

Financial Statements Together with
Report of Independent Certified Public Accountants

THE BIRTHRIGHT ISRAEL FOUNDATION

December 31, 2011

THE BIRTHRIGHT ISRAEL FOUNDATION

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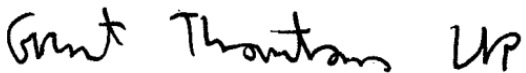
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
The Birthright Israel Foundation:

We have audited the accompanying statement of financial position of The Birthright Israel Foundation (the “Foundation”) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 as established by the American Institute of Certified Public Accountants. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Birthright Israel Foundation as of December 31, 2011, 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.



New York, New York
May 18, 2012

THE BIRTHRIGHT ISRAEL FOUNDATION
Statement of Financial Position
As of December 31, 2011

ASSETS

Cash and cash equivalents	\$ 7,894,355
Cash held in escrow (Notes 4 and 10)	356,452
Accounts receivable - shared services (Note 11)	325,492
Contributions receivable - net (Note 3)	5,148,442
Prepaid expenses and other assets	149,718
Investments	27,700
Fixed assets - net (Note 5)	<u>782,295</u>
Total assets	<u>\$ 14,684,454</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 458,979
Deferred rent	<u>217,069</u>
Total liabilities	<u>676,048</u>

NET ASSETS

Unrestricted	8,181,639
Temporarily restricted (Note 8)	<u>5,826,767</u>
Total net assets	<u>14,008,406</u>

Total liabilities and net assets	<u>\$ 14,684,454</u>
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The accompanying notes are an integral part of this statement.

THE BIRTHRIGHT ISRAEL FOUNDATION
Statement of Activities
For the year ended December 31, 2011

	2011		
	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 46,485,855	\$ 396,667	\$ 46,882,522
Interest	18,318	-	18,318
Realized gain on investments	37,152	-	37,152
Other income	4,134	-	4,134
Net assets released from restrictions (Note 8)	2,088,000	(2,088,000)	-
Total revenues and other support	<u>48,633,459</u>	<u>(1,691,333)</u>	<u>46,942,126</u>
EXPENSES			
Program expenses:			
TAGLIT - Birthright Israel (Note 6)	46,786,680	-	46,786,680
NEXT - Post programming (Note 6)	702,236	-	702,236
Total program services	<u>47,488,916</u>	<u>-</u>	<u>47,488,916</u>
Supporting services:			
Management and general	3,820,993	-	3,820,993
Fund raising	3,885,716	-	3,885,716
Total supporting services	<u>7,706,709</u>	<u>-</u>	<u>7,706,709</u>
Total expenses	<u>55,195,625</u>	<u>-</u>	<u>55,195,625</u>
Reserve for uncollectible contributions receivable	-	581,000	581,000
Change in net assets	<u>(6,562,166)</u>	<u>(2,272,333)</u>	<u>(8,834,499)</u>
Net assets - beginning of year	<u>14,743,805</u>	<u>8,099,100</u>	<u>22,842,905</u>
Net assets - end of year	<u>\$ 8,181,639</u>	<u>\$ 5,826,767</u>	<u>\$ 14,008,406</u>

The accompanying notes are an integral part of this statement.

THE BIRTHRIGHT ISRAEL FOUNDATION

Statement of Functional Expenses

For the year ended December 31, 2011

	Program Services			Supporting Services			Total
	TAGLIT - Birthright Israel	NEXT - Post Programming	Sub Total	Management and General	Fund Raising	Sub Total	
Salaries and fringe benefits	\$ -	\$ 53,865	\$ 53,865	\$ 1,858,268	\$ 2,941,965	\$ 4,800,233	\$ 4,854,098
Grants	46,786,680	501,000	47,287,680	-	-	-	47,287,680
Professional fees	-	-	-	90,742	-	90,742	90,742
Consultants	-	-	-	781,438	20,572	802,010	802,010
Travel	-	-	-	154,222	169,250	323,472	323,472
Conferences and meetings	-	-	-	178,661	54,764	233,425	233,425
Equipment rental and maintenance	-	-	-	39,827	1,408	41,235	41,235
Supplies and office expenses	-	-	-	28,444	38,095	66,539	66,539
Communications	-	-	-	158,194	34,142	192,336	192,336
Advertising	-	-	-	8,190	1,436	9,626	9,626
Hospitality	-	-	-	17,540	24,701	42,241	42,241
Subscriptions and publications	-	-	-	5,201	17,144	22,345	22,345
Printing and production	-	-	-	125,478	73,179	198,657	198,657
Computer maintenance	-	-	-	16,338	22,732	39,070	39,070
Insurance	-	-	-	16,913	21,873	38,786	38,786
Occupancy	-	89,252	89,252	241,300	332,010	573,310	662,562
Depreciation	-	58,119	58,119	41,014	53,041	94,055	152,174
Bank charges	-	-	-	38,692	68,755	107,447	107,447
State registrations and filing fees	-	-	-	12,739	-	12,739	12,739
Other	-	-	-	7,792	10,649	18,441	18,441
	<u>\$ 46,786,680</u>	<u>\$ 702,236</u>	<u>\$ 47,488,916</u>	<u>\$ 3,820,993</u>	<u>\$ 3,885,716</u>	<u>\$ 7,706,709</u>	<u>\$ 55,195,625</u>

The accompanying notes are an integral part of this statement.

THE BIRTHRIGHT ISRAEL FOUNDATION
Statement of Cash Flows
For the years ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (8,834,499)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	152,174
Donated securities	(8,439,657)
Change in discount for present value of contributions receivable	(575,000)
Increase in reserve for uncollectible contributions receivable	581,000
Realized loss (gain) on investments	(37,152)
Decrease (increase) in assets:	
Accounts receivable - shared services	(159,750)
Contributions receivable	9,383,473
Prepaid expenses and other assets	(44,003)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	144,168
Deferred rent	36,363
Grants payable	(9,300)
Net cash used in operating activities	<u>(7,802,183)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash held in escrow	(54,717)
Purchase of fixed assets	(447,614)
Proceeds from sale of investments	8,476,645
Net cash provided by investing activities	<u>7,974,314</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash receipts from borrowing	2,800,000
Cash paid for repayment of loans	(2,800,000)
Net cash provided by financing activities	<u>-</u>
Net increase in cash and cash equivalents	172,131
Cash and cash equivalents - beginning of year	<u>7,722,224</u>
Cash and cash equivalents - end of year	<u><u>\$ 7,894,355</u></u>
Interest paid	<u><u>\$ 6,067</u></u>

The accompanying notes are an integral part of this statement.

THE BIRTHRIGHT ISRAEL FOUNDATION

Notes to Financial Statements

December 31, 2011

1. NATURE OF ORGANIZATION

The Birthright Israel Foundation (the "Foundation") was incorporated on December 10, 1999. It was formed to support the education of members of the Jewish community outside of Israel about Judaism, to strengthen the understanding of their heritage, and to foster stronger bonds between the Jews of the Diaspora and the State of Israel. In furtherance of these purposes, the Foundation provides funding to enable individuals aged 18-26 to participate in an educational peer-group trip to Israel (this program is reflected as TAGLIT-Birthright Israel).

Additionally, educational programs have been developed to target participants who have returned from Israel to enhance their Israel experience and strengthen their bond with the Jewish community in both North America and Israel. This program is reflected as NEXT-Post Programming. In January 2009, NEXT-Post Programming also organized a separate entity to further these activities. Effective January 1, 2012, Birthright Israel NEXT, due to a change in governance structure, will be consolidated with the Foundation.

The Foundation is funded primarily by contributions from public charities, private foundations and the general public.

The Foundation is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted - includes net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – includes net assets subject to donor-imposed stipulations that expire with the passage of time or can be fulfilled by actions of the Foundation, pursuant to those stipulations. The income derived from temporarily restricted net assets is available for general purposes within unrestricted net assets unless otherwise specified by the donor.

Permanently restricted – includes net assets subject to donor-imposed stipulations that require the corpus to be maintained in perpetuity. The income derived from permanently restricted net assets is available for general or specific purposes, as stipulated by the respective donors. The Foundation had no permanently restricted net assets as of December 31, 2011.

Contributions with donor stipulations that limit the use of the donated assets are reported as either temporarily restricted or permanently restricted net assets. Unconditional promises to give, with payments due in future years, are reported as either temporarily restricted or permanently restricted net assets. 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 net assets released from restrictions on the

THE BIRTHRIGHT ISRAEL FOUNDATION

Notes to Financial Statements

December 31, 2011

statement of activities. Expirations of temporary restrictions on net assets that have occurred in the same reporting period are reflected as unrestricted net assets on the accompanying statement of activities.

Fair Value Measurements

The Foundation measures fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The Foundation also prioritizes, within the measurement of fair value, the use of market based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and significant to overall fair value measurement.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Foundation's management. The Foundation considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Foundation's perceived risk of that instrument.

Valuation of Investments

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities, certain U.S. government and sovereign obligations, and certain money market securities. The Foundation does not adjust the quoted price for such instruments, even in situations, if applicable, where the Foundation holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include certain U.S. government and sovereign obligations, most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, state, municipal and provincial obligations, most physical commodities and certain loan commitments and investments that qualify for use of the net asset value ("NAV") practical expedient. As Level 2 investments include positions that are not traded in active markets and/or are subject

THE BIRTHRIGHT ISRAEL FOUNDATION

Notes to Financial Statements

December 31, 2011

to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or nontransferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include private equity and real estate investments, certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less liquid mortgage securities (backed by either commercial or residential real estate). When observable prices are not available for such securities, the Foundation uses one or more valuation techniques (e.g., the market approach, the income approach or the cost approach), as applicable. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

As of December 31, 2011, the Foundation's investments consisted of foreign sovereign debt with a fair value of \$27,700 that is classified within level 2 of the fair value hierarchy.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities when acquired of three months or less.

Cash Held in Escrow

Cash held in escrow includes collateral set aside for a letter of credit on the Foundation's lease agreements (Notes 4 and 10).

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

Allowance for Doubtful Accounts

The Foundation determines whether an allowance for uncollectibles should be provided for contributions and accounts receivable. Such estimates are based on management's assessment of the aged basis of its receivables and other sources, current economic conditions, subsequent receipts and historical information. Pledges and accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Fixed Assets

Fixed assets and leasehold improvements with a cost of \$1,000 or greater and estimated useful lives of more than one year are capitalized. Capitalized assets are depreciated and amortized on the straight-line method over the estimated useful life of the assets.

THE BIRTHRIGHT ISRAEL FOUNDATION
Notes to Financial Statements
December 31, 2011

Donated Securities

Donated securities are recorded at their fair values the date they are received.

Deferred Rent

Certain operating leases contain escalation clauses for base rentals. Accordingly, the Foundation has recorded the straight-line effects of such escalations and recognized a deferred rent liability within the accompanying statement of financial position of \$217,069 as of December 31, 2011.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Concentration of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist primarily of cash and cash equivalents. The Foundation maintains its cash and cash equivalents with creditworthy, high-quality financial institutions. At certain times, the Foundation's cash account balances may exceed federally insured limits. However, the Foundation has not experienced, nor does it anticipate, any losses with respect to such bank balances.

Income Taxes

The Foundation follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Foundation has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ending 2008, 2009, 2010 and 2011 are still open to audit for both federal and state purposes. The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

THE BIRTHRIGHT ISRAEL FOUNDATION
Notes to Financial Statements
December 31, 2011

Subsequent Events

Subsequent events have been evaluated through May 18, 2012, which is the date the financial statements were available to be issued.

3. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net, represent promises to pay from various sources. Amounts due in more than one year have been discounted using a discount rate of 6%.

Past due	\$ 93,342
2012	3,810,550
2013	2,356,550
2014	1,194,550
2015	110,550
2016	110,300
Thereafter	<u>30,600</u>
	7,706,442
Less: discount to present value	(148,000)
Less: allowance for uncollectible contributions	<u>(2,410,000)</u>
	<u>\$ 5,148,442</u>

4. LEASE COMMITMENTS

In April 2008, the Foundation signed a 10-year lease, which commenced in August 2008, for new office space. Birthright Israel North America (“BRINA”) is responsible for 22 percent of the future minimum lease payments of this lease.

In December 2010, the Foundation signed an 8-year lease for additional space. This additional space is fully occupied by Birthright Israel NEXT which is responsible for the entire cost of the lease (Note 11).

In July 2011, the Foundation entered into a shared services agreement with Birthright Israel NEXT for a 1/3 share of a 2-year lease for office space in San Francisco (Note 11).

In November 2011, the Foundation signed a 2-year lease for office space in Los Angeles.

There is a letter of credit outstanding for \$296,642, which has been collateralized by an interest-bearing money market account in the amount of \$305,513 at December 31, 2011 included within cash held in escrow on the accompanying statement of financial position.

THE BIRTHRIGHT ISRAEL FOUNDATION
Notes to Financial Statements
December 31, 2011

The future minimum lease payments for all leases as of December 31, 2011 are as follows:

2012	\$ 869,941
2013	897,449
2014	929,162
2015	954,714
2016	987,362
Thereafter	<u>2,010,467</u>
	<u>\$ 6,649,095</u>

The original lease agreement provided for one month of free rent in the first year. The free rent is being amortized over the life of the lease. The net rent expense for the year ended December 31, 2011 totaled \$554,331 and is included within occupancy expenses on the accompanying statement of functional expenses.

5. FIXED ASSETS, NET

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Estimated Useful Lives</u>
Furniture and fixtures	\$ 269,972	\$ 103,438	\$ 166,534	7 years
Computers and computer systems	232,594	189,285	43,309	3 years
Security equipment	15,025	10,518	4,507	5 years
Video and telephone equipment	94,662	62,065	32,597	5 years
Other equipment	9,970	9,545	425	3 years
Leasehold improvements	<u>655,976</u>	<u>121,053</u>	<u>534,923</u>	10 years
	<u>\$ 1,278,199</u>	<u>\$ 495,904</u>	<u>\$ 782,295</u>	

Depreciation expense for the year ended December 31, 2011 was \$152,174.

6. GRANTS

The Foundation awards grants to organizations that implement its missions and goals. In 2011, the Foundation awarded and transferred \$46,786,680 to Birthright Israel International and \$501,000 to Birthright Israel NEXT.

7. PENSION PLAN

The Foundation offers a defined contribution plan for eligible employees who have completed 12 months of service and have attained age 21. The Foundation's contributions equal 100% of the eligible employee's contributions of 5% of their compensation. Participants are fully vested after 5 years of service. Pension expense for the year ended December 31, 2011 totaled \$186,814.

THE BIRTHRIGHT ISRAEL FOUNDATION
Notes to Financial Statements
December 31, 2011

8. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2011, temporarily restricted net assets were as follows:

Restricted as to time	\$ 5,055,100
Restricted as to purpose (NEXT - Post programming)	375,000
Restricted as to purpose (Other programs)	<u>396,667</u>
	<u>\$ 5,826,767</u>

Temporarily restricted net assets in the amount of \$2,088,000 were released from time restrictions during the year ended December 31, 2011.

9. CONTINGENCIES

In the normal course of its operations, the Foundation is a party to various legal proceedings and complaints, some of which are covered by insurance. While it is not feasible to predict the ultimate outcomes of such matters, management of the Foundation is not aware of any claims or contingencies that would have a material adverse effect on the Foundation's financial position, change in net assets or cash flows.

10. LINES OF CREDIT

On December 1, 2011 the Foundation entered into a \$6 million revolving credit ("RC") agreement with JPMorgan Chase Bank for working capital needs. The term of the agreement is for 9 months and interest on borrowings will be at LIBOR plus 0.85% or the higher of the Bank's prime rate or the adjusted one month LIBOR rate plus 2.5%. The RC is secured by two irrevocable standby letters of credit each in the amount of \$3 million provided by philanthropists. The RC is further secured by an interest-bearing money market account in the amount of \$50,939 which is included in cash held in escrow on the accompanying statement of financial position. There is a non-usage fee of 10 basis points. At December 31, 2011 there were no outstanding balances under this agreement.

On December 14, 2011, the Foundation entered into a \$3 million revolving line of credit loan ("RLCL") agreement with The Northern Trust Company in order to support seasonal shortages in cash flow. The term of the agreement is for 1 year and interest on borrowings will be at the lower of the prime-based rate less 0.75% or LIBOR plus 0.70%. The RLCL is secured by a pledge agreement and control agreement with a philanthropist. At December 31, 2011 there were no outstanding balances under this loan agreement.

11. RELATED PARTY TRANSACTIONS

Accounts receivable represents shared services of amounts due from two agencies, Birthright Israel North America and Birthright Israel NEXT, which share space and common goals but are not consolidated with the financial statements of the Foundation, as the criteria for consolidation under U.S. GAAP has not been met as of December 31, 2011 (Note 1).