AMERICAN FRIENDS OF THE ISRAEL MUSEUM

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH INDEPENDENT AUDITOR'S REPORT

YEAR ENDED DECEMBER 31, 2014

DAVID M. BRICKMAN
CERTIFIED PUBLIC ACCOUNTANT

AMERICAN FRIENDS OF THE ISRAEL MUSEUM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

American Friends of the Israel Museum

We have audited the accompanying financial statements of American Friends of the Israel Museum, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 American Friends of the Israel Museum as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information:

We have previously audited American Friends of the Israel Museum's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 19, 2014. 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.

May 28, 2015

1. Description of Operations:

American Friends of the Israel Museum (the "Organization") is a not-for-profit organization whose purpose is to foster and encourage the development of liberal arts by obtaining works of art and archaeology for the Israel Museum and by obtaining grants, contributions and loans for, and by making grants, contributions and loans to the Israel Museum.

2. Significant Accounting Policies:

The following is a summary of significant accounting policies consistently followed by the Organization in the preparation of its financial statements:

a) Cash and Cash Equivalents:

For purposes of the statement of financial position and the statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

b) Investments:

The Organization records its investments at fair value as described in Note 3.

c) Works of Art:

The Organization capitalizes its works of art. If purchased, they are capitalized at cost, and if donated, they are capitalized at their fair market value on the date of contribution.

d) Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support which increases those net asset classes.

e) **Endowment Funds:**

The Organization's permanently restricted net assets consist of numerous endowment funds established to help fund its projects and activities. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), enacted in New York State on September 17, 2010, as requiring the preservation of the fair market value of the original gift as of the gift date of the donor-restricted endowment funds received prior to September 17, 2010, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

***Investment Return Objectives, Risk Parameters and Strategies.* The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the value of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income and capital appreciation, which exceeds the annual distribution with acceptable levels of risk over the long term.**

Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in an inflation-protected rate of return that has sufficient liquidity to make the annual distribution, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

***Spending Policy.* The Organization has a policy of appropriating for distribution each year 5% of its endowment funds' average fair value of the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature of the individual endowment funds, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment**

funds to grow at a rate in excess of annual distributions, which is consistent with the Organization's objective to maintain the value of the endowment assets as well as to provide additional real growth through investment return.

f) Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

g) Income Taxes:

The Organization has been granted tax-exempt status under section 501(c)(3) of the Internal Revenue Code.

h) Depreciation:

Depreciation of fixed assets is provided on the straight-line method over the useful lives of the assets.

i) Transmissions:

Transmissions represent money sent to the Israel Museum several times a year, or art work gifted to the Israel Museum.

j) Prior-Year Summarized Comparative Information:

The 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 the Organization's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

3. Fair Value of Investments:

a) Hierarchy of fair value inputs

The Organization utilizes various methods to measure the fair value of its investments on a recurring basis. GAAP establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The three levels of inputs are as follows:

- **Level 1. Unadjusted quoted prices in active markets for identical securities that a company has the ability to access.**

- **Level 2. Observable inputs other than quoted prices included in Level 1 that are observable for securities either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar**

instruments, interest rates, prepayments speeds, credit risk, yield curves, default rates, and similar data.

- **Level 3. Unobservable inputs for securities to the extent that relevant observable inputs are not available, representing the company's own assumptions about the assumptions that a market participant would use in valuing a security, and that would be based on the best information available.**

b) Fair Value Measurements

The Organization's equity and debt securities and mutual funds are actively traded on a national securities exchange and are valued based on their last reported sales price as of the last business day of the year without adjustments. Accordingly, they are categorized in Level 1 of the fair value hierarchy.

The Organization's alternative investments (hedge funds) are calculated based on net asset values or capital account balances, which is the best information available. Accordingly, they are categorized in Level 3 of the fair value hierarchy.

A. Investments consist of the following:

Financial Instruments
December 31, 2014

Categories	*Level 1*	*Level 2*	*Level 3*	*Fair Value*
Equity Securities	$ 33,596,800			$ 33,596,800
Debt Securities	15,904,295			15,904,295
Mutual Funds	16,773,826			16,773,826
Alternative Investments			$ 38,842,816	38,842,816
Total	$ 66,274,921		$ 38,842,816	$ 105,117,737

Financial Instruments
December 31, 2013

Categories	*Level 1*	*Level 2*	*Level 3*	*Fair Value*
Equity Securities	$ 33,542,447			$ 33,542,447
Debt Securities	19,056,503			19,056,503
Mutual Funds	17,743,093			17,743,093
Alternative Investments			$ 31,090,846	31,090,846
Total	$ 70,342,043		$ 31,090,846	$ 101,432,889

B. Financial instruments categorized as level 3 had the following development:

Financial Instruments- Level 3

	12/31/14	12/31/13
Beginning blance	$ 31,090,846	$ 20,986,662
Change in unrealized appreciation(depreciation)	1,698,327	3,372,140
Net purchases	7,500,000	14,500,000
Net sales/distributions	(1,446,357)	(7,767,956)
Ending Balance	$ 38,842,816	$ 31,090,846

C. Investment income consists of the following:

	2014	2013
Interest and dividends	$ 1,755,741	$ 1,706,165
Realized gains	561,219	602,697
Investment expenses	(453,396)	(419,872)
Total	$ 1,863,564	$ 1,888,990

4. Pension and Deferred Compensation Plans:

A. Defined Contribution Plan

The Organization maintains a tax deferred annuity plan for its employees under Section 403(b) of the Internal Revenue Code. All employees of the Organization are eligible to participate and contribute a portion of their gross salaries up to the federal limit of 25% of an employee's compensation not to exceed $17,500 ($23,000 if an employee is age 50 or more). In addition, the Organization made discretionary contributions to the plan of 8% of employee eligible wages plus 5.7% of employee eligible wages in excess of the Social Security wage base.

The pension expense under this plan was $92,607 for the year ended December 31, 2014 and $77,256 for the year ended December 31, 2013.

B. Deferred Compensation Plan

The Organization has established a Deferred Compensation Plan under Section 457(f) of the Internal Revenue Code for its Chief Financial Officer. For 2014, benefits accrued under the plan totaled $100,000, with a vesting date of January 31, 2018, payable 60 days thereafter. A Deferred Compensation Plan under Section 457(f) has also been established for a consultant to the Organization. For 2014, benefits accrued under the plan totaled $302,000 with a vesting date of June 1, 2015, payable in 2015.

5. **Loans Payable:**

Loans payable consist of amounts received from contributors to the Organization. The loans payable are non-interest bearing and are unsecured.

6. **Commitments:**

A. The Organization is obligated under a lease agreement through February, 2016. Future minimum annual rental payments under the agreement is as follows:

Year Ended December 31,	Amount
2015	145,235
2016	24,305
	$ 169,540

In addition, the Organization is subject to real estate tax escalation clauses.

Rent expense, including escalations, amounted to $159,023 and $153,113 for the years ended December 31, 2014 and 2013, respectively.

B. The Organization retains a consultant to provide curatorial advisory services, assistance with fundraising efforts, educational services and other related services. The agreement obligates the Organization to pay approximately $264,000 annually plus cost-of-living escalations, and annual reimbursement for housing costs and health insurance, unless terminated pursuant to its terms. Additional compensation may be paid as determined by the Organization.

7. **Concentration of Credit Risk:**

As of December 31, 2014, cash and cash equivalent balances and securities with financial institutions were in excess of FDIC and SIPC insured limits.

8. **Contributions:**

Substantially all of the contributions to the temporarily restricted and permanently restricted funds are from past and present members of the Board of Directors.

9. **Restricted Assets:**

Temporarily restricted net assets are available for various programs of the Organization.

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable for programs.

10. Subsequent Events:

Management has evaluated subsequent events through May 28, 2015, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

American Friends of the Israel Museum

We have audited the financial statements of American Friends of the Israel Museum as of December 31, 2014 and for the year then ended, and have issued our report thereon dated May 28, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole.

The supplementary information in Exhibits IV-VII is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Information for the year ended December 31, 2013 is presented for comparative purposes only and was extracted from the financial statements presented for that year on which an unmodified opinion dated May 19, 2014 was expressed.

May 28, 2015