

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC.
AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended
December 31, 2016

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THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

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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, 2016, 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, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and our report dated May 19, 2016, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sanbids, Arnold, Malthrop LLP

July 7, 2017

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2016
WITH COMPARATIVE FINANCIAL INFORMATION AT DECEMBER 31, 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,304,918	\$ 1,456,272
Accounts and other receivable	299,451	358,453
Legacies receivable	112,000	359,500
Inventory (Note 4)	288,492	339,417
Prepaid expenses	309,581	316,516
Restricted cash (Note 3)	114,065	-
Investments (Note 6)	9,691,742	9,630,391
Property investment (Note 5)	167,873	167,873
Beneficial interest in trust	185,597	172,867
Construction in progress	373,516	90,997
Property and equipment, net (Note 7)	<u>3,736,293</u>	<u>3,903,319</u>
Total assets	<u>\$ 16,583,528</u>	<u>\$ 16,795,605</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expense	\$ 625,686	\$ 654,904
Deferred compensation (Note 8)	214,647	304,402
Notes payable (Note 9)	1,992,300	2,009,300
Mortgage payable (Note 9)	811,872	909,585
Obligations under capital leases	-	3,478
Property investment obligation	36,293	45,244
Annuities payable	5,500,592	5,524,066
Revocable trust agreements	43,007	42,524
Irrevocable trust agreements	<u>203,512</u>	<u>195,063</u>
Total liabilities	<u>9,427,909</u>	<u>9,688,566</u>
Net assets:		
Unrestricted:		
Undesignated	3,558,107	4,306,990
Designated by governing board as reserve for:		
Debt retirement (Note 10)	<u>398,460</u>	<u>401,860</u>
Total unrestricted net assets	3,956,567	4,708,850
Temporarily restricted (Note 11)	<u>3,199,052</u>	<u>2,398,189</u>
Total net assets	<u>7,155,619</u>	<u>7,107,039</u>
Total liabilities and net assets	<u>\$ 16,583,528</u>	<u>\$ 16,795,605</u>

See notes to the financial statements.

Exhibit A

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016
WITH COMPARATIVE FINANCIAL INFORMATION AS OF DECEMBER 31, 2015**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL 2016</u>	<u>2015</u>
Support and Revenue:				
Support:				
General ministry contributions	\$ 4,484,103	\$ 7,961	\$ 4,492,064	\$ 4,549,501
North American ministry contributions	1,319,034	327,554	1,646,588	1,582,901
Foreign ministry contributions	619,644	912,497	1,532,141	1,600,632
Worldwide relief ministry contributions		492,274	492,274	323,064
Institute of Jewish Studies	31,524		31,524	34,916
Gift portion of annuities	260,701		260,701	430,190
Legacies (Note 13)	719,066		719,066	2,161,550
Publication contributions		163,136	163,136	324,967
Capital campaign		445,239	445,239	88,075
Gifts-in-kind	5,182		5,182	30,690
Total support	<u>7,439,254</u>	<u>2,348,661</u>	<u>9,787,915</u>	<u>11,126,486</u>
Revenue:				
Ministry publications, audio, and video	1,264,813		1,264,813	1,347,891
Conference and special functions	140,976		140,976	121,236
Interest and dividends	73,724		73,724	90,394
Other revenue	21,327		21,327	30,038
Total revenue	<u>1,500,840</u>	<u>-</u>	<u>1,500,840</u>	<u>1,589,559</u>
Total support and revenue	<u>8,940,094</u>	<u>2,348,661</u>	<u>11,288,755</u>	<u>12,716,045</u>
Reclassifications:				
Satisfaction of restrictions (Note 11)	<u>1,590,749</u>	<u>(1,590,749)</u>	<u>-</u>	<u>-</u>
Expenses:				
Program services				
Outreach ministries	4,251,388		4,251,388	4,039,939
North American ministries	2,008,767		2,008,767	2,125,693
Foreign ministries	1,855,456		1,855,456	1,614,632
Worldwide relief ministries	402,719		402,719	255,980
Institute of Jewish Studies	201,790		201,790	212,280
Conference and special functions	472,605		472,605	444,379
Total program services	<u>9,192,725</u>	<u>-</u>	<u>9,192,725</u>	<u>8,692,903</u>
Supporting services:				
Management and general	1,752,356		1,752,356	1,774,580
Stewardship and fundraising	649,143		649,143	586,274
Total supporting services	<u>2,401,499</u>		<u>2,401,499</u>	<u>2,360,854</u>
Total expenses	<u>11,594,224</u>	<u>-</u>	<u>11,594,224</u>	<u>11,053,757</u>
Change in Net Assets Before Other Changes	(1,063,381)	757,912	(305,469)	1,662,288
Other Changes in Net Assets				
Realized and unrealized gain (loss) on investments	96,164		96,164	(150,568)
Change in actuarial value of gift annuities and trusts	117,692	42,951	160,643	(849,417)
Excess of acquisition of the identifiable assets acquired over acquisition date values of the liabilities assumed (Note 17)	97,242		97,242	
Total other changes in net assets	<u>311,098</u>	<u>42,951</u>	<u>354,049</u>	<u>(999,985)</u>
Change in Net Assets	(752,283)	800,863	48,580	662,303
Net Assets at Beginning of Year	4,708,850	2,398,189	7,107,039	6,444,736
Net Assets at End of Year	<u>\$ 3,956,567</u>	<u>\$ 3,199,052</u>	<u>\$ 7,155,619</u>	<u>\$ 7,107,039</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, 2016

WITH COMPARATIVE FINANCIAL INFORMATION AS OF DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 48,580	\$ 662,303
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	251,495	247,188
Realized and unrealized loss (gain) on investments	(461,306)	752,344
Actuarial change in value of annuities, net payments	456,687	612,493
Change in value of irrevocable trusts	(24,823)	20,193
Change in value of beneficial interest in trust	(12,730)	1,024
Contributions restricted for capital renovations	(445,239)	(88,075)
Changes in:		
Accounts and other receivable	59,002	(91,288)
Legacies receivable	247,500	(359,500)
Inventory	50,925	(81,892)
Prepaid expenses	6,935	(73,272)
Restricted cash	(114,065)	-
Accounts payable and accrued expenses	(29,218)	69,418
Deferred compensation	(89,755)	(17,372)
Property investment obligation	(8,951)	(9,029)
Net cash provided by operating activities	<u>(64,963)</u>	<u>1,644,535</u>
Cash Flows from Investing Activities:		
Proceeds from contributions restricted for capital renovations	445,239	88,075
Proceeds from sale of investments	2,593,672	3,040,257
Purchase of investments	(2,193,717)	(3,729,102)
Purchase of property and equipment	(84,469)	(251,911)
Purchase of construction in progress	(282,519)	-
Net cash provided (used) by investing activities	<u>478,206</u>	<u>(852,681)</u>
Cash Flows from Financing Activities:		
Payment of notes and mortgage	(114,713)	(128,426)
Payment of capital leases	(3,478)	(6,463)
Payment on annuity and irrevocable trust agreements	(921,092)	(931,580)
Face value of new annuities, net of contribution	440,931	510,810
Investment income (loss) on irrevocable trust assets	33,755	(29,424)
Net cash used by financing activities	<u>(564,597)</u>	<u>(585,083)</u>
Change in Cash and Cash Equivalents	(151,354)	206,771
Cash and Cash Equivalents at Beginning of Year	<u>1,456,272</u>	<u>1,249,501</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,304,918</u>	<u>\$ 1,456,272</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, 2016
WITH COMPARATIVE FINANCIAL INFORMATION AS OF DECEMBER 31, 2015**

	<u>2016</u>	<u>2015</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest on debt - non capitalized	<u>\$ 139,871</u>	<u>\$ 146,078</u>
Non-cash investing transactions:		
Donated securities	\$ 58,379	\$ 31,255
Gain on trade of fully depreciated vehicle	<u>-</u>	<u>4,000</u>

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, 2016

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.”

In March 2016, the governing board of the Organization approved an acquisition of Remnant Ministries, Inc. As a result of the vote, Remnant Ministries, Inc. ceased its existence as a separate nonprofit organization and became a program of The Friends of Israel Gospel Ministries, Inc. (See Note 17)

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.

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

2. Significant Accounting Policies: (continued)

(d) *Accounts and Other Receivable*

Accounts receivable are stated at the amount management expects to collect from outstanding balances totaling \$93,165 and \$38,101 at December 31, 2016 and 2015, respectively. Management believes all receivable balances are collectible; therefore, no provision for uncollectible accounts was made.

The other receivable represents accommodation accounts with Friends of Israel Canada (an affiliated entity under a joint ministry agreement) totaling \$137,565 and \$310,246 at December 31, 2016 and 2015, respectively. These amounts represent a net receivable from Friends of Israel Canada for transactions under the joint ministry agreement.

	<u>2016</u>	<u>2015</u>
Account receivable - bookstore	\$ 85,524	\$ 32,930
Annuities receivable	65,500	-
Note receivable - employee	7,641	5,171
Other receivables	3,221	10,106
U.S./Canadian receivable	<u>137,565</u>	<u>310,246</u>
	<u>\$ 299,451</u>	<u>\$ 358,453</u>

(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.

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

2. Significant Accounting Policies: (continued)

(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
Software	3 years

(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, 2016 and 2015, 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

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

2. Significant Accounting Policies: (continued)

(k) Classes of Net Assets (continued)

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 classes of net assets, with the exception of contributions for missionary support. Contributions for missionary support that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which revenue is recognized.

(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.

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, 2016 and 2015, respectively.

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

2. Significant Accounting Policies: (continued)

(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, 2016 and 2015, 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, 2015, from which the summarized information was derived.

(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.

Construction in progress has been reclassified out of Property and Equipment and is reported in the balance sheet as separate line in 2015. The amount of construction and progress reclassified in 2015 is \$90,997.

As a result of regrouping certain accounts for financial statement presentation, North American ministry contributions of \$43,143 has been reclassified out of conference and special functions revenue and program service expense of \$9,000 for North American ministries has been reclassified out of management and general.

(p) Accounting Policy

The Organization expenses advertising cost as incurred.

(q) 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).

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

2. Significant Accounting Policies: (continued)

(q) Fair Value Measurement (continued)

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).

Fair values of assets measured at December 31, 2016 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	\$ 71,706	\$ 71,706		
Certificate of deposit	101,478	101,478		
Mutual funds				
Aggregate bonds	824,383	824,383		
Corporate bonds	407,867	407,867		
Moderate Allocation	2,416,419	2,416,419		
Dynamic Allocation	543,251	543,251		
Emerging Market Stock	176,183	176,183		
Foreign bonds	368,217	368,217		
Foreign equity	1,651,955	1,651,955		
Global allocation	429,925	429,925		
Government bonds	180,582	180,582		
Growth broad market	467,853	467,853		
High yield bonds	1,053,804	1,053,804		
Value broad market	105,694	105,694		
Value large cap	463,682	463,682		
Total mutual funds	<u>9,089,815</u>	<u>9,089,815</u>	-	-
Common stock	20,168	20,168		
U.S. Government securities	44,869	44,869		
State of Israel bonds	363,706	-	\$ 363,706	
Total investments	<u>9,691,742</u>	<u>9,328,036</u>	<u>363,706</u>	
Beneficial interest in trust	185,597		185,597	
	<u>\$ 9,877,339</u>	<u>\$ 9,328,036</u>	<u>\$ 549,303</u>	<u>\$ -</u>

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

2. Significant Accounting Policies: (continued)

(q) 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 <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
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>	-	-
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>	365,000	
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 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, 2016**

3. Restricted Cash:

The balance of restricted cash consists of amount held for the following purposes:

Performance bond for construction project	\$ 49,961
Donations restricted for long-term purposes	<u>64,104</u>
	<u>\$ 114,065</u>

4. Inventory:

Inventory consists of the following:

	<u>2016</u>	<u>2015</u>
Books and publications	\$ 212,832	\$ 218,006
Media	43,532	88,393
Other items	<u>32,128</u>	<u>33,018</u>
	<u>\$ 288,492</u>	<u>\$ 339,417</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, 2016 and 2015, and represents the Organization's 50% interest in the cost basis of the property. The property investment obligation amount to \$36,293 and \$45,244 at December 31, 2016 and 2015, 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>2016</u>	<u>2015</u>
Money market funds	\$ 71,706	\$ 127,893
Certificate of deposit	101,478	101,073
Mutual funds	9,089,815	8,959,521
Corporate stocks	20,168	19,208
U.S. Government securities	44,869	57,696
State of Israel bonds	<u>363,706</u>	<u>365,000</u>
Total	<u>\$ 9,691,742</u>	<u>\$ 9,630,391</u>

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

6. Investments: (continued)

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

	<u>2016</u>	<u>2015</u>
Annuity agreements	\$ 7,383,271	\$ 6,954,369
Trust agreements	<u>509,743</u>	<u>475,988</u>
Subtotal	<u>7,893,014</u>	<u>7,430,357</u>
Unrestricted purposes	<u>1,798,728</u>	<u>2,200,034</u>
Total	<u>\$ 9,691,742</u>	<u>\$ 9,630,391</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>2016</u>	<u>2015</u>
Interest and dividends	\$ 73,724	\$ 90,394
Realized gain (loss)	(7,770)	18,516
Unrealized gain (loss)	<u>103,934</u>	<u>(169,085)</u>
Total	<u>\$ 169,888</u>	<u>\$ (60,175)</u>

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

	<u>2016</u>	<u>2015</u>
Annuity reserve investments		
Interest and dividends	\$ 250,107	\$ 336,496
Realized gain (loss)	47,786	41,881
Unrealized gain (loss)	<u>286,009</u>	<u>(594,516)</u>
Subtotal	<u>583,902</u>	<u>(216,139)</u>
Trust agreements		
Interest and dividends	23,836	26,657
Realized gain (loss)	-	(3,794)
Unrealized gain (loss)	<u>31,454</u>	<u>(45,346)</u>
Subtotal	<u>55,290</u>	<u>(22,483)</u>
Total	<u>\$ 639,192</u>	<u>\$ (238,622)</u>

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THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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>2016</u>	<u>2015</u>
Land	\$ 629,330	\$ 629,330
Land improvements	1,031,466	1,031,466
Buildings	5,120,206	5,078,500
Furniture and fixtures	328,128	328,128
Equipment and vehicles	897,025	923,011
Subtotal	<u>8,006,155</u>	<u>7,990,435</u>
Less: Accumulated depreciation	<u>(4,269,862)</u>	<u>(4,087,116)</u>
Total	<u>\$ 3,736,293</u>	<u>\$ 3,903,319</u>

Depreciation expense was \$251,495 and \$247,188 for the years ended December 31, 2016 and 2015, 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 continues until his passing with no survivor payout. The present value of that obligation is \$214,647 and \$304,402 as of December 2016 and 2015, 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, 2016 and 2015.

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THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. Notes and Mortgage Payable:

	<u>2016</u>	<u>2015</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.	\$ 1,992,300	\$ 2,009,300
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>811,872</u>	<u>909,585</u>
	<u>\$ 2,804,172</u>	<u>\$ 2,918,885</u>

A schedule of future minimum principal payments is as follows:

	<u>Notes Payable</u>	<u>Mortgage Payable</u>	<u>Total</u>
2017	\$ 628,793	\$ 102,326	\$ 731,119
2018	412,207	107,093	519,300
2019	388,500	112,083	500,583
2020	172,800	117,242	290,042
2021	388,000	122,710	510,710
Thereafter	<u>2,000</u>	<u>250,418</u>	<u>252,418</u>
	<u>\$ 1,992,300</u>	<u>\$ 811,872</u>	<u>\$ 2,804,172</u>

As of December 31, 2016 and 2015, 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 \$398,460 and \$401,860 at December 31, 2016 and 2015, respectively.

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THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

11. Temporarily Restricted Net Assets:

Changes in temporarily restricted net assets consist of the following for the year ended December 31, 2016:

	12/31/2015		Change in		12/31/2016
	<u>Balance</u>	<u>Contributions</u>	<u>Value</u>	<u>Releases</u>	<u>Balance</u>
Annuity reserves required by state law (10%)	\$ 552,406			\$ (2,347)	\$ 550,059
Remainder trusts	411,268		\$ 37,553		448,821
International ministry projects	973,960	\$ 909,997		(753,982)	1,129,975
Jerusalem building projects	3,230	5,000		(8,230)	-
Conferences and special functions	2,642	2,961		(2,340)	3,263
Argentina Clinic	74,250	2,500			76,750
Capital campaign	88,075	445,239	(1,011)		532,303
Missionary support	121,577	327,554		(243,664)	205,467
Worldwide relief funds	170,781	492,274	6,409	(417,050)	252,414
Publications	-	163,136		(163,136)	-
	<u>\$ 2,398,189</u>	<u>\$ 2,348,661</u>	<u>\$ 42,951</u>	<u>\$ (1,590,749)</u>	<u>\$ 3,199,052</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, 2016 and 2015). The contribution to the plan for the years ending December 31, 2016 and 2015 was \$314,383 and \$305,331, 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, 2016 and 2015, was \$69,330 and \$58,078, respectively. The amount of accrued retirement expense for the year is funded by the Organization in annual contributions to the accounts.

13. Concentration of Revenue:

During 2016, the Organization received approximately 74% of its total legacy revenue from three donors.

During 2016, the Organization received approximately 46% of its capital campaign donations from two donors.

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THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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 2014, 2015, and 2016, are subject to examination by the IRS, generally for three years after they were filed.

15. Subsequent Events:

Events occurring after December 31, 2016 have been evaluated for possible adjustments to the consolidated financial statements or disclosure through July 7, 2017, which is the date on which the consolidated financial statements were available to be issued.

On January 6, 2017 the Organization entered into a construction loan with Capital Bank of New Jersey. This agreement enables the Organization to borrow up to a ceiling of \$2,100,000 for the purpose of expanding the Organization's International Headquarters building. The construction loan is secured by a first mortgage interest in the buildings and equipment of the Organization. The initial interest rate on the loan is 3.99%. The balance of the construction loan is due and payable in full on January 6, 2023

16. Commitment:

On December 20, 2016 the Organization entered into an agreement with a general contractor for \$1,762,000 for their building expansion project. As of December 31, 2016 no amounts were expended under this contract.

17. Acquisition of Remnant Ministries, Inc.:

Remnant Ministries had a similar mission to Friends of Israel and due to financial difficulties the governing board of Remnant Ministries approved the acquisition of their organization by Friends of Israel on March 7, 2016.

The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

At March 7, 2016:

Cash and cash equivalents	\$ 97,242
Liabilities	-
Excess of acquisition of the identifiable assets acquired over acquisition date values of the liabilities assumed	-
	<u>\$ 97,242</u>

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

17. Acquisition of Remnant Ministries, Inc.: (continued)

The Friends of Israel voluntarily used \$75,000 of these assets to acquire a gift annuity that provides interest income to the spouse of the former Executive Director of Remnant Ministries. The expense related to the transaction is included in management and general expenses.

18. Related Party Transactions:

Under a joint ministry agreement, Friends of F.O.I. Gospel Ministry – Canada purchased religious material from, received foreign missionary support from, and purchased administrative services from the Organization. For the year ended December 31, 2016 the revenue from the sale of religious materials is \$81,616,, the total amount of foreign missionary support provided is \$18,949, and the total amount billed for administrative services is \$95,698.

At the end of the year, the following balances were due from the above noted related party:

	<u>2016</u>	<u>2015</u>
Accounts receivable	<u>\$ 137,565</u>	<u>\$ 310,246</u>

Concluded