

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

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**DECEMBER 31, 2016**

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

**TABLE OF CONTENTS**

**Independent Auditor's Report**

**Exhibit**

**A - Balance Sheet**

**B - Statement of Activities**

**C - Statement of Functional Expenses**

**D - Statement of Cash Flows**

**Notes to Financial Statements**



## **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, 2016, 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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Loeb & Troper LLP*

May 2, 2017

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

**BALANCE SHEET**

**DECEMBER 31, 2016**

**(With Summarized Financial Information for December 31, 2015)**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash	\$ 528,466	\$ 551,564
Contributions receivable - net (Note 3)	1,411,896	449,155
Prepaid expenses	6,136	27,465
Security deposit (Note 6)	<u>13,000</u>	<u>13,000</u>
Total assets	<u>\$ 1,959,498</u>	<u>\$ 1,041,184</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 32,514	\$ 20,320
Deferred rent (Note 6)	<u>1,511</u>	<u>1,095</u>
Total liabilities	<u>34,025</u>	<u>21,415</u>
Net assets (Exhibit B)		
Unrestricted	514,510	475,594
Temporarily restricted (Note 5)	1,260,963	394,175
Permanently restricted (Note 5)	<u>150,000</u>	<u>150,000</u>
Total net assets	<u>1,925,473</u>	<u>1,019,769</u>
Total liabilities and net assets	<u>\$ 1,959,498</u>	<u>\$ 1,041,184</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.

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016  
(With Summarized Financial Information  
for the Year Ended December 31, 2015)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues, gains and other support					
Contributions and special events (includes in-kind contributions of \$40,935 in 2016)	\$ 2,072,206				
Less direct cost of special events	<u>(151,541)</u>	\$ 650,797	\$ 1,269,868	\$ 1,920,665	\$ 957,574
Investment income		275	120	395	785
Net assets released from restrictions (Note 5)		<u>403,200</u>	<u>(403,200)</u>		
Total revenues, gains and other support		<u>1,054,272</u>	<u>866,788</u>	<u>1,921,060</u>	<u>958,359</u>
Expenses (Exhibit C)					
Program - grants		685,000		685,000	987,522
Management and general		208,671		208,671	227,732
Fund raising		<u>121,685</u>		<u>121,685</u>	<u>172,709</u>
Total expenses		<u>1,015,356</u>		<u>1,015,356</u>	<u>1,387,963</u>
Change in net assets (Exhibit D)		38,916	866,788	905,704	(429,604)
Net assets - beginning of year		<u>475,594</u>	<u>394,175</u>	<u>1,019,769</u>	<u>1,449,373</u>
Net assets - end of year (Exhibit A)		<u>\$ 514,510</u>	<u>\$ 1,260,963</u>	<u>\$ 1,925,473</u>	<u>\$ 1,019,769</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.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016  
(With Summarized Financial Information  
for the Year Ended December 31, 2015)

	Program - Grants	Management and General	Fund Raising	Direct Cost of Special Events	Total	
					2016	2015
Grants	\$ 685,000				\$ 685,000	\$ 987,522
Salaries, benefits and taxes		\$ 105,533	\$ 56,826		162,359	160,302
Professional fees		29,221			29,221	89,913
Office and computer expenses		5,379	2,896		8,275	7,894
Telephone		2,161	1,163		3,324	3,622
Postage and mailing		613	3,826		4,439	1,257
Occupancy (Note 6)		44,908	24,009		68,917	68,528
Printing, photos and videos		2,144	16,372	\$ 27,496	46,012	18,461
Insurance		3,512	1,891		5,403	5,232
Advertising			2,227		2,227	1,927
Catering, venue and entertainment			12,475	124,045	136,520	136,513
Depreciation						176
Bad debt		15,200			15,200	36,500
Total expenses	685,000	208,671	121,685	151,541	1,166,897	1,517,847
Less expenses deducted directly from revenues on the statement of activities						
Direct cost of special events				(151,541)	(151,541)	(129,884)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 685,000	\$ 208,671	\$ 121,685	\$ -	\$ 1,015,356	\$ 1,387,963

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**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 905,704	\$ (429,604)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation		176
Decrease (increase) in assets		
Contributions receivable	(962,741)	195,239
Prepaid expenses	21,329	(5,156)
Prepaid rent		1,192
Increase in liabilities		
Accounts payable	12,194	(7,056)
Deferred rent	416	1,095
	<u>(23,098)</u>	<u>(244,114)</u>
Net cash used by operating activities		
Net change in cash	(23,098)	(244,114)
Cash - beginning of year	<u>551,564</u>	<u>795,678</u>
Cash - end of year	<u>\$ 528,466</u>	<u>\$ 551,564</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, 2016**

**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.

OUI, 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 46,000 students, OUI is one of Israel's largest universities.

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.

***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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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

*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.

*Special events* - AFOUI conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received in excess of the direct costs are recorded as special events revenue in the accompanying statement of activities.

*In-kind contributions* - In-kind contributions are items that are donated to AFOUI for special events and are reported at fair value at the date the contribution is received.

*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 expenses are expensed as incurred.

*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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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

*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, 2015, from which the summarized information was derived.

*Grants* - Grants to OUI 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, 2013 and subsequent remain subject to examination by applicable taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through May 2, 2017, which is the date the financial statements were available to be issued.

**NOTE 3 - 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 as follows:

2016 and prior	\$ 127,052
2017	550,000
2018	250,000
2019	250,000
2020	250,000
Thereafter	<u>125,000</u>
	1,552,053
Less discount to present value	(64,157)
Less allowance for uncollectibles	<u>(76,000)</u>
Net contributions receivable	<u>\$ 1,411,896</u>

In 2016, AFOUI received a \$1,250,000 multi-year pledge, payable over five years. The contribution receivable balance related to this pledge as of December 31, 2016 was \$1,125,000.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 4 - FIXED ASSETS**

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

**NOTE 5 - RESTRICTED NET ASSETS**

**Permanently Restricted**

**General**

AFOUI's permanently restricted net assets consist of one endowment fund asset to be held in perpetuity. The income from the fund 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 5 - RESTRICTED NET ASSETS (continued)**

**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.

**Endowment Net Asset Composition by Type of Fund as of December 31, 2016**

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, 2016**

	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>
Endowment net assets, beginning of year		\$ 150,000
Interest income	\$ 120	
Appropriation of endowment assets for expenditure	<u>(120)</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>\$ 1,260,963</u>
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Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

General scholarships	<u>\$ 403,200</u>
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**AMERICAN FRIENDS OF THE OPEN  
UNIVERSITY OF ISRAEL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 6 - LEASE COMMITMENTS**

AFOUI has a lease for office space through December 31, 2017. In connection with this lease AFOUI has a security deposit of \$13,000.

The organization's future noncancelable minimum rental commitments as of December 31, 2016 are as follows:

2017	\$ <u>66,180</u>
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Rent expense for the year ended December 31, 2016 was \$68,917. As of December 31, 2016, deferred rent was \$1,511.

**NOTE 7 - CONCENTRATIONS**

Financial instruments which potentially subject AFOUI to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

In 2016, AFOUI received contributions totaling \$1,290,148 net of a discount of \$59,852 from one donor.