

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

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**DECEMBER 31, 2010**

**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, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of American Friends of the Open University of Israel, Inc.'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 December 31, 2009 financial statements and, in our report dated July 21, 2010, 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, 2010, 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.



June 23, 2011

AMERICAN FRIENDS OF THE OPEN  
UNIVERSITY OF ISRAEL, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010  
(With Summarized Financial Information  
for the Year Ended December 31, 2009)

	2010			Total	2009
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, gains and other support					
Contributions and special events	\$ 638,636			\$ 540,636	\$ 1,008,821
Less direct cost of special events	(98,000)	\$ 87,645		\$ 32,210	60,259
Investment income (Note 3)	30,255	1,955			
Net assets released from restrictions (Note 6)	93,507	(93,507)			
Total revenues, gains and other support	576,753	(3,907)		572,846	1,069,080
Expenses (Exhibit B)					
Program - grants	584,169			584,169	768,731
Management and general	202,650			202,650	195,194
Fund raising	225,025			225,025	243,318
Total expenses	1,011,844			1,011,844	1,207,243
Change in net assets (Exhibit D)	(435,091)	(3,907)		(438,998)	(138,163)
Net assets - beginning of year	1,578,428	3,907	\$ 150,000	1,732,335	1,870,498
Net assets - end of year (Exhibit C)	\$ 1,143,337	\$ -	\$ 150,000	\$ 1,293,337	\$ 1,732,335

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 B

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2010  
(With Summarized Financial Information  
for the Year Ended December 31, 2009)

	Program - Grants	Management and General	Fund Raising	Special Events	Total
	2010	2010	2010	2010	2009
Grants paid	\$ 584,169				\$ 768,731
Salaries, benefits and taxes		\$ 120,850	\$ 107,168		\$ 228,018
Professional fees		16,425			16,425
Public relations			1,380		1,380
Office and computer expenses		8,537	8,536		17,073
Telephone		4,471	4,471		8,942
Postage and mailing		1,356	4,069		5,425
Occupancy (Note 7)		42,301	42,301		84,602
Printing, photos and videos			6,484	1,510	7,994
Travel			1,034		1,034
Dues and subscriptions		3,916			3,916
Insurance		2,464	2,463		4,927
Gifts and awards			175		175
Meetings and receptions		565			565
Advertising			1,197		1,197
Catering and event planner			45,483	94,700	140,183
Entertainment				1,790	1,790
Depreciation		265	264		529
Bad debt		1,500			1,500
Investment fees		397			397
Total expenses	584,169	203,047	225,025	98,000	1,110,241
Less expenses deducted directly from revenues on the statement of activities					
Direct cost of special events				(98,000)	(98,000)
Investment fees		(397)			(397)
Total expenses reported by function on the statement of activities (Exhibit A)	\$ 584,169	\$ 202,650	\$ 225,025	\$ -	\$ 1,207,243

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, 2010

(With Summarized Financial Information for December 31, 2009)

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 494,304	\$ 856,645
Investments (Note 3)	349,919	317,809
Contributions receivable (net of allowance for uncollectibles of \$481,500 and \$475,000 in 2010 and 2009, respectively) (Note 4)	457,576	589,482
Prepaid expenses	3,257	3,668
Fixed assets - net (Note 5)	2,163	856
Security deposits	<u>17,135</u>	<u>17,135</u>
Total assets	<u>\$ 1,324,354</u>	<u>\$ 1,785,595</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	<u>\$ 31,017</u>	<u>\$ 53,260</u>
Net assets (Exhibit A)		
Unrestricted	1,143,337	1,578,428
Temporarily restricted (Note 6)		3,907
Permanently restricted (Note 6)	<u>150,000</u>	<u>150,000</u>
Total net assets	<u>1,293,337</u>	<u>1,732,335</u>
Total liabilities and net assets	<u>\$ 1,324,354</u>	<u>\$ 1,785,595</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, 2010

Cash flows from operating activities	
Change in net assets (Exhibit A)	\$ (438,998)
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation	529
Net gain on investments	(28,046)
Decrease in assets	
Contributions receivable	131,906
Prepaid expenses	411
Decrease in liabilities	
Accounts payable	<u>(22,243)</u>
Net cash used by operating activities	<u>(356,441)</u>
Cash flows from investing activities	
Purchase of investments	(4,392)
Proceeds from sales of investments	328
Capital acquisitions	<u>(1,836)</u>
Net cash used by investing activities	<u>(5,900)</u>
Net decrease in cash and cash equivalents	(362,341)
Cash and cash equivalents - beginning of year	<u>856,645</u>
Cash and cash equivalents - end of year	<u>\$ 494,304</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, 2010

**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 of accounting. 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.

*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. 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, 2010

**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 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. 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 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 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 whose use has been limited by donors to a specific time period or purpose. 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.

*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, 2010, no deferred rent was recorded.

*Advertising* - Advertising fees are expensed as incurred.

*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.

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AMERICAN FRIENDS OF THE OPEN  
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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, 2009, from which the summarized information was derived.

*Fair Value Measurements*

Accounting Standards Codification (ASC) Section 820, *Fair Value Measurements and Disclosures*, 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, 2010.

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

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AMERICAN FRIENDS OF THE OPEN  
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

See Note 3 for the table which sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2010.

*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, 2007 and subsequent remain subject to examination by applicable taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through June 23, 2011, which is the date the financial statements were available to be issued.

**NOTE 3 - INVESTMENTS**

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

	Quoted Market Price <u>(Level 1)</u>
Mutual funds	\$ <u>349,919</u>
Investment income consists of:	
Interest income	\$ 4,561
Net gain on investments	28,046
Investment fees	<u>(397)</u>
Total investment income	\$ <u>32,210</u>

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AMERICAN FRIENDS OF THE OPEN  
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**NOTE 4 - 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:

2011	\$ 548,600
2012	250,000
2013	50,000
2014	50,000
2015	<u>50,000</u>
	948,600
Less discount to present value	(9,524)
Less allowance for uncollectibles	<u>(481,500)</u>
Present value of contributions receivable	<u>\$ 457,576</u>

**NOTE 5 - FIXED ASSETS**

Furniture and equipment	\$ 29,722
Accumulated depreciation	<u>(27,559)</u>
	<u>\$ 2,163</u>

**NOTE 6 - RESTRICTED NET ASSETS**

**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.

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AMERICAN FRIENDS OF THE OPEN  
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**NOTE 6 - RESTRICTED NET ASSETS (continued)**

**Interpretation of Relevant Law**

In July 2006, the National Conference of Commissioners on Uniform State Laws approved the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as an updated version of the Uniform Management of Institutional Funds Act ("UMIFA"). UMIFA, in effect in New York since 1986, provided a prudent standard for the spending of the net appreciation of a donor-restricted endowment fund and imposed a spending floor of a fund's book value (referred to as "historic dollar value" in UMIFA). UPMIFA became law and replaced UMIFA in New York on September 17, 2010 and provides, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, an institution to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility under UPMIFA allows an expenditure that lowers the value of the corpus of the fund below its book value, which was not allowed under UMIFA.

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, 2010**

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

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AMERICAN FRIENDS OF THE OPEN  
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

NOTE 6 - RESTRICTED NET ASSETS (continued)

*Changes in Endowment Net Assets for the Year Ended December 31, 2010*

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year		\$ 150,000
Interest income	\$ 1,955	
Appropriation of endowment assets for expenditure	<u>(1,955)</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 were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Distance learning in the FSU	\$ 3,201
Educational enhancement	4,000
General scholarships	36,934
General support	16,012
Library Fund	802
Textbooks	544
Young faculty development	<u>32,014</u>
Total	<u>\$ 93,507</u>

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AMERICAN FRIENDS OF THE OPEN  
UNIVERSITY OF ISRAEL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

NOTE 7 - LEASE COMMITMENTS

The organization's future noncancellable minimum rental commitments as of December 31, 2010 are as follows:

2011	\$	85,233
2012		<u>87,790</u>
	\$	<u>173,032</u>

The rent expense for the year ended December 31, 2010 was \$82,750. The lease period expires December 31, 2012.