

**OPEN UNIVERSITY FOUNDATION, INC.
(FORMERLY KNOWN AS AMERICAN FRIENDS
OF THE OPEN UNIVERSITY
OF ISRAEL, INC.)**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2011

OPEN UNIVERSITY FOUNDATION, INC.

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

- A - Statement of Activities**
- B - Statement of Functional Expenses**
- C - Balance Sheet**
- D - Statement of Cash Flows**

Notes to Financial Statements



Independent Auditor's Report

Board of Directors Open University Foundation, Inc.

We have audited the accompanying balance sheet of Open University Foundation, Inc. (formerly known as American Friends of the Open University of Israel, Inc.) 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 Open University Foundation, 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 Open University Foundation, Inc.'s December 31, 2010 financial statements and, in our report dated June 23, 2011, 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 Open University Foundation, 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 Open University Foundation, Inc. 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.

Loeb + Troper LLP

April 18, 2012

OPEN UNIVERSITY FOUNDATION, INC.

EXHIBIT A

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011
 (With Summarized Financial Information
 for the Year Ended December 31, 2010)

	2011			Total	2010
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, gains (losses) and other support					
Contributions and special events	\$ 1,029,003			\$ 925,535	\$ 540,636
Less direct cost of special events	(103,468)	132,682		(22,191)	32,210
Investment income (loss) (Note 3)	(22,207)	16			
Net assets released from restrictions (Note 6)	318,552	(318,552)			
Total revenues, gains (losses) and other support	1,089,198	(185,854)		903,344	572,846
Expenses (Exhibit B)					
Program - grants	397,303			397,303	584,169
Management and general	188,288			188,288	202,650
Fund raising	180,178			180,178	225,025
Total expenses	765,769			765,769	1,011,844
Change in net assets (Exhibit D)	323,429	(185,854)		137,575	(438,998)
Net assets - beginning of year, as previously stated	1,143,337		\$ 150,000	1,293,337	1,732,335
Restatement (Note 8)	(416,050)	416,050			
Net assets - beginning of year, restated	727,287	416,050	150,000	1,293,337	1,732,335
Net assets - end of year (Exhibit C)	\$ 1,050,716	\$ 230,196	\$ 150,000	\$ 1,430,912	\$ 1,293,337

See independent auditor's report.

The accompanying notes are an integral part of these statements.

OPEN UNIVERSITY FOUNDATION, INC.

EXHIBIT B

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011
(With Summarized Financial Information
for the Year Ended December 31, 2010)

	Program - Grants	Management and General	Fund Raising	Special Events	Total
	2011	2011	2011	2011	2010
Grants paid	\$ 397,303				\$ 584,169
Salaries, benefits and taxes		\$ 107,331	\$ 78,210		\$ 185,541
Professional fees		21,582			21,582
Public relations			1,412		1,412
Office and computer expenses		5,051	5,050		10,101
Telephone		3,997	3,997		7,994
Postage and mailing		818	2,454		3,272
Occupancy (Note 7)		44,315	44,315		88,630
Printing, photos and videos			13,104	\$ 3,289	16,393
Travel			322		322
Dues and subscriptions		906			906
Insurance		2,662	2,662		5,324
Gifts and awards		601			601
Meetings and receptions		1,269			1,269
Advertising			152		152
Catering and event planner			27,543	98,679	126,222
Entertainment				1,500	1,790
Depreciation		357	356		713
Bad debt					1,500
Investment fees		2,140			2,140
Total expenses	397,303	190,428	180,178	103,468	871,377
Less expenses deducted directly from revenues on the statement of activities					
Direct cost of special events				(103,468)	(98,000)
Investment fees		(2,140)			(397)
Total expenses reported by function on the statement of activities (Exhibit A)	\$ 397,303	\$ 188,288	\$ 180,178	\$ -	\$ 765,769
					\$ 1,011,844

See independent auditor's report.

The accompanying notes are an integral part of these statements.

OPEN UNIVERSITY FOUNDATION, INC.

BALANCE SHEET

DECEMBER 31, 2011

(With Summarized Financial Information for December 31, 2010)

	<u>2011</u>	<u>2010</u> (Restated)
ASSETS		
Cash and cash equivalents	\$ 872,760	\$ 494,304
Investments (Note 3)	327,672	349,919
Contributions receivable (Note 4)	224,375	457,576
Prepaid expenses	3,498	3,257
Fixed assets - net (Note 5)	1,450	2,163
Security deposits	<u>17,135</u>	<u>17,135</u>
Total assets	<u>\$ 1,446,890</u>	<u>\$ 1,324,354</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	<u>\$ 15,978</u>	<u>\$ 31,017</u>
Net assets (Exhibit A)		
Unrestricted	1,050,716	727,287
Temporarily restricted (Note 6)	230,196	416,050
Permanently restricted (Note 6)	<u>150,000</u>	<u>150,000</u>
Total net assets	<u>1,430,912</u>	<u>1,293,337</u>
Total liabilities and net assets	<u>\$ 1,446,890</u>	<u>\$ 1,324,354</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

OPEN UNIVERSITY FOUNDATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities	
Change in net assets (Exhibit A)	\$ 137,575
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	713
Net loss on investments	25,978
Decrease (increase) in assets	
Contributions receivable	233,201
Prepaid expenses	(241)
Decrease in liabilities	
Accounts payable	<u>(15,039)</u>
Net cash provided by operating activities	<u>382,187</u>
Cash flows from investing activities	
Purchase of investments	(5,810)
Proceeds from sales of investments	<u>2,079</u>
Net cash used by investing activities	<u>(3,731)</u>
Net increase in cash and cash equivalents	378,456
Cash and cash equivalents - beginning of year	<u>494,304</u>
Cash and cash equivalents - end of year	<u>\$ 872,760</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

OPEN UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 1 - NATURE OF ORGANIZATION

Open University Foundation, Inc. (the "Foundation") was incorporated as a not-for-profit corporation in New York on June 2, 1981 to build awareness of the Open University of Israel in the United States and raise funds to support the students, faculty, and growth initiatives of the Open University of Israel. The organization's primary sources of funds are contributions.

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 more than 50,000 students, OUI is Israel's largest university.

On July 19, 2011, American Friends of the Open University of Israel, Inc. changed its name to Open University Foundation, Inc.

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 the Foundation, 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 the Foundation's financial statements.

-continued-

OPEN UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

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. The Foundation 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.

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. Deferred rent is recorded when there are material differences between the fixed payment and the rent expense. At December 31, 2011, no deferred rent was recorded.

Advertising - Advertising fees are expensed as incurred.

-continued-

OPEN UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 Foundation's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

Fair Value Measurements and Disclosures

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 the Foundation 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, 2011.

-continued-

OPEN UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements and Disclosures (continued)

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 the Foundation 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, 2011.

Uncertainty in income taxes - The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2008 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through April 18, 2012, 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:

	<u>Quoted Market Price (Level 1)</u>
Mutual funds - domestic	\$ <u>327,672</u>
Investment income (loss) consists of:	
Interest and dividend income	\$ 5,927
Net loss on investments	(25,978)
Investment fees	<u>(2,140)</u>
Net investment loss	\$ <u>(22,191)</u>

-continued-

OPEN UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

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 fair present value using a discount rate of 5%. The receivables are due to be collected as follows:

2012	\$ 555,875
2013	50,000
2014	50,000
2015	<u>50,000</u>
	705,875
Less discount to present value	(13,838)
Less allowance for uncollectibles	<u>(467,662)</u>
Net contributions receivable	<u>\$ 224,375</u>

NOTE 5 - FIXED ASSETS

Furniture and equipment	\$ 29,722
Accumulated depreciation	<u>(28,272)</u>
	<u>\$ 1,450</u>

NOTE 6 - RESTRICTED NET ASSETS**General**

The Foundation'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.

-continued-

OPEN UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 6 - RESTRICTED NET ASSETS (continued)**Interpretation of Relevant Law**

The Board of Directors of the Foundation 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. The Foundation is now governed by the NYPMIFA spending policy, which establishes a maximum spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, the Foundation 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 the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of the Foundation 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

The Foundation does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2011

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

-continued-

OPEN UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 6 - RESTRICTED NET ASSETS (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2011

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year		\$ 150,000
Interest and dividend income	\$ 16	
Appropriation of endowment assets for expenditure	<u>(16)</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	\$ 30,196
Young faculty development	<u>200,000</u>
Total	<u>\$ 230,196</u>

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

Medical research	\$ 16,050
Russian language courses	45,000
General scholarships	57,502
Young faculty development	<u>200,000</u>
Total	<u>\$ 318,552</u>

-continued-

OPEN UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 7 - LEASE COMMITMENTS

The organization's future noncancelable minimum rental commitments as of December 31, 2011 are as follows:

2012	\$	87,790
------	----	--------

The rent expense for the year ended December 31, 2011 was \$85,233. The lease period expires December 31, 2012.

NOTE 8 - RESTATEMENT

The opening balances of the temporarily restricted and unrestricted net assets were restated by \$416,050.