, the non-government defendants (including Ms. Levin-Abir) jointly moved to dismiss the plaintiffs' complaint. Among numerous other arguments, the motion argues that the case against Ms. Levin-Abir should be dismissed with prejudice because the District Court of the District of Columbia lacks personal jurisdiction over her. The plaintiffs filed their response to the motion on September 11. The defendants will file their reply brief in support of their motion to dismiss on October 20.

FIDF believes this action is totally without merit and intends to continue to defend Ms. Levin-Abir vigorously.

NOTE 15 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 13, 2020, which is the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by a novel coronavirus, a pandemic. Management has taken steps to reduce its expenditures and increase liquidity. Management will continue to closely monitor the financial implications that may impact the Organization.