

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

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2009

**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.**

We have audited the accompanying balance sheet of American Friends of the Open University of Israel, Inc. as of December 31, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from American Friends of the Open University of Israel, Inc.'s 2008 financial statements and, in our report dated October 6, 2009, we expressed an unqualified opinion on those financial statements.

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 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 American Friends of the Open University of Israel, Inc.'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 American Friends of the Open University of Israel, Inc. as of December 31, 2009, 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.



July 21, 2010

AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

EXHIBIT A

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2009
(With Summarized Financial Information
for the Year Ended December 31, 2008)

	2009			Total	2008
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, gains (losses) and other support					
Contributions and special events	\$ 1,142,445				
Less direct cost of special events	(133,624)	\$ 308,237	\$ 1,008,821	\$ 1,616,742	
Investment income (loss) (Note 2)	56,242	4,017	60,259	(78,563)	
Net assets released from restrictions (Note 5)	772,748	(772,748)			
Total revenues, gains (losses) and other support	1,529,574	(460,494)	1,069,080	1,538,179	
Expenses (Exhibit B)					
Program - grants	768,731		768,731	2,103,000	
Management and general	195,194		195,194	282,018	
Fund raising	243,318		243,318	167,981	
Total expenses	1,207,243		1,207,243	2,552,999	
Change in net assets before bad debt loss	322,331	(460,494)	(138,163)	(1,014,820)	
Bad debt loss				(97,577)	
Change in net assets (Exhibit D)	322,331	(460,494)	(138,163)	(1,112,397)	
Net assets - beginning of year	1,256,097	464,401	1,870,498	2,982,895	
Net assets - end of year (Exhibit C)	\$ 1,578,428	\$ 3,907	\$ 1,732,335	\$ 1,870,498	

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 FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2009
(With Summarized Financial Information
for the Year Ended December 31, 2008)

	Program - Grants	Management and General	Fund Raising	Special Events	2009	Total 2008
Grants paid	\$ 768,731				\$ 768,731	\$ 2,103,000
Salaries, benefits and taxes		\$ 117,210	\$ 104,959		222,169	243,222
Professional fees		25,238			25,238	33,550
Public relations			4,194		4,194	2,107
Office and computer expenses		4,746	4,747		9,493	9,419
Telephone		4,646	4,646		9,292	9,096
Postage and mailing		4,089	12,091		16,180	15,627
Occupancy (Note 6)		34,441	34,441		68,882	74,890
Printing, photos and videos			59,281	\$ 3,977	63,258	22,763
Travel			1,085		1,085	171
Dues and subscriptions		986			986	901
Insurance		2,257	2,258		4,515	5,093
Gifts and awards			404		404	208
Meetings and receptions		1,408			1,408	617
Direct mailing expenses						2,218
Advertising			1,508		1,508	1,285
Catering and event planner			13,531	129,647	143,178	84,514
Entertainment						5,952
Depreciation		173	173		346	346
Bad debt						50,850
Miscellaneous expenses						266
Investment fees		4,203			4,203	2,448
Total expenses	768,731	199,397	243,318	133,624	1,345,070	2,668,543
Less expenses deducted directly from revenues on the statement of activities						
Direct cost of special events		(4,203)		(133,624)	(133,624)	(113,096)
Investment fees					(4,203)	(2,448)
Total expenses (Exhibit A)	\$ 768,731	\$ 195,194	\$ 243,318	\$ -	\$ 1,207,243	\$ 2,552,999

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

BALANCE SHEET

DECEMBER 31, 2009

(With Summarized Financial Information for December 31, 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 856,645	\$ 422,039
Investments (Note 2)	317,809	257,856
Contributions receivable (net of allowance for uncollectibles of \$475,000 and \$2,411,449 in 2009 and 2008) (Note 3)	589,482	1,209,051
Prepaid expenses	3,668	30
Fixed assets - net (Note 4)	856	1,202
Security deposits	<u>17,135</u>	<u>17,135</u>
Total assets	<u>\$ 1,785,595</u>	<u>\$ 1,907,313</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	<u>\$ 53,260</u>	<u>\$ 36,815</u>
Net assets (Exhibit A)		
Unrestricted	1,578,428	1,256,097
Temporarily restricted (Note 5)	3,907	464,401
Permanently restricted (Note 5)	<u>150,000</u>	<u>150,000</u>
Total net assets	<u>1,732,335</u>	<u>1,870,498</u>
Total liabilities and net assets	<u>\$ 1,785,595</u>	<u>\$ 1,907,313</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 CASH FLOWS

YEAR ENDED DECEMBER 31, 2009

Cash flows from operating activities	
Change in net assets (Exhibit A)	\$ (138,163)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	346
Net gain on investments	(58,309)
Decrease (increase) in assets	
Contributions receivable	619,569
Prepaid expenses	(3,638)
Increase in liabilities	
Accounts payable	16,445
	<u>436,250</u>
Net cash provided by operating activities	<u>436,250</u>
Cash flows from investing activities	
Purchase of investments	(446,892)
Sales of investments	445,248
	<u>(1,644)</u>
Net cash used by investing activities	<u>(1,644)</u>
Net increase in cash and cash equivalents	434,606
Cash and cash equivalents - beginning of year	<u>422,039</u>
Cash and cash equivalents - end of year	<u><u>\$ 856,645</u></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, 2009

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 raise funds and public awareness for the educational programs of the Open University of Israel. The organization's primary sources of funds are contributions.

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. The financial statements reflect only those financial transactions applicable to American Friends of the Open University of Israel, Inc. and do not include the financial transactions or accounts maintained by the Open University of Israel.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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.

Investments - Investments are recorded at fair value based on quoted market prices. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of the investments will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in AFOUI's financial statements.

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AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 promises are received. Amortization of the discounts is included in contribution revenue. 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. Conditional promises to give are not included as support until the conditions are substantially met.

Fixed assets - Fixed assets in excess of \$500 are capitalized with an estimated useful life of more than one year. Depreciation is taken on the straight-line method over the assets' estimated useful life of five years.

Net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those funds restricted by donors to be used for specified purposes. Permanently restricted net assets are those funds whose principal may not be expended. The donor may or may not restrict the use of investment income.

Contributions - AFOUI reports gifts of cash and other assets as 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 to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Summarized financial information - The financial statements include certain prior-year comparative information. 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 the organization's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

Operating leases - Operating leases are straight-lined over the term of the lease. Deferred rent is recorded when there are material differences between the fixed payment and the rent expense. At December 31, 2009, no deferred rent was recorded.

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AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy 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 of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AFOUI has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at December 31, 2009.

Mutual funds - Valued at the net asset value ("NAV") of shares held at year end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while AFOUI believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table sets forth by level, within the fair value hierarchy, the assets at fair value:

	<u>Quoted Market Price (Level 1)</u>
Mutual funds	\$ <u>317,809</u>
Investment income consists of:	
Interest income	\$ 6,153
Net gain on investments	58,309
Investment fees	<u>(4,203)</u>
Total investment gain	\$ <u>60,259</u>

Accounting for uncertainty in income taxes - Accounting for Uncertainty in Income Taxes prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. It is the opinion of management that there is no tax obligation necessary to be recognized, based on the adoption of this provision.

FASB Accounting Standards Codification - In July 2009, the FASB launched FASB Accounting Standards Codification as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. All other accounting literature not included in the Codification is nonauthoritative.

Subsequent events - Subsequent events have been evaluated through July 21, 2010, which is the date the financial statements were available to be issued.

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AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 3 - CONTRIBUTIONS RECEIVABLE

All unconditional contributions receivable have been recorded at fair value. Those receivables that are due in more than one year have been discounted to their present value using a discount rate of 5%. The receivables are due to be collected as follows:

2010	\$ 442,600
2011	250,000
2012	250,000
2013	50,000
2014	50,000
Thereafter	<u>50,000</u>
	1,092,600
Less discount to present value	<u>(28,118)</u>
	1,064,482
Less allowance for uncollectibles	<u>(475,000)</u>
Present value of contributions receivable	<u>\$ 589,482</u>

NOTE 4 - FIXED ASSETS

Furniture and equipment	\$ 27,886
Accumulated depreciation	<u>(27,030)</u>
	<u>\$ 856</u>

NOTE 5 - RESTRICTED NET ASSETS

General

AFOUP's permanently restricted net assets consist of endowment fund assets to be held in perpetuity. The income from the assets can be used for the specific purpose for which the endowment was established.

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 5 - RESTRICTED NET ASSETS (continued)

Interpretation of Relevant Law

The Board of Directors of AFOUI has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as being the relevant sections of the New York State Not-for-Profit Corporations Law (N-PCL) requiring preservation of the fair value of a gift as of the gift date of donor-restricted endowment funds (historic dollar value), absent explicit donor stipulations to the contrary. As a result, and in accordance with the direction of the original donor gift instrument, AFOUI classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of any subsequent gifts to the permanent endowment, and 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. Any interest, dividends, rents, royalties or other revenue generated by donor-restricted endowment funds is used by the organization in a manner consistent with the standard of prudence required by law, absent explicit donor stipulations.

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. The investment policy to achieve this objective is to invest in low-risk securities. Interest 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.

Endowment Net Asset Composition by Type of Fund as of December 31, 2009

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

Changes in Endowment Net Assets for the Year Ended December 31, 2009

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year		\$ 150,000
Interest income	\$ 4,017	
Appropriation of endowment assets for expenditure	<u>(4,017)</u>	
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 150,000</u>

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AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 5 - RESTRICTED NET ASSETS (continued)

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

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

General scholarships	\$ 53,347
Educational enhancement	464,401
Library Fund	5,000
Project Russia	20,000
Research	15,000
Concert series	10,000
Young faculty development	200,000
Raanana Campus	<u>5,000</u>
Total	<u>\$ 772,748</u>

As of December 31, 2009, \$3,907 was temporarily restricted for scholarships.

NOTE 6 - LEASE COMMITMENTS

The organization's future minimum rental commitments as of December 31, 2009 are as follows:

2010	\$ 82,750
2011	85,233
2012	<u>87,790</u>
	<u>\$ 255,773</u>

The rent expense for the year ended December 31, 2009 was \$67,145. The lease period expires December 31, 2012.

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AMERICAN FRIENDS OF THE OPEN
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

NOTE 7 - CONCENTRATIONS

Financial instruments which potentially subject AFOUI to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.