

**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2014

**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

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Independent Auditor's Report

**Board of Directors
American Friends of the Open
University of Israel, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of American Friends of the Open University of Israel, Inc., which comprise the balance sheet as of December 31, 2014, and the related statements of activities, functional expenses 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 from 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 Open University of Israel, Inc. 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 Open University of Israel, Inc.'s December 31, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 21, 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.

Loeb & Troper LLP

April 13, 2015

**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

BALANCE SHEET

DECEMBER 31, 2014

(With Summarized Financial Information for December 31, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 795,678	\$ 811,157
Investments (Note 3)		416,922
Contributions receivable - net (Note 4)	644,394	792,922
Prepaid expenses	22,309	22,876
Security deposits	13,000	13,000
Prepaid rent (Note 7)	1,192	5,296
Fixed assets - net (Note 5)	<u>176</u>	<u>543</u>
Total assets	<u>\$ 1,476,749</u>	<u>\$ 2,062,716</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	<u>\$ 27,376</u>	<u>\$ 19,679</u>
Net assets (Exhibit B)		
Unrestricted	691,273	901,250
Temporarily restricted (Note 6)	608,100	991,787
Permanently restricted (Note 6)	<u>150,000</u>	<u>150,000</u>
Total net assets	<u>1,449,373</u>	<u>2,043,037</u>
Total liabilities and net assets	<u>\$ 1,476,749</u>	<u>\$ 2,062,716</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014
(With Summarized Financial Information
for the Year Ended December 31, 2013)

	2014			2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and other support				
Contributions and special events	\$ 963,646			
Less direct cost of special events	(121,126)	\$ 263,398	\$	\$ 1,894,373
Investment income (Note 3)	6,789	2		59,037
Net assets released from restrictions (Note 6)	647,087	(647,087)		
Total revenues, gains and other support	1,232,998	(383,687)		1,953,410
Expenses (Exhibit C)				
Program - grants	1,160,560			831,679
Management and general	162,302			164,032
Fund raising	120,113			161,813
Total expenses	1,442,975			1,157,524
Change in net assets (Exhibit D)	(209,977)	(383,687)		795,886
Net assets - beginning of year	901,250	991,787	\$ 150,000	1,247,151
Net assets - end of year (Exhibit A)	\$ 691,273	\$ 608,100	\$ 150,000	\$ 2,043,037

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014
(With Summarized Financial Information
for the Year Ended December 31, 2013)

	Program - Grants	Management and General	Fund Raising	Special Events	2014	2013
Grants	\$ 1,160,560				\$ 1,160,560	\$ 831,679
Salaries, benefits and taxes		\$ 78,397	\$ 52,264		130,661	148,433
Professional fees		31,854			31,854	30,740
Public relations			233		233	216
Office and computer expenses		3,437	3,438		6,875	8,074
Telephone		1,775	1,776		3,551	3,923
Postage and mailing		437	1,313		1,750	6,063
Occupancy (Note 7)		33,352	33,353		66,705	66,554
Printing, photos and videos			3,839	9,929	13,768	21,822
Travel						2,716
Insurance		2,867	2,867		5,734	6,014
Advertising			2,261		2,261	7,214
Catering, venue and entertainment			18,585	111,197	129,782	126,131
Depreciation		183	184		367	367
Bad debt		10,000			10,000	10,000
Investment fees		632			632	1,783
Total expenses	1,160,560	162,934	120,113	121,126	1,564,733	1,271,729
Less expenses deducted directly from revenues on the statement of activities						
Direct cost of special events				(121,126)	(121,126)	(112,422)
Investment fees		(632)			(632)	(1,783)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 1,160,560	\$ 162,302	\$ 120,113	\$ -	\$ 1,442,975	\$ 1,157,524

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.****STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2014**

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ (593,664)
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation	367
Net gain on investments	(6,089)
Decrease in assets	
Contributions receivable	148,528
Prepaid expenses	567
Prepaid rent	4,104
Increase in liabilities	
Accounts payable	7,697
	<hr/>
Net cash used by operating activities	(438,490)
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Cash flows from investing activities	
Purchase of investments	(206)
Proceeds from sales of investments	423,217
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Net cash provided by investing activities	423,011
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Net change in cash and cash equivalents	(15,479)
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Cash and cash equivalents - beginning of year	811,157
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Cash and cash equivalents - end of year	\$ <u>795,678</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 1 - NATURE OF ORGANIZATION

American Friends of the Open University of Israel, Inc. (AFOUI) was incorporated as a not-for-profit corporation in New York on June 2, 1981 to build awareness of the Open University of Israel (OUI) in the United States and raise funds in order to provide grants to OUI to support the students, faculty, and growth initiatives of OUI. The organization's primary sources of revenues are contributions and special events.

The Open University of Israel, a pioneer and cutting-edge leader in distance learning, is dedicated to educating all those who would otherwise be denied a university education and to perpetuating the academic and intellectual traditions of the Jewish people. With approximately 47,000 students, OUI is Israel's largest university.

The Internal Revenue Service has determined that the organization is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

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.

Cash and cash equivalents - Cash and cash equivalents consist of cash and highly liquid investments with maturity dates, when acquired, of three months or less.

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AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions receivable and allowance for doubtful accounts - 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 their fair value, which is measured at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which 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 substantially met. AFOUI determines whether an allowance for uncollectibles should be provided. Such estimates are based upon management's assessment of the aging of its receivables, current economic conditions, subsequent receipts and historical information.

Fixed assets - Fixed assets are recorded at cost. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Items with a cost of \$500 and an estimated useful life of greater than one year are capitalized.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Temporarily restricted net assets - Temporarily restricted net assets are those funds whose use has been limited by donors to a specific time period or purpose.

Permanently restricted net assets - Permanently restricted net assets are those funds whose principal may not be expended.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Operating leases - Operating leases are straight-lined over the term of the lease. Prepaid or deferred rent is recorded when there are material differences between the fixed payment and the rent expense.

Advertising - Advertising fees are expensed as incurred.

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**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allocation of functional expenses - The costs of providing services have been reported on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services for which the costs have been incurred.

Summarized financial 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 disclosures or detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AFOUI's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Grants - Grants to The Open University of Israel are made pursuant to authorization of the Board of Directors of AFOUI.

Uncertainty in income taxes - AFOUI has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through April 13, 2015, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

AFOUI liquidated all of its investments during 2014. The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2013:

	December 31, 2013
	Quoted Market Price
Mutual funds	
Short duration	\$ 114,985
U.S. equities	<u>301,937</u>
	<u>\$ 416,922</u>

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**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 3 - INVESTMENTS (continued)

Investment income consists of:

Interest and dividend income	\$ 1,334
Net gain on investments	6,089
Investment fees	<u>(632)</u>
Net investment income	\$ <u>6,791</u>

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Those receivables that are due in more than one year have been discounted to fair present value using a discount rate of 3%. The receivables are due to be collected as follows:

2015	\$ 758,200
2016	200,000
2017	<u>200,000</u>
	1,158,200
Less discount to present value	(17,306)
Less allowance for uncollectibles	<u>(496,500)</u>
Net contributions receivable	\$ <u>644,394</u>

NOTE 5 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Furniture and equipment	\$ 29,722	5 years
Accumulated depreciation	<u>(29,546)</u>	
	\$ <u>176</u>	

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AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 6 - RESTRICTED NET ASSETS

Permanently Restricted

General

AFOUI's permanently restricted net assets consist of endowment fund assets to be held in perpetuity. The income from the assets can be used for scholarships. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of AFOUI has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. AFOUI is now governed by the NYPMIFA spending policy, which establishes a standard prudent maximum spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, AFOUI 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 expenditure by AFOUI in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of AFOUI is to maintain the principal endowment funds at the original amount designated by the donor and to generate investment income for the specified purpose. The investment policy to achieve this objective is to invest in low-risk securities. Investment income earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

Funds with Deficiencies

AFOUI does not have any funds with deficiencies.

**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 6 - RESTRICTED NET ASSETS (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2014

Investments to be held in perpetuity total \$150,000. The income is expendable to support scholarships at OUI.

Changes in Endowment Net Assets for the Year Ended December 31, 2014

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year		\$ 150,000
Investment income	\$ 2	
Appropriation of endowment assets for expenditure	<u>(2)</u>	
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>150,000</u>

The policy of the governing board is to appropriate all investment income, thereby not increasing its historical dollar value.

Temporarily restricted net assets are available for the following:

General scholarships	\$ <u>608,100</u>
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Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

General scholarships	\$ 634,587
Conferences	<u>12,500</u>
	\$ <u>647,087</u>

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**AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 7 - LEASE COMMITMENTS

AFOUI renewed its lease for office space effective January 1, 2013, extending the lease until December 31, 2017.

The organization's future noncancelable minimum rental commitments as of December 31, 2014 are as follows:

2015	\$	62,381
2016		64,252
2017		<u>66,180</u>
	\$	<u>192,813</u>

Rent expense for the year ended December 31, 2014 was \$64,668. As of December 31, 2014, prepaid rent was \$1,192.