

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC.
AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

For the Year Ended
December 31, 2014

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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 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 financial statements of The Friends of Israel Gospel Ministry, Inc., and Affiliate which comprise the statement of financial position as of December 31, 2014, and the related statements of activity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated 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 of 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 The Friends of Israel Gospel Ministry, Inc., and Affiliate as of December 31, 2014, 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

The consolidated financial statements of The Friends of Israel Gospel Ministry, Inc. and Affiliate as of December 31, 2013, were audited by other auditors whose report dated May 30, 2014, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sambides Arnold Moulthrop LLP

May 21, 2015

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014
WITH COMPARATIVE FINANCIAL INFORMATION
AS OF DECEMBER 31, 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 1,249,501	\$ 1,585,429
Accounts and other receivable	267,165	86,451
Legacies receivable	120,720	42,534
Inventory	257,525	246,723
Prepaid expenses	243,244	164,697
Investments	9,693,890	10,038,023
Property investment	167,873	167,873
Beneficial interest in trust	173,891	164,987
Property and equipment, net	3,989,593	3,882,165
Total assets	<u>\$ 16,163,402</u>	<u>\$ 16,378,882</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expense	\$ 585,486	\$ 558,741
Deferred compensation	321,774	339,731
Notes payable	2,044,300	2,185,300
Mortgage payable	1,003,011	1,092,027
Obligations under capital leases	9,941	17,165
Property investment obligation	54,273	66,389
Annuities payable	5,287,418	5,530,635
Revocable trust agreements	46,864	44,514
Irrevocable trust agreements	244,879	257,022
Total liabilities	<u>9,597,946</u>	<u>10,091,524</u>
Net assets:		
Unrestricted:		
Undesignated	4,169,449	4,214,807
Designated by governing board as reserve for:		
Debt retirement	408,860	500,000
Total unrestricted	4,578,309	4,714,807
Temporarily restricted	1,987,147	1,572,551
Total net assets	<u>6,565,456</u>	<u>6,287,358</u>
Total liabilities and net assets	<u>\$ 16,163,402</u>	<u>\$ 16,378,882</u>

See notes to the financial statements.

Exhibit A

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF ACTIVITIES
DECEMBER 31, 2014
WITH COMPARATIVE FINANCIAL INFORMATION
AS OF DECEMBER 31, 2013**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>	
			<u>2014</u>	<u>2013</u>
Support and Revenue:				
Support:				
General ministry contributions	\$ 4,519,285	\$ 8,331	\$ 4,527,616	\$ 4,639,723
North American ministry contributions	1,492,242	248,770	1,741,012	1,508,882
Foreign ministry contributions	859,019	670,846	1,529,865	1,386,603
Worldwide ministry contributions		290,991	290,991	131,396
Institute of Jewish Studies	31,232		31,232	40,719
Gift portion of annuities	248,033		248,033	462,635
Legacies	1,176,654		1,176,654	1,973,736
Gifts-in-kind	7,205		7,205	10,209
Total support	<u>8,333,670</u>	<u>1,218,938</u>	<u>9,552,608</u>	<u>10,153,903</u>
Revenue:				
Ministry publications, audio, and video	1,495,560		1,495,560	1,487,138
Conference and special functions	187,712		187,712	227,205
Interest and dividends	99,595		99,595	73,167
Other revenue	19,212		19,212	35,390
Total revenue	<u>1,802,079</u>		<u>1,802,079</u>	<u>1,822,900</u>
Total support and revenue	<u>10,135,749</u>	<u>1,218,938</u>	<u>11,354,687</u>	<u>11,976,803</u>
Reclassifications:				
Satisfaction of restrictions	792,921	(792,921)	-	-
Expenses:				
Program services				
Outreach ministries	4,110,693		4,110,693	4,230,196
North American ministries	2,002,831		2,002,831	1,920,751
Foreign ministries	1,734,690		1,734,690	1,504,576
Institute of Jewish Studies	219,970		219,970	212,220
Conference and special functions	524,284		524,284	585,865
Total program services	<u>8,592,468</u>	-	<u>8,592,468</u>	<u>8,453,608</u>
Supporting services:				
Management and general	1,928,715		1,928,715	1,694,208
Stewardship and fundraising	586,856		586,856	443,973
Total supporting services	<u>2,515,571</u>		<u>2,515,571</u>	<u>2,138,181</u>
Total expenses	<u>11,108,039</u>	-	<u>11,108,039</u>	<u>10,591,789</u>
Change in Net Assets Before Other Changes	(179,369)	426,017	246,648	1,385,014
Other Changes in Net Assets				
Realized and unrealized gain on investment	3,253		3,253	70,552
Change in value of gift annuities and trusts	39,618	(11,421)	28,197	393,508
Total other changes in net assets	<u>42,871</u>	<u>(11,421)</u>	<u>31,450</u>	<u>464,060</u>
Change in Net Assets	(136,498)	414,596	278,098	1,849,074
Net Assets at Beginning of Year	4,714,807	1,572,551	6,287,358	4,438,284
Net Assets at End of Year	<u>\$ 4,578,309</u>	<u>\$ 1,987,147</u>	<u>\$ 6,565,456</u>	<u>\$ 6,287,358</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, 2014
WITH COMPARATIVE FINANCIAL INFORMATION
AS OF DECEMBER 31, 2013**

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 278,098	\$ 1,849,074
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	227,270	201,602
Realized and unrealized gain on investments	(5,852)	(70,552)
Actuarial change in value of annuities, net payments	347,640	492,360
Change in value of irrevocable trusts	(332)	3,232
Change in value of beneficial interest in trust	(8,904)	(22,343)
Changes in:		
Accounts and other receivable	(180,714)	(31,349)
Legacies receivable	(78,186)	26,769
Inventory	(10,802)	(48,502)
Prepaid expenses	(78,547)	(33,141)
Accounts payable and accrued expenses	26,745	(25,209)
Deferred compensation	(17,957)	(34,955)
Property investment obligation	(12,116)	(7,590)
Net cash provided by operating activities	<u>486,343</u>	<u>2,299,396</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	3,557,734	5,960,365
Purchase of investments	(3,207,749)	(7,698,233)
Purchase of property and equipment	(334,698)	(227,030)
Net cash provided (used) by investing activities	<u>15,287</u>	<u>(1,964,898)</u>
Cash Flows from Financing Activities:		
Proceeds from notes and mortgage	-	361,083
Payment of notes and mortgage	(230,016)	(525,278)
Payment of capital leases	(7,224)	(8,846)
Payment on annuity and irrevocable trust agreements	(915,430)	(893,542)
Face value of new annuities, net of contribution	296,998	373,365
Investment income on irrevocable trust assets	18,114	25,063
Net cash used by financing activities	<u>(837,558)</u>	<u>(668,155)</u>
Decrease in Cash and Cash Equivalents	<u>(335,928)</u>	<u>(333,657)</u>
Cash and Cash Equivalents at Beginning of Year	<u>1,585,429</u>	<u>1,919,086</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,249,501</u>	<u>\$ 1,585,429</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, 2014
WITH COMPARATIVE FINANCIAL INFORMATION
AS OF DECEMBER 31, 2013**

	<u>2014</u>	<u>2013</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest on debt - non capitalized	<u>\$ 154,813</u>	<u>\$ 144,715</u>
Non-cash investing and financing transactions:		
Acquisition of property and equipment with proceeds from debt	<u>\$ -</u>	<u>\$ 743,917</u>

See notes to the financial statements.

Exhibit C (concluded)

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 \$50,269 and \$22,078 at December 31, 2014 and 2013, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 \$216,896 and \$64,373 at December 31, 2014 and 2013, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014 and 2013, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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. Temporarily restricted contributions, which have been fully expended for their intended purposes within the reporting period, are reported as unrestricted.

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, 2014 and 2013, 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, 2014 and 2013, 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, 2013, from which the summarized information was derived.

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

2. Significant Accounting Policies: (continued)

(o) Reclassification

A reclassification of \$157,014 from Ministry, publication, audio, and video to General ministry contributions was made to the 2013 balances in order to conform to the 2014 presentation. The purpose of this reclassification was to properly classify gifts made to the Organization to support its publication programs. In 2014, contributions in the amount of \$202,973 for the support publication programs are included in General ministry contributions.

(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 FINANCIAL STATEMENTS
DECEMBER 31, 2014**

2. Significant Accounting Policies: (continued)

(p) Fair Value Measurement (continued)

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

	<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>	-	-
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>	365,000	
Beneficial interest in trust	173,891		173,891	
	<u>\$ 9,867,781</u>	<u>\$ 9,328,890</u>	<u>\$ 538,891</u>	<u>\$ -</u>

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

2. Significant Accounting Policies: (continued)

(p) *Fair Value Measurement* (continued)

Fair values of assets measured at December 31, 2013 are as follows:

	<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	\$ 51,636	\$ 51,636		
Certificate of deposit	100,268	100,268		
Mutual funds				
Aggregate bonds	812,441	812,441		
Moderate allocation	4,210,215	4,210,215		
Dynamic allocation	678,351	678,351		
Emerging market stock	11,136	11,136		
Foreign bonds	248,980	248,980		
Foreign equity	1,337,548	1,337,548		
Global allocation	330,379	330,379		
Government bonds	382,922	382,922		
High yield bonds	1,305,417	1,305,417		
Value broad market	68,533	68,533		
Value large cap	<u>45,766</u>	<u>45,766</u>		
Total mutual funds	<u>9,431,688</u>	<u>9,431,688</u>	-	-
Corporate stocks - basic materials	386	386		
U.S. Government securities	90,665	90,665		
State of Israel bonds	<u>363,380</u>		\$ 363,380	
Total investments	<u>10,038,023</u>	<u>9,674,643</u>	<u>363,380</u>	
Beneficial interest in trust	<u>164,987</u>		<u>164,987</u>	
	<u>\$ 10,203,010</u>	<u>\$ 9,674,643</u>	<u>\$ 528,367</u>	<u>\$ -</u>

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

3. Inventory

Inventory consists of the following:

	<u>2014</u>	<u>2013</u>
Books and publications	\$ 159,921	\$ 166,840
Media	62,406	27,924
Other items	35,198	51,959
	<u>\$ 257,525</u>	<u>\$ 246,723</u>

4. 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, 2014 and 2013, and represents the Organization's 50% interest in the cost basis of the property. The property investment obligation amount to \$54,273 and \$66,389 at December 31, 2014 and 2013, respectively and represents the estimated remaining obligation the Organization has made to reimburse for 50% of the monthly mortgage payments on the property.

5. Investments:

Investments consist of the following:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 61,616	\$ 51,636
Certificate of deposit	100,670	100,268
Mutual funds	9,093,296	9,431,688
Corporate stocks	344	386
U.S. Government securities	72,964	90,665
State of Israel bonds	365,000	363,380
Total	<u>\$ 9,693,890</u>	<u>\$ 10,038,023</u>

At year end, investments included assets held under split interest agreements as follows:

	<u>2014</u>	<u>2013</u>
Annuity agreements	\$ 7,116,443	\$ 7,107,589
Trust agreements	546,165	551,964
Total	<u>\$ 7,662,608</u>	<u>\$ 7,659,553</u>

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

5. Investments: (continued)

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 consists of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 99,595	\$ 73,167
Realized gain (loss)	5,772	6,416
Unrealized gain	<u>(2,519)</u>	<u>64,136</u>
Total	<u>\$ 102,848</u>	<u>\$ 143,719</u>

In addition to the investment income above, the annuity investments earned \$351,396 and \$286,090 in interest and dividends and \$79,120 and \$549,474 in realized and unrealized gains/losses for a total of \$430,516 and \$835,564 for the years ended December 31, 2014 and 2013, respectively. This is reflected on the consolidated statement of activities as a component of the change in actuarial value of gift annuities and trusts.

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.

6. Land, Buildings and Equipment:

Property and equipment consists of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 629,330	\$ 629,330
Land improvements	750,384	750,384
Buildings	5,047,110	4,937,082
Furniture and fixtures	293,767	234,317
Equipment and vehicles	838,357	817,539
Construction-in-progress	<u>299,723</u>	<u>155,321</u>
Subtotal	<u>7,858,671</u>	<u>7,523,973</u>
Less: Accumulated depreciation	<u>(3,869,078)</u>	<u>(3,641,808)</u>
Total	<u>\$ 3,989,593</u>	<u>\$ 3,882,165</u>

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

6. Land, Buildings and Equipment: (continued)

Depreciation expense was \$227,270 and \$201,602 for the years ended December 31, 2014 and 2013, 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.

7. 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 \$321,774 and \$339,731 as of December 2014 and 2013, 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, 2014 and 2013.

8. Notes and Mortgage Payable:

	<u>2014</u>	<u>2013</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.	\$2,044,300	\$2,185,300
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>1,003,011</u>	<u>1,092,027</u>
	<u>\$3,047,311</u>	<u>\$3,277,327</u>

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

8. Notes and Mortgage Payable: (continued)

A schedule of future minimum principal payments is as follows:

	Notes Payable	Mortgage Payable	Total
2015	\$ 177,800	\$ 93,072	\$ 270,872
2016	425,500	97,291	522,791
2017	605,293	101,942	707,235
2018	422,207	106,691	528,898
2019	413,500	111,662	525,162
2020 and thereafter	<u>492,353</u>	<u>492,353</u>	<u>492,353</u>
	<u>\$ 2,044,300</u>	<u>\$ 1,003,011</u>	<u>\$ 3,047,311</u>

As of December 31, 2014 and 2013, the Organization was in compliance with all debt covenants.

9. Obligations Under Capital Leases:

Capital lease obligations consist of a phone system lease with monthly payments of \$573 until June 2016. The cost of the capitalized leased equipment included in property and equipment was \$29,763 at December 31, 2014 and \$40,464 at December 31, 2013. Accumulated depreciation on capital leased equipment was approximately \$10,417 and \$11,000 for the years ended December 31, 2014 and 2013, respectively.

Future minimum payments under capital leases are as follows:

2015	\$ 6,880
2016	<u>3,539</u>
Total minimum lease payments	<u>10,419</u>
Less: amounts representing interest	(479)
Present value of minimum lease payments	<u>\$ 9,940</u>

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 \$408,860 and \$500,000 at December 31, 2014 and 2013, respectively.

Continued

THE FRIENDS OF ISRAEL GOSPEL MINISTRY, INC. AND AFFILIATE

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

11. Temporarily Restricted Net Assets:

Temporarily restricted net assets are as follows:

	<u>2014</u>	<u>2013</u>
Annuity reserves required by state law (10%)	\$ 528,742	\$ 553,063
Remainder trusts	428,313	415,413
International ministry projects	669,021	398,091
Building project	12,012	4,977
Conferences and special functions	3,405	73,243
Argentina clinic	61,000	56,687
Israel relief fund	-	39,482
North American ministry projects	-	23,595
Missionary support	173,844	8,000
Worldwide fund	110,810	-
	<u>\$ 1,987,147</u>	<u>\$ 1,572,551</u>

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

	<u>2014</u>	<u>2013</u>
North American ministries	\$ 177,654	\$ -
Israel relief fund	39,482	188,700
Missionary support	-	59,670
International ministry projects	392,767	46,646
Conferences and special functions	-	14,026
Worldwide fund	183,018	-
	<u>\$ 792,921</u>	<u>\$ 309,042</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, 2014 and 2013). The contribution to the plan for the years ending December 31, 2014 and 2013 was \$300,015 and \$276,165, 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, 2014 and 2013, was \$50,650 and \$47,625, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2014**

13. Subsequent Events:

Events occurring after December 31, 2014 have been evaluated for possible adjustments to the financial statements or disclosure through May 21, 2015, which is the date on which the financial statements were available to be issued.

Concluded