

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC.
AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended
December 31, 2015

* * *

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1.
FINANCIAL STATEMENTS:	
Consolidated Statement of Financial Position	3.
Consolidated Statement of Activities	4.
Consolidated Statement of Cash Flows	5.
Notes to the Consolidated Financial Statements	7.



Board of Trustees
The Friends of Israel Gospel Ministry, Inc., and Affiliate
Bellmawr, New Jersey

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of The Friends of Israel Gospel Ministry, Inc., and Affiliate which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Friends of Israel Gospel Ministry, Inc., and Affiliate as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, the Organization restated its 2014 balances to correct an error discovered during the current year.

Report on Summarized Comparative Information

The consolidated financial statements of The Friends of Israel Gospel Ministry, Inc. and Affiliate as of December 31, 2014, were audited by other auditors whose report dated May 21, 2015, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Lambriker, Arnold M. Malthrop

May 19, 2016

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015
WITH COMPARATIVE FINANCIAL INFORMATION
AS OF DECEMBER 31, 2014**

	<u>2015</u>	<u>2014</u> (Restated)
ASSETS		
Cash and cash equivalents	\$ 1,456,272	\$ 1,249,501
Accounts and other receivable	358,453	267,165
Legacies receivable	359,500	-
Inventory (Note 4)	339,417	257,525
Prepaid expenses	316,516	243,244
Investments (Note 6)	9,630,391	9,693,890
Property investment (Note 5)	167,873	167,873
Beneficial interest in trust	172,867	173,891
Property and equipment, net (Note 7)	3,994,316	3,989,593
Total assets	<u>\$ 16,795,605</u>	<u>\$ 16,042,682</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expense	\$ 654,904	\$ 585,486
Deferred compensation (Note 8)	304,402	321,774
Notes payable (Note 9)	2,009,300	2,044,300
Mortgage payable (Note 9)	909,585	1,003,011
Obligations under capital leases	3,478	9,941
Property investment obligation	45,244	54,273
Annuities payable	5,524,066	5,287,418
Revocable trust agreements	42,524	46,864
Irrevocable trust agreements	195,063	244,879
Total liabilities	<u>9,688,566</u>	<u>9,597,946</u>
Net assets:		
Unrestricted:		
Undesignated	4,306,990	4,048,729
Designated by governing board as reserve for:		
Debt retirement (Note 10)	<u>401,860</u>	<u>408,860</u>
Total unrestricted net assets	4,708,850	4,457,589
Temporarily restricted (Note 11)	<u>2,398,189</u>	<u>1,987,147</u>
Total net assets	<u>7,107,039</u>	<u>6,444,736</u>
Total liabilities and net assets	<u>\$ 16,795,605</u>	<u>\$ 16,042,682</u>

See notes to the financial statements.

Exhibit A

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF ACTIVITIES
DECEMBER 31, 2015
WITH COMPARATIVE FINANCIAL INFORMATION
AS OF DECEMBER 31, 2014**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>	
			<u>2015</u>	<u>2014</u> (Restated)
Support and Revenue:				
Support:				
General ministry contributions	\$ 4,543,144	\$ 6,357	\$ 4,549,501	\$ 4,359,397
North American ministry contributions	1,390,678	149,080	1,539,758	1,741,012
Foreign ministry contributions	565,278	1,035,354	1,600,632	1,529,865
Worldwide relief ministry contributions		323,064	323,064	290,991
Institute of Jewish Studies	34,916		34,916	31,232
Gift portion of annuities	430,190		430,190	248,033
Legacies (Note 13)	2,161,550		2,161,550	1,055,934
Publication contributions		324,967	324,967	168,219
Capital campaign		88,075	88,075	-
Gifts-in-kind	30,690		30,690	7,205
Total support	<u>9,156,446</u>	<u>1,926,897</u>	<u>11,083,343</u>	<u>9,431,888</u>
Revenue:				
Ministry publications, audio, and video	1,347,891		1,347,891	1,495,560
Conference and special functions	164,379		164,379	187,712
Interest and dividends	90,394		90,394	99,595
Other revenue	30,038		30,038	19,212
Total revenue	<u>1,632,702</u>	<u>-</u>	<u>1,632,702</u>	<u>1,802,079</u>
Total support and revenue	<u>10,789,148</u>	<u>1,926,897</u>	<u>12,716,045</u>	<u>11,233,967</u>
Reclassifications:				
Satisfaction of restrictions (Note 11)	1,522,474	(1,522,474)	-	-
Expenses:				
Program services				
Outreach ministries	4,039,939		4,039,939	4,110,693
North American ministries	2,116,693		2,116,693	2,002,831
Foreign ministries	1,614,632		1,614,632	1,734,690
Worldwide relief ministries	255,980		255,980	-
Institute of Jewish Studies	212,280		212,280	219,970
Conference and special functions	444,379		444,379	524,284
Total program services	<u>8,683,903</u>	<u>-</u>	<u>8,683,903</u>	<u>8,592,468</u>
Supporting services:				
Management and general	1,783,580		1,783,580	1,928,715
Stewardship and fundraising	586,274		586,274	586,856
Total supporting services	<u>2,369,854</u>	<u>-</u>	<u>2,369,854</u>	<u>2,515,571</u>
Total expenses	<u>11,053,757</u>	<u>-</u>	<u>11,053,757</u>	<u>11,108,039</u>
Change in Net Assets Before Other Changes	<u>1,257,865</u>	<u>404,423</u>	<u>1,662,288</u>	<u>125,928</u>
Other Changes in Net Assets				
Realized and unrealized gain on investment	(150,568)		(150,568)	3,253
Change in actuarial value of gift annuities and trusts	(856,036)	6,619	(849,417)	28,197
Total other changes in net assets	<u>(1,006,604)</u>	<u>6,619</u>	<u>(999,985)</u>	<u>31,450</u>
Change in Net Assets	<u>251,261</u>	<u>411,042</u>	<u>662,303</u>	<u>157,378</u>
Net Assets at Beginning of Year	<u>4,457,589</u>	<u>1,987,147</u>	<u>6,444,736</u>	<u>6,287,358</u>
Net Assets at End of Year	<u>\$ 4,708,850</u>	<u>\$ 2,398,189</u>	<u>\$ 7,107,039</u>	<u>\$ 6,444,736</u>

See notes to the financial statements.

Exhibit B

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF CASH FLOWS
DECEMBER 31, 2015
WITH COMPARATIVE FINANCIAL INFORMATION
AS OF DECEMBER 31, 2014**

	<u>2015</u>	<u>2014</u> (Restated)
Cash Flows from Operating Activities:		
Change in net assets	\$ 662,303	\$ 157,378
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	247,188	227,270
Realized and unrealized loss (gain) on investments	752,344	(5,852)
Actuarial change in value of annuities, net payments	612,493	347,640
Change in value of irrevocable trusts	20,193	(332)
Change in value of beneficial interest in trust	1,024	(8,904)
Contributions restricted for capital renovations	(88,075)	-
Changes in:		
Accounts and other receivable	(91,288)	(180,714)
Legacies receivable	(359,500)	42,534
Inventory	(81,892)	(10,802)
Prepaid expenses	(73,272)	(78,547)
Accounts payable and accrued expenses	69,418	26,745
Deferred compensation	(17,372)	(17,957)
Property investment obligation	(9,029)	(12,116)
Net cash provided by operating activities	<u>1,644,535</u>	<u>486,343</u>
Cash Flows from Investing Activities:		
Proceeds from contributions restricted for capital renovations	88,075	-
Proceeds from sale of investments	3,040,257	3,557,734
Purchase of investments	(3,729,102)	(3,207,749)
Purchase of property and equipment	(251,911)	(334,698)
Net cash provided (used) by investing activities	<u>(852,681)</u>	<u>15,287</u>
Cash Flows from Financing Activities:		
Payment of notes and mortgage	(128,426)	(230,016)
Payment of capital leases	(6,463)	(7,224)
Payment on annuity and irrevocable trust agreements	(931,580)	(915,430)
Face value of new annuities, net of contribution	510,810	296,998
Investment income (loss) on irrevocable trust assets	(29,424)	18,114
Net cash used by financing activities	<u>(585,083)</u>	<u>(837,558)</u>
Change in Cash and Cash Equivalents	206,771	(335,928)
Cash and Cash Equivalents at Beginning of Year	<u>1,249,501</u>	<u>1,585,429</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,456,272</u>	<u>\$ 1,249,501</u>

See notes to the financial statements.

Exhibit C (continued)

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF CASH FLOWS
DECEMBER 31, 2015
WITH COMPARATIVE FINANCIAL INFORMATION
AS OF DECEMBER 31, 2014**

	<u>2015</u>	<u>2014</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest on debt - non capitalized	<u>\$ 146,078</u>	<u>\$ 154,813</u>
Non-cash investing transactions:		
Donated securities	\$ 31,255	\$ 51,489
Gain on trade of fully depreciated vehicle	<u>4,000</u>	<u>-</u>

Cash Flow Information:

No liabilities for income taxes were incurred or paid for the years ended December 31, 2015 and 2014.

See notes to the financial statements.

Exhibit C (concluded)

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. Organization:

The Friends of Israel Gospel Ministry, Inc., and Affiliate (the Organization) is a faith ministry founded in 1938 and organized as a not-for-profit religious corporation. It is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Friends of Israel Gospel Ministry, Inc., is a worldwide Christian ministry communicating biblical truth about Israel and the Messiah, while fostering solidarity with the Jewish people. Support and revenues are derived primarily from contributions from the general public and sales of ministry publications.

The Friends of Israel Gospel Ministry, Inc. has a commitment to its ministry in Argentina, a medical clinic run by the Christian Friends of Israel of Argentina. As an affiliate, certain board members and employees of the Friends of Israel Gospel Ministry, Inc. sit on the Christian Friends of Israel of Argentina board giving the Friends of Israel Gospel Ministry, Inc. a majority voting interest. In addition, support for the Christian Friends of Israel of Argentina is provided by The Friends of Israel Ministry, Inc., Therefore, the financial statements of Christian Friends of Israel of Argentina are consolidated with The Friends of Israel Gospel Ministry, Inc., collectively referred to in these notes as "the Organization."

2. Significant Accounting Policies:

(a) *Basis of Accounting*

The accompanying consolidated financial statements have been prepared on the accrual basis and conform to accounting principles generally accepted in the United States of America and in accordance with the principles of not-for-profit accounting.

(b) *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Organization. All material inter-organization transactions, if any, have been eliminated in consolidation.

(c) *Cash and Cash Equivalents*

For purposes of the consolidated statement of cash flows, the Organization considers cash and cash equivalents to be amounts in checking and savings accounts, cash on hand, and securities purchased with original maturities of three months or less. Certain items meet the definition of cash and cash equivalents but are part of a larger pool of investments and are classified as investments. While at times cash balances may exceed federally insured (FDIC) limits, the Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on these accounts.

(d) *Accounts and Other Receivable*

Accounts receivable are stated at the amount management expects to collect from outstanding balances totaling \$38,101 and \$50,269 at December 31, 2015 and 2014, respectively. Management believes all receivable balances are collectible; therefore, no provision for uncollectible accounts was made.

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

2. Significant Accounting Policies: (continued)

(d) *Accounts and Other Receivable* (continued)

The other receivable represents accommodation accounts with Friends of Israel Canada (an affiliated entity under a joint ministry agreement) totaling \$310,246 and \$216,896 at December 31, 2015 and 2014, respectively. These amounts represent a net receivable from Friends of Israel Canada for transactions under the joint ministry agreement.

(e) *Legacies Receivable*

Legacies receivable relate to charitable distributions from estates and trusts for which the Organization has been notified of and have gone through probate. Legacies receivable are stated at the amount management expects to collect based on information received. Management believes all receivable balances are collectible; therefore, no provision for uncollectible accounts was made.

(f) *Inventory*

Inventory is stated at the lower of cost or market and consists of various literature, media and other items held for sale and distribution. Cost is determined using the first-in, first-out method.

(g) *Investments and Investment Income*

Investments are reported fair value with gains and losses included in the consolidated statement of activities in unrestricted net assets unless a donor or law temporarily or permanently restricts their use. Donated investments are initially recorded at fair value on the date of the gift. Adjustments to the carrying value of the investments are reported in the consolidated statement of activities as a component of realized or unrealized gain (losses), except for adjustments to the carrying value of annuity investments which are reported in the consolidated statement of activities as a component of change in actuarial value of annuities and trusts.

(h) *Land, Buildings and Equipment*

Property and equipment are capitalized at cost or, if donated, at fair value on the date of donation. Friends of Israel capitalizes assets with a cost basis (or fair value for donated assets) of \$2,000 or greater, and expenditures for repairs and maintenance are expensed when incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reported as income. Depreciation is recorded on the straight line basis over the following estimated useful lives:

Buildings	40 years
Building improvements	20 years
Furniture, fixtures, equipment and vehicles	5 to 10 years

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

2. Significant Accounting Policies: (continued)

(i) *Annuities Payable*

The Organization has established a gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed dollar annual return during their lifetimes. A portion of the gift annuity is considered to be a charitable contribution at the date of the gift. The difference between the amount provided for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as a contribution at the date of the gift. The annuity liability is revalued annually using a discount rate established at the inception of the agreement and appropriate actuarial assumptions. The resulting actuarial gain or loss is recorded as change in actuarial value of annuities in the consolidated statement of activities.

The Organization is required to maintain legally-mandated reserves and investment guidelines for the State of New Jersey. At December 31, 2015 and 2014, the Organization was in compliance with each of these requirements.

(j) *Charitable Remainder Trusts*

The Organization is named as beneficiary of various charitable remainder unitrusts and acts as the trustee. The agreements provide for the payment of lifetime distributions to the grantor or other designated beneficiaries. Upon receipt of these agreements, the actuarially determined present value of future payments is recorded as a liability. The remaining portion of the trust attributable to the Organization's future interest is recorded in the consolidated statement of activities as temporarily restricted contributions in the period received. On an annual basis, the present value of the remaining future liability is revalued based upon actuarial assumptions.

(k) *Classes of Net Assets*

The consolidated financial statements report amounts by class of net assets as follows:

Unrestricted net assets are those which include all resources which are not subject to donor-imposed restrictions of a more specific nature than those which only obligate the Organization to utilize the funds in furtherance of its mission, designated by the board for specific use, resources invested in property and equipment and required annuity reserves.

Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because certain actions are taken by the Organization which fulfill the restrictions or because of the passage of time. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable cases of net assets.

(l) *Support, Revenue, Expenses and Reclassifications*

Support is recognized when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Organization.

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

2. Significant Accounting Policies: (continued)

(l) *Support, Revenue, Expenses and Reclassifications* (continued)

Legacies are recorded as income at the time the Organization has an established right to the legacy and the proceeds are measurable.

The Organization recognizes gifts of cash and other assets as unrestricted support unless they are received with donor stipulations that limit the use of the donated amounts. Temporarily restricted net assets are reclassified to unrestricted net assets and recognized in the consolidated statement of activities as satisfaction of purpose restrictions when a stipulated time restriction ends or purpose restriction is satisfied.

The Organization recognizes gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization recognizes expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenue is recognized when earned.

Expenses are recognized when incurred in accordance with the accrual basis of accounting. The costs of providing the various program services and supporting activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated, based on management's estimate, among the program services and supporting activities benefitted. The Organization incurred no joint costs for the years ending December 31, 2015 and 2014, respectively.

(m) *Uncertain Tax Positions*

The consolidated financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are reported in expense in the consolidated statement of activities. As of December 31, 2015 and 2014, Friends of Israel had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

(n) *Comparative Financial Information*

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

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

2. Significant Accounting Policies: (continued)

(o) Reclassification

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements.

2014 publication contributions totaling \$168,219 were reported separately on the statement of activities. The related net assets released from restrictions in 2014 were included in Note 11.

(p) Fair Value Measurement

The Organization reports its fair value measurements using a fair value hierarchy defined by generally accepted accounting principles (GAAP) that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels as of the fair value hierarchy under GAAP are:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, inputs supported by little or no market activity).

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

2. **Significant Accounting Policies:** (continued)

(p) *Fair Value Measurement* (continued)

Fair values of assets measured at December 31, 2015 are as follows:

<u>Recurring fair value measurement</u>	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	\$ 127,893	\$ 127,893		
Certificate of deposit	101,073	101,073		
Mutual funds	-			
Aggregate bonds	649,715	649,715		
Corporate bonds	183,077	183,077		
Moderate allocation	2,730,019	2,730,019		
Dynamic allocation	493,864	493,864		
Emerging market stock	134,056	134,056		
Foreign bonds	407,332	407,332		
Foreign equity	1,680,837	1,680,837		
Global allocation	411,292	411,292		
Government bonds	319,678	319,678		
Growth broad market	382,271	382,271		
High yield bonds	1,072,855	1,072,855		
Value broad market	93,903	93,903		
Value large cap	400,622	400,622		
Total mutual funds	<u>8,959,521</u>	<u>8,959,521</u>	<u>-</u>	<u>-</u>
Common stock	19,208	19,208		
U.S. Government securities	57,696	57,696		
State of Israel bonds	365,000	-	\$ 365,000	
Total investments	<u>9,630,391</u>	<u>9,265,391</u>	<u>365,000</u>	
Beneficial interest in trust	172,867		172,867	
	<u>\$ 9,803,258</u>	<u>\$ 9,265,391</u>	<u>\$ 537,867</u>	<u>\$ -</u>

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

2. Significant Accounting Policies: (continued)

(p) Fair Value Measurement (continued)

Fair values of assets measured at December 31, 2014 are as follows:

<u>Recurring fair value measurements</u>	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	\$ 61,616	\$ 61,616		
Certificate of deposit	100,670	100,670		
Mutual funds				
Aggregate bonds	635,299	635,299		
Moderate allocation	3,954,403	3,954,403		
Dynamic allocation	577,507	577,507		
Emerging market stock	109,610	109,610		
Foreign bonds	242,732	242,732		
Foreign equity	1,395,989	1,395,989		
Global allocation	337,263	337,263		
Government bonds	221,253	221,253		
Growth broad market	318,531	318,531		
High yield bonds	1,152,261	1,152,261		
Value broad market	98,552	98,552		
Value large cap	49,896	49,896		
Total mutual funds	<u>9,093,296</u>	<u>9,093,296</u>	<u>-</u>	<u>-</u>
Common stock	344	344		
U.S. Government securities	72,964	72,964		
State of Israel bonds	365,000		\$ 365,000	
Total investments	<u>9,693,890</u>	<u>9,328,890</u>	<u>365,000</u>	
Beneficial interest in trust	173,891		173,891	
	<u>\$ 9,867,781</u>	<u>\$ 9,328,890</u>	<u>\$ 538,891</u>	<u>\$ -</u>

The following is a description of the valuation methodologies used for assets measured at fair value:

Money market funds, certificates of deposit, mutual funds, equity securities, and U.S. government securities: valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets (Level 1).

Bonds and beneficial interest in trust: value based on a modeled bid evaluation pricing estimate for comparable instruments (Level 2).

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

3. Prior Year Adjustment:

A certain error resulting in an overstatement of previously reported legacy receivable and legacy revenue was discovered during the current year. The Organization recorded legacy receivable and recognized related revenue which was designated by the donor to an affiliated entity under a joint ministry agreement with Friends of Israel Canada.

Accordingly, the Organization accounted for the overstatement and reversed the legacy receivable and revenue. The restatement resulted in a net decrease in total assets and total unrestricted net assets of \$120,720 at January 1, 2015.

4. Inventory:

Inventory consists of the following:

	<u>2015</u>	<u>2014</u>
Books and publications	\$ 218,006	\$ 159,921
Media	88,393	62,406
Other items	<u>33,018</u>	<u>35,198</u>
	<u>\$ 339,417</u>	<u>\$ 257,525</u>

5. Property Investment:

In an agreement entered into during 2009, the Organization invested in a property in Israel that is owned by an employee but is used partially for ministry purposes. Under the agreement, the Organization agreed to provide funds for 50% of the down payment on the property and to reimburse for 50% of the monthly mortgage obligation on the property. The property investment asset amounted to \$167,873 at both December 31, 2015 and 2014, and represents the Organization's 50% interest in the cost basis of the property. The property investment obligation amount to \$45,244 and \$54,273 at December 31, 2015 and 2014, respectively and represents the estimated remaining obligation the Organization has made to reimburse for 50% of the monthly mortgage payments on the property.

6. Investments:

Investments consist of the following:

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 127,893	\$ 61,616
Certificate of deposit	101,073	100,670
Mutual funds	8,959,521	9,093,296
Corporate stocks	19,208	344
U.S. Government securities	57,696	72,964
State of Israel bonds	<u>365,000</u>	<u>365,000</u>
Total	<u>\$ 9,630,391</u>	<u>\$ 9,693,890</u>

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

6. **Investments:** (continued)

At year end, investments were held for the following purposes:

	<u>2015</u>	<u>2014</u>
Annuity agreements	\$ 6,954,369	\$ 7,116,443
Trust agreements	<u>475,988</u>	<u>546,165</u>
Subtotal	<u>7,430,357</u>	<u>7,662,608</u>
Unrestricted purposes	<u>2,200,034</u>	<u>2,031,282</u>
Total	<u>\$ 9,630,391</u>	<u>\$ 9,693,890</u>

The present value of the annuity agreements was determined by actuarial calculation and was based on the interest rates allowable for Single Stipulated Payment Immediate Annuities under standard valuation law.

Investment income on investments held for unrestricted purposes consist of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 90,394	\$ 99,595
Realized gain (loss)	18,516	5,772
Unrealized gain (loss)	<u>(169,085)</u>	<u>(2,519)</u>
Total	<u>\$ (60,175)</u>	<u>\$ 102,848</u>

Investment income on investments held for annuity and trusts are reflected on the consolidated statement of activities as a component of the change in actuarial value of gift annuities and trusts consist of the following:

	<u>2015</u>	<u>2014</u>
Annuity reserve investments:		
Interest and dividends	\$ 336,496	\$ 351,396
Realized gain (loss)	41,881	79,119
Unrealized gain (loss)	<u>(594,516)</u>	<u>(63,913)</u>
Subtotal	<u>(216,139)</u>	<u>366,602</u>
Trust investments:		
Interest and dividends	26,657	28,877
Realized gain (loss)	(3,794)	(644)
Unrealized gain (loss)	<u>(45,346)</u>	<u>(11,963)</u>
Subtotal	<u>(22,483)</u>	<u>16,270</u>
Total	<u>\$ (238,622)</u>	<u>\$ 382,872</u>

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

6. Investments: (continued)

Management of the Organization believes that the organization is in full compliance with the New Jersey Uniform Prudent Management of Institutional Funds Act and the three areas of fiduciary responsibility attributed to the organization and its Board in the handling of invested funds. The Organization has acted in a deliberate and prudent manner in the selection of its investment advisor and avoids conflicts of interest between the organization, Board, and investment advisor. The Organization maintains written policies and procedures setting forth appropriate investment policy. Finally, there are regular reviews and reporting of the performance of the invested funds reflecting comparison to accepted performance standards.

7. Land, Buildings and Equipment:

Property and equipment consists of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 629,330	\$ 629,330
Land improvements	1,031,466	750,384
Buildings	5,078,500	5,047,110
Furniture and fixtures	328,128	293,767
Equipment and vehicles	923,011	838,357
Construction-in-progress	90,997	299,723
Subtotal	<u>8,081,432</u>	<u>7,858,671</u>
Less: Accumulated depreciation	<u>(4,087,116)</u>	<u>(3,869,078)</u>
Total	<u>\$ 3,994,316</u>	<u>\$ 3,989,593</u>

Depreciation expense was \$247,188 and \$227,270 for the years ended December 31, 2015 and 2014, respectively.

Management has reviewed the assets held in other countries and, in its opinion, has determined that they are under the control and ownership of Friends of Israel. While for this reason such items are recognized as assets of the Organization, it should be noted that the political situation in many countries is subject to rapid change. Therefore, the reader should be aware that while the Organization believes the assets are properly stated at the date of this report, subsequent changes could occur that would adversely affect the value of the assets in other countries. In addition, it should be understood that the carrying value of the assets in other countries may not be representative of the amount that would be realized should the assets be sold.

8. Deferred Compensation:

The Organization has entered into a deferred compensation agreement with one of its former executive directors (and current board member). The annual payout is based on a rate of 43% of the year 2000 salary level of \$98,500 beginning on the first month subsequent to retirement and continuing as a joint survivor payout with his wife. The present value of that obligation is \$304,402 and \$321,774 as of December 2015 and 2014, respectively. Beginning in February 2011 the Organization began paying the deferred compensation to this former executive director. These payments amounted to \$42,360 for each of the years ended December 31, 2015 and 2014.

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

9. Notes and Mortgage Payable:

	<u>2015</u>	<u>2014</u>
Promissory notes ranging from \$2,000 to \$100,000 with interest at 5.00% are secured by the net assets of the Organization. A board-designated debt retirement fund has been established toward the payment of the notes as they come due. (See Note 10) Interest is payable semiannually, quarterly and monthly depending on the specific terms of each outstanding note. The notes are due according to the schedule below, but are payable on demand, in part or in whole, upon 30 days' notice.	\$2,009,300	\$2,044,300
Mortgage loan payable to a bank at 4.50% interest, secured by property. The loan is dated April 30, 2013, and converted to a fully amortizing 10 year term loan in January 2014 with monthly payment of principal and interest of \$11,436 until maturity in December 2023.	<u>909,585</u>	<u>1,003,011</u>
	<u>\$2,918,885</u>	<u>\$3,047,311</u>

A schedule of future minimum principal payments is as follows:

	<u>Notes Payable</u>	<u>Mortgage Payable</u>	<u>Total</u>
2016	\$ 455,000	\$ 97,659	\$ 552,659
2017	600,793	102,326	703,119
2018	412,207	107,093	519,300
2019	398,500	112,083	510,583
2020	142,800	117,242	260,042
Thereafter	<u>373,182</u>	<u>373,182</u>	<u>373,182</u>
	<u>\$ 2,009,300</u>	<u>\$ 909,585</u>	<u>\$ 2,918,885</u>

As of December 31, 2015 and 2014, the Organization was in compliance with all debt covenants.

10. Board-Designated Net Assets:

The governing board of the Organization has designated 20% of the proceeds from the issuance of promissory notes to be kept in escrow to be used for interest and debt repayment. The balance of the reserve is not to go below one year's interest obligation. The balance of the board-designated reserve was \$401,860 and \$408,860 at December 31, 2015 and 2014, respectively.

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

11. Temporarily Restricted Net Assets:

Temporarily restricted net assets are as follows:

	<u>2015</u>	<u>2014</u>
Annuity reserves required by state law (10%)	\$ 552,406	\$ 528,742
Remainder trusts	411,268	428,313
International ministry projects	973,960	669,021
Jerusalem building project	3,230	12,012
Conferences and special functions	2,642	3,405
Argentina clinic	74,250	61,000
Capital campaign	88,075	-
Missionary support	121,577	173,844
Worldwide relief funds	170,781	110,810
	<u>\$ 2,398,189</u>	<u>\$ 1,987,147</u>

Net assets were released from temporary restrictions by incurring expenses and other costs satisfying the restricted purposes as follows:

	<u>2015</u>	<u>2014</u>
Missionary support	\$ 201,347	\$ 177,654
International ministry projects	699,327	392,767
Conferences and special functions	2,150	-
Worldwide relief funds	280,931	183,018
Jerusalem building project	13,752	-
Israel relief fund	-	39,482
Publications	324,967	168,219
	<u>\$ 1,522,474</u>	<u>\$ 961,140</u>

12. Pension Plan:

The Organization maintains a 401(k) retirement plan for eligible employees who work 1,000 hours or more during the year and have been with the organization for more than one year. Participants in the plan vest over a six year period. Each year, the Organization makes a discretionary contribution to the plan for each eligible employee (an amount equal to 10% of an employee's gross earnings for both years ending December 31, 2015 and 2014). The contribution to the plan for the years ending December 31, 2015 and 2014 was \$305,331 and \$300,015, respectively. The amount of accrued retirement expense for the year is funded in annual contributions to the plan.

The Organization also funds individual retirement accounts for qualified foreign national workers who are not eligible to participate in the 401(k) plan. The contribution to the plan for the years ending December 31, 2015 and 2014, was \$58,078 and \$50,650, respectively. The amount of accrued retirement expense for the year is funded by the Organization in annual contributions to the accounts.

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

13. Concentration of Legacy Revenue:

During 2015, the Organization received approximately 79% of its total legacy revenue from four donors.

14. Income Status:

As a charity, the Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization does not have any income from unrelated business activities and believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

The Organization's payroll tax returns, for the years ending 2013, 2014, and 2015, are subject to examination by the IRS, generally for three years after they were filed.

15. Subsequent Events:

Events occurring after December 31, 2015 have been evaluated for possible adjustments to the consolidated financial statements or disclosure through May 19, 2016, which is the date on which the consolidated financial statements were available to be issued.

Concluded