

Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.

September 30, 2010

AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
American Friends of the Hebrew University, Inc.:

We have audited the accompanying consolidated statement of financial position of American Friends of the Hebrew University, Inc. (the "Organization") as of September 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated 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 the Organization's fiscal 2009 consolidated financial statements and, in our report dated May 3, 2010, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 the Organization'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Friends of the Hebrew University, Inc. as of September 30, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
May 9, 2011

AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.
Consolidated Statement of Financial Position
As of September 30, 2010, with comparative information for 2009
(in thousands)

ASSETS	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,809	\$ 11,166
Contributions receivable, net, current portion	9,392	11,012
State of Israel Bonds, current portion	255	2,252
Assets of trusts and other split interest agreements held by others, current portion	1,125	1,046
Interest receivable and other assets	<u>560</u>	<u>560</u>
Total current assets	24,141	26,036
LONG-TERM ASSETS		
Contributions receivable, net, less current portion	17,752	12,634
Marketable securities and other investments	421,888	391,505
State of Israel Bonds, net of current portion	3,155	2,178
Real Estate holdings	2,865	3,090
Assets of trusts and other split interest agreements held by others, net of current portion	13,034	12,169
Property and equipment	865	1,040
Other long-term assets	<u>453</u>	<u>442</u>
Total long-term assets	<u>460,012</u>	<u>423,058</u>
Total assets	<u>\$ 484,153</u>	<u>\$ 449,094</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,604	\$ 1,131
Liability under split interest agreements, current portion	1,184	1,057
Due to Hebrew University	<u>25,958</u>	<u>27,279</u>
Total current liabilities	<u>28,746</u>	<u>29,467</u>
LONG-TERM LIABILITIES		
Liability under split interest agreements, net of current portion	5,578	5,403
Other long-term liabilities	<u>789</u>	<u>859</u>
Total long-term liabilities	<u>6,367</u>	<u>6,262</u>
Total liabilities	<u>35,113</u>	<u>35,729</u>
NET ASSETS		
Unrestricted:		
General operating	5,510	3,433
Underwater endowments	<u>(417)</u>	<u>(3,480)</u>
Total unrestricted	5,093	(47)
Temporarily restricted	154,886	126,840
Permanently restricted	<u>289,061</u>	<u>286,572</u>
Total net assets	<u>449,040</u>	<u>413,365</u>
Total liabilities and net assets	<u>\$ 484,153</u>	<u>\$ 449,094</u>

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.
Consolidated Statement of Activities
For the year ended September 30, 2010, with comparative information for 2009
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
OPERATING SUPPORT AND REVENUE					
Support:					
Contributions	\$ 7,580	\$ 19,761	\$ -	\$ 27,341	\$ 19,990
Legacies and bequests	<u>1,652</u>	<u>571</u>	<u>-</u>	<u>2,223</u>	<u>4,796</u>
Total support	9,232	20,332	-	29,564	24,786
Revenue:					
Net investment income (including realized gains of \$7,966 in 2010 and \$5,974 in 2009)	420	16,172	-	16,592	14,035
Net assets released from restrictions	<u>34,198</u>	<u>(34,198)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating support and revenue	<u>43,850</u>	<u>2,306</u>	<u>-</u>	<u>46,156</u>	<u>38,821</u>
OPERATING EXPENSES					
Program services:					
Grants to Hebrew University (including payments to the University of \$31,573 in 2010 and \$34,378 in 2009)	31,655	-	-	31,655	27,380
Grants to other charitable and educational institutions in the United States and Israel	<u>743</u>	<u>-</u>	<u>-</u>	<u>743</u>	<u>794</u>
Total program services	<u>32,398</u>	<u>-</u>	<u>-</u>	<u>32,398</u>	<u>28,174</u>
Supporting services:					
Management and general expenses	2,935			2,935	3,153
Fund-raising	<u>7,238</u>	<u>-</u>	<u>-</u>	<u>7,238</u>	<u>8,461</u>
Total supporting services	<u>10,173</u>	<u>-</u>	<u>-</u>	<u>10,173</u>	<u>11,614</u>
Total operating expenses	<u>42,571</u>	<u>-</u>	<u>-</u>	<u>42,571</u>	<u>39,788</u>
Excess (deficit) of operating support and revenue over operating expenses	<u>1,279</u>	<u>2,306</u>	<u>-</u>	<u>3,585</u>	<u>(967)</u>
NON-OPERATING ACTIVITIES					
Net gain on investments (including unrealized appreciation of \$31,773 in 2010 and \$37,420 in 2009)	3,701	22,448	-	26,149	424
Contributions	-	517	2,094	2,611	5,274
Legacies and bequest		-	3,093	3,093	2,312
Changes in value of split-interest agreements	-	113	135	248	(646)
Net asset redesignations	171	2,662	(2,833)	-	-
Pension related expenses other than net periodic pension cost	<u>(11)</u>	<u>-</u>	<u>-</u>	<u>(11)</u>	<u>17</u>
Change in net assets	5,140	28,046	2,489	35,675	6,414
Net assets, beginning of year	<u>(47)</u>	<u>126,840</u>	<u>286,572</u>	<u>413,365</u>	<u>406,951</u>
Net assets, end of year	<u>\$ 5,093</u>	<u>\$ 154,886</u>	<u>\$ 289,061</u>	<u>\$ 449,040</u>	<u>\$ 413,365</u>

The accompanying notes are an integral part of this statement.

AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.
Consolidated Statement of Cash Flows
For the year ended September 30, 2010, with comparative information for 2009
(in thousands)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 35,675	\$ 6,414
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	196	204
Change in discount and allowance on contributions receivable	216	(613)
Net realized and unrealized gains	(34,115)	(6,398)
Noncash contribution of investments	(56)	(32)
Contributions to permanent endowment	(4,883)	(7,076)
Changes in assets and liabilities:		
(Increase) decrease in contributions receivable	(3,714)	2,356
(Increase) decrease in interest receivable and other assets	(11)	869
Increase (decrease) in accounts payable and accrued liabilities	403	(312)
Increase in liability under split-interest agreements	302	314
Decrease in amount due to Hebrew University	(1,321)	(8,611)
Net cash used in operating activities	<u>(7,308)</u>	<u>(12,885)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of real estate	225	-
Sale of investments	172,569	374,805
Purchases of investments	(167,761)	(374,626)
Capital acquisition for purchases of equipment	(21)	(92)
Increase in beneficial interest in remainder trusts	(944)	(433)
Net cash provided by (used in) investing activities	<u>4,068</u>	<u>(346)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted endowment contributions	4,883	7,076
Net cash provided by financing activities	<u>4,883</u>	<u>7,076</u>
Net increase (decrease) in cash and cash equivalents	1,643	(6,155)
Cash and cash equivalents, beginning of year	<u>11,166</u>	<u>17,321</u>
Cash and cash equivalents, end of year	<u>\$ 12,809</u>	<u>\$ 11,166</u>

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.

Notes to Consolidated Financial Statements

September 30, 2010

1. NATURE OF OPERATIONS

The American Friends of the Hebrew University, Inc. (the “Organization”) is an independent not-for-profit organization incorporated in New York in 1931. The primary goals of the Organization are to promote, encourage, aid and advance higher and secondary education, research and training in all branches of knowledge in Israel and elsewhere, and to aid in the maintenance and development of the Hebrew University of Jerusalem in the State of Israel (the “Hebrew University”). Grants awarded to Hebrew University include but are not limited to those for scholarships, fellowships, faculty recruitment, research and equipment.

The Internal Revenue Service has ruled that, pursuant to Section 501(c)(3) of the Internal Revenue Code, the Organization is exempt from federal income taxes and it will not be treated as a private foundation, as defined in Section 509 (a) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis. Generally accepted accounting principles in the United States of America (“GAAP”) requires that unconditional promises to give (pledges) be recorded as receivables and revenues at estimated fair value within the appropriate net asset category in accordance with donor-imposed restrictions. GAAP establishes standards for general purpose external financial statements of not-for-profit organizations, including a statement of financial position, a statement of activities and a statement of cash flows. GAAP requires that resources be classified for accounting and reporting purposes into three net asset categories: permanently restricted net assets, temporarily restricted net assets and unrestricted net assets according to donor-imposed restrictions. The consolidated financial statements include the financial position, changes in net assets and cash flows of American Friends of the Hebrew University Charitable Common Fund, Inc., a corporation under the control of the Organization.

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s consolidated financial statements as of and for the year ended September 30, 2009, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2009 consolidated financial statements to conform to the current year’s presentation.

Classification of Net Assets

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

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September 30, 2010

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. These amounts are reported in the permanently restricted endowment fund at historical dollar values. Generally, the donors of those assets permit the Organization to use all or part of the income earned on related investments for a specific purpose.

Temporarily Restricted - Net assets subject to donor-imposed stipulations, including net appreciation on permanently restricted endowment funds, that may or will be met by actions of the Organization or the passage of time. Temporarily restricted net assets consist of those net assets subject to donor-imposed restrictions for projects of the American Friends of the Hebrew University at the Hebrew University or other institutions for matters such as scholarships, fellowships, or special purposes, including capital projects.

Unrestricted - Net assets not subject to donor-imposed stipulations. Unrestricted net assets are available for the support of the Organization's operations.

Net assets were released from donor restrictions for the years ended September 30, 2010 and 2009 by incurring expenses satisfying the restrictions, through the passage of time or by occurrence of other events specified by donors. The purpose restrictions that were accomplished were primarily for scholarships, capital projects, education centers and institutes, research, chairs, fellowships, and other projects at the Hebrew University.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions other than cash are recorded at their estimated fair value. Pledges of contributions to be received after one year are discounted at an appropriate discount rate. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. The allowance for doubtful accounts is determined based upon annual review of account balances, including age of the balance and historical collection experience.

As of October 1, 2009, one donor signed an agreement stating its intention to make a \$15 million contribution to be paid to the Organization over a period of 5 years and another donor signed an agreement stating its intention to make a \$2.25 million contribution to the Organization. For the year ended September 30, 2010, several donors signed agreements stating their intention to make contributions totaling \$1.17 million. Although management is confident regarding receipt of the entire \$18.42 million, since the agreements specified an intention to give rather than an unconditional promise, only \$10 million, the amount received in aggregate through September 30, 2010, has been recognized in the Organization's consolidated financial statements. An additional \$3.2 million was received subsequent to September 30, 2010.

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Not reflected on the consolidated financial statements are testamentary bequests of approximately \$23,541,000 and \$24,523,000 as of September 30, 2010 and 2009, respectively (unaudited), without evaluation as to collectability. Such amounts have not been recorded because individuals making such bequests retain the right to modify their wills and change the beneficiaries.

Investments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by U.S. GAAP for fair value measurement, the Organization uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. Also included in level 2 are investments measured using a NAV per share, or its equivalent, that may be redeemed at the NAV at the date of the statement of financial position or in near term.
- Level 3 - Securities that have little to no observable pricing. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

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Investments in marketable securities are stated at fair value based on quoted market prices. Refer to Note 5 for marketable securities classified within the fair value hierarchy. State of Israel Bonds are generally stated at cost, which approximates fair value. State of Israel Bonds are classified under Level 2 within the fair value hierarchy.

Purchases and sales of securities are recorded on a trade date basis. Cost of investments represents original cost for purchased securities or average market value at the date of receipt for contributed securities. Realized gains and losses on investments in securities are calculated based on the average cost method and are reflected in the accompanying consolidated statement of activities. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis. Investments in real estate are recorded at appraised value at date of donation. A majority of the Organization's investments are held in custody by Northern Trust Corporation.

Alternative investments include investments in limited partnership funds (hedge funds and private equity of nonregistered funds). Alternative investment interests are stated at fair value based on financial statements and other information received from the funds. Fair value is the estimated net realizable value of holdings priced at quoted market value (where market quotations are available), historical cost or other estimates including appraisals. The Organization believes that the stated value of its alternative investments was a reasonable estimate of their fair value as of September 30, 2010 and 2009. However, alternative investments are not readily marketable and many alternative investments have underlying investments which do not have quoted market values. The estimated value is subject to uncertainty and could differ had a ready market existed. Such differences could be material to the valuation of some of the Organization's alternative investments. The amount of gain or loss associated with these investments is reflected in the accompanying consolidated financial statements.

In 2010, the Organization adopted new Financial Accounting Standards Board ("FASB") guidance related to fair value measurements and disclosure of investments in certain entities that do not have a quoted market price but that calculate net asset value ("NAV") per share or its equivalent. Under the practical expedient, the Organization measures fair value of an investment in an investee within the scope of the amendments based on the investee's NAV per share or its equivalent. As a result of applying the practical expedient, the fair value of certain of the Organization's investments in alternative investments was determined based on the reported NAV beginning with the September 30, 2010 valuation. The adoption of this guidance did not have a material impact on the fair values of applicable investments; however, the use of the practical expedient required additional disclosures.

In January 2010, the FASB issued additional fair value guidance that requires additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy and the reasons for those transfers. The standard is effective for the Organization's year end beginning October 1 2010. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; this will be effective for the Organization's year end beginning October 1, 2011. The adoption of this guidance is not expected to have a material impact on the Organization's consolidated financial statements.

AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.
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Income on Investments

Income on investments is reported as increases in permanently restricted net assets if the terms of the gift require that the income be added to the principal of a permanent endowment fund and as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income. Realized and unrealized gains or losses on investments are reported in accordance with donor wishes and, if silent, those respective gains or losses are recorded in the same net asset classification as interest and dividends.

Split-Interest Agreements

The Organization is a beneficiary under certain split-interest agreements in which the donor has established a charitable remainder unitrust, annuity trust or charitable gift annuity with specified distributions to be made over the term of the trust to the donor and/or other beneficiaries. The Organization manages and invests these assets on behalf of these beneficiaries until the agreement expires and the assets are distributed. Contribution revenue is recognized at the date the trust or annuity contract is established after recording liabilities for the present value of the estimated future payments expected to be made to the donors and/or other beneficiaries. The liabilities are adjusted annually for changes in the life expectancy of the donor or beneficiary, amortization of the discount and other changes in the estimates of future payments. The discount rate used to value new split-interest agreements ranged from 2.80% to 3.40% at September 30, 2010 and 2.40% to 4.20% at September 30, 2009. At September 30, 2010 and 2009, the Organization's liabilities under split interest agreements were classified as Level 3 within the fair value hierarchy as required by U.S. Generally Accepted Accounting Principles for fair value measurement (see Note 2). The following tables summarize the changes in the Organization's Level 3 liabilities under split interest agreements balances for the years ended September 30, 2010 and 2009:

	Split Interest Agreements (in thousands)
Balance at September 30, 2009	\$ 6,460
New agreements	649
Payments to annuitants	(1,106)
Terminated contracts	(75)
Change in value due to actuarial valuations	834
Balance at September 30, 2010	<u>\$ 6,762</u>
	Split Interest Agreements (in thousands)
Balance at September 30, 2008	\$ 6,146
New agreements	846
Payments to annuitants	(1,033)
Terminated contracts	(93)
Change in value due to actuarial valuations	594
Balance at September 30, 2009	<u>\$ 6,460</u>

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In addition, the Organization is the beneficiary of other split-interest agreements that are held and administered by others. When the Organization is not the trustee, the beneficial interest in the trust is recorded at the fair value of the assets at the balance sheet date less the present value of estimated future payments expected to be made to donors and/or other beneficiaries.

Cash and Cash Equivalents

For purposes of the consolidated financial statements, the Organization considers all highly liquid debt instruments with original maturity dates of three months or less to be cash equivalents. Although cash balances are maintained in large financial institutions, the balances at times exceed FDIC insurable amounts.

Fixed Assets

Fixed assets consist of leasehold improvements, furniture, fixtures and equipment and are recorded at cost. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Amortization of leasehold improvements is also recorded using the straight-line method over the life of the lease, which is 11 years, and is the lower of the useful life or the lease term.

Grants

All appropriations for grants to Hebrew University are recorded as an expense and liability and are approved by the Organization's Board of Directors annually.

Not reflected on the consolidated financial statements are grants made directly to Hebrew University of approximately \$9,074,000 in 2010 and \$5,771,000 in 2009 resulting from the Organization's fundraising and marketing efforts (unaudited).

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires the Organization's 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant assumptions relate to the realization of pledges receivable and the carrying value of investments. Actual results could differ from those estimates.

Income Taxes

The income taxes topic number 740, "Income Taxes" of the FASB Accounting Standards Codification ("Codification") establishes criterion that an individual tax position has to meet for some or all the benefits of that position to be recognized in an entity's financial statements. On initial application, this criterion will be applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the "more-likely-than-not" recognition threshold at the adoption date will be recognized or continue to be recognized. The effectiveness for applying this criterion was adopted by the Organization on October 1, 2009, and had no material impact on the Organization's financial statements. The tax years ended 2007, 2008, and 2009 are still open to audit. The Organization has processes currently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and to review other matters that may be considered tax positions.

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Underwater Endowment Funds

As of September 30, 2010 and 2009, 19 and 144 individual, named endowment funds had estimated fair values that aggregated \$417,000 and \$3,480,000 less than their permanently restricted historic dollar values, respectively. This was the result of aggregated declines in financial markets since the endowment funds were established. Such endowments are often referred to as “underwater” endowments. Though the Organization is not required by donor-imposed restriction or law to use its unrestricted resources to restore the endowments to their historic dollar values, accounting guidance for not-for-profit organizations requires that such losses and subsequent gains be reflected as changes to unrestricted net assets until the fair values of these underwater endowments again reach their historical dollar values.

3. INTEREST RECEIVABLE AND OTHER ASSETS

Current and long-term interest receivable and other assets consisted of \$330,000 and \$410,000 of interest and dividends receivable and \$683,000 and \$592,000 of other assets as of September 30, 2010 and 2009, respectively.

4. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net consisted of the following as of September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Contributions receivable due in:		
Less than 1 year	\$ 9,695	\$ 11,625
1-5 years	12,082	10,585
Greater than 5 years	<u>9,977</u>	<u>5,830</u>
	31,754	28,040
Less:		
Allowance for uncollectible contributions	(2,303)	(2,614)
Discount to present value	<u>(2,307)</u>	<u>(1,780)</u>
	<u>\$ 27,144</u>	<u>\$ 23,646</u>

Discount rates for pledges outstanding at September 30, 2010, ranged from .27 % to 3.38 %. Discount rates for pledges outstanding at September 30, 2009, ranged from .40% to 4.02%.

At September 30, 2010, one donor’s pledge balance represented 25% of contributions receivable. At September 30, 2009, another donor’s pledge balance represented 24% of contributions receivable.

AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.
Notes to Consolidated Financial Statements
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5. INVESTMENTS

The following tables summarize investments within the fair value hierarchy (see Note 2) as of September 30, 2010 and 2009 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2010 Total</u>
Cash and cash equivalents held for long-term investment	\$ 5,313	\$ -	\$ -	\$ 5,313
Fixed income including mutual funds	88,430	-	-	88,430
Equities including mutual funds	290,526	-	-	290,526
Alternative investments:				
Private equity	-	-	11,129	11,129
Venture capital	-	-	2,257	2,257
Funds that invest in equity	-	-	5,280	5,280
Fund of funds	-	18,953	-	18,953
Total	<u>\$ 384,269</u>	<u>\$ 18,953</u>	<u>\$ 18,666</u>	<u>\$ 421,888</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2009 Total</u>
Cash and cash equivalents held for long-term investment	\$ 18,507	\$ -	\$ -	\$ 18,507
Fixed income including mutual funds	67,265	-	4,619	71,884
Equities including mutual funds	273,021	-	-	273,021
Alternative investments:				
Private equity	-	-	7,879	7,879
Venture capital	-	-	1,989	1,989
Fund of funds	-	-	18,225	18,225
Total	<u>\$ 358,793</u>	<u>\$ -</u>	<u>\$ 32,712</u>	<u>\$ 391,505</u>

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The Organization uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their investees financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Per ASU 2009-12, the following table lists investments in other companies by major category as of September 30, 2010 (in thousands):

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private Equity	Privately held and publicly traded securities in healthcare, biotechnology and related fields, international investments with the objective of obtaining long-term growth, equity securities and warrants that are not actively traded, industrial property	\$ 11,129	5	3-7 years	\$ 7,300	N/A	Not permitted to withdraw from partnership
Venture Capital	Emerging growth companies	\$ 2,257	2	3 years	\$ 3,263	N/A	Not permitted to withdraw from partnership
Funds that invest in equity	Real estate-related securities, long-biased long/short	\$ 5,280	1	N/A	N/A	90 days notice and semiannual redemptions	1 year lockup to new investors, thereafter 90% of balance in accordance with redemption terms, balance available upon completion of fiscal year end audit
Fund of funds	Limited and general partnerships, unit trusts or hedge funds with variety of investment strategies	\$ 18,953	1	N/A	N/A	91 days notice and quarterly redemptions	N/A

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As required by U.S. Generally Accepted Accounting Principles for fair value measurement, the following table summarizes the changes in fair values associated with Level 3 assets as of September 30, 2010 and 2009 (in thousands):

	<u>Private Equity</u>	<u>Venture Capital</u>	<u>Fund of Funds</u>	<u>Fixed Income</u>	<u>Funds that invest in equity</u>	<u>2010 Total</u>
Balance as of September 30, 2009	\$ 7,879	\$ 1,989	\$ 18,225	\$ 4,619	\$ -	\$ 32,712
Purchases and sales, net	2,845	2	-	(4,619)	5,000	3,228
Unrealized and realized gains and (losses), net	405	266	728	-	280	1,679
Transfer out of Level 3	-	-	(18,953)	-	-	(18,953)
Balance as of September 30, 2010	<u>\$ 11,129</u>	<u>\$ 2,257</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,280</u>	<u>\$ 18,666</u>

	<u>Private Equity</u>	<u>Venture Capital</u>	<u>Fund of Funds</u>	<u>Fixed Income</u>	<u>Funds that invest in equity</u>	<u>2009 Total</u>
Balance as of September 30, 2008	\$ 8,244	\$ 2,077	\$ 18,198	\$ -	\$ 18,397	\$ 46,916
Purchases and sales, net	340	176	-	4,619	(17,610)	(12,475)
Unrealized and realized (losses) and gains, net	(705)	(264)	27	-	(787)	(1,729)
Balance as of September 30, 2009	<u>\$ 7,879</u>	<u>\$ 1,989</u>	<u>\$ 18,225</u>	<u>\$ 4,619</u>	<u>\$ -</u>	<u>\$ 32,712</u>

The Organization's assets of trusts and other split interest agreements held by others are classified within the fair value hierarchy. The assets held by the Organization of approximately \$12,736,000 and \$11,838,000 as of September 30, 2010 and 2009, respectively, are classified as Level 1. Split interest agreements held by others of approximately \$1,423,000 and \$1,377,000 as of September 30, 2010 and 2009, respectively, are classified as Level 3.

The following tables summarize the changes in the Organization's Level 3 assets of trusts and other split interest agreements held by others for the years ended September 30, 2010 and 2009:

	<u>Assets of trusts and other split interest agreements held by others (in thousands)</u>
Balance at September 30, 2009	\$ 1,377
New agreements	-
Unrealized appreciation in fair value	46
Balance at September 30, 2010	<u>\$ 1,423</u>

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6. FIXED ASSETS

Fixed assets consisted of the following at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Leasehold improvements	\$ 1,379	\$ 1,379
Furniture and equipment	<u>1,743</u>	<u>1,722</u>
	3,122	3,101
Less: Accumulated depreciation	<u>(2,257)</u>	<u>(2,061)</u>
	<u>\$ 865</u>	<u>\$ 1,040</u>

Depreciation expense amounted to approximately \$196,000 and \$204,000 for the years ended September 30, 2010 and 2009, respectively.

7. ENDOWMENT

The Organization has adopted the provisions of “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.” This standard provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), passed by the State of New York in September 2010, and also requires additional disclosures about endowments for both donor-restricted funds and board-designated funds.

The Organization has interpreted the New York State UPMIFA (“NYPMIFA”) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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 the (c) accumulations to the permanent endowment made in accordance with the directions 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 nets assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions; other resources of the Organization; and the investment policy of the Organization.

The Organization has a policy of appropriating for distribution a certain percentage (4.5% in 2010 and 2009) of its endowment fund's average fair value over the prior three years. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. To cover reasonable expenses incurred in connection with the administration and stewardship of the endowment, the Organization also has a policy of applying a charge equal to 45 basis points (.45%) of its endowment fund's average fair value over the prior three years.

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of appropriate benchmarks without putting the assets at imprudent risk. To satisfy its long-term objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diverse asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

With the exception of endowment pledges and split interest agreements, the following tables summarize endowment net asset composition by type of fund as of September 30, 2010 and 2009 (in thousands):

Endowment Net Assets Composition by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 1, 2009	\$ -	\$ 59,494	\$ 274,497	\$ 333,991
Investment return:				
Investment income	-	4,955	-	4,955
Net appreciation (realized and unrealized)	-	28,989	-	28,989
Redesignations	-	-	(3,431)	(3,431)
Contributions and bequests	-	-	4,883	4,883
Appropriation of endowment assets for expenditure	-	(11,981)	-	(11,981)
Endowment net assets at September 30, 2010	<u>\$ -</u>	<u>\$ 81,457</u>	<u>\$ 275,949</u>	<u>\$ 357,406</u>

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Endowment Net Assets Composition by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 1, 2008	\$ -	\$ 63,603	\$ 271,495	\$ 335,098
Investment return:				
Investment income	-	4,891	-	4,891
Net depreciation (realized and unrealized)	-	(157)	-	(157)
Redesignations	-	90	(4,074)	(3,984)
Contributions and bequests	-	-	7,076	7,076
Appropriation of endowment assets for expenditure	-	(8,933)	-	(8,933)
Endowment net assets at September 30, 2009	<u>\$ -</u>	<u>\$ 59,494</u>	<u>\$ 274,497</u>	<u>\$ 333,991</u>

8. PENSION PLAN

The Organization has a defined-contribution pension plan for covered personnel, funded through an insurance company. Contributions into the plan are paid by both the Organization and, to the extent the employee is participating, by the employee. In order to be eligible to participate in the plan, after one year of employment employees must make a pretax contribution of at least 4.5% of their compensation. The Organization will then contribute 4.5% of compensation during the first 5 years of participation; 9% of compensation during the next 10 years of participation; and 13.5% of compensation after 10 years of participation, subject to statutory maximum contributions. Pension expense was \$27,000 and \$115,000 for fiscal 2010 and 2009, respectively. Due to financial restraints caused by the economic recession, the Organization temporarily suspended employer matching contributions under its plan for all nonunion plan participants effective as of the first pay period beginning after March 1, 2009, and for the remainder of the plan year. The Organization reinstated the employer match effective October 1, 2010.

9. OTHER POSTRETIREMENT BENEFITS

The Organization provides a benefit to qualified retirees of \$1,500 annually to help defray the cost of health insurance. Two grandfathered retirees are not subject to the \$1,500 cap on this benefit payment. In addition, the Organization provides a flexible spending account to two retirees which has been refreshed every year since inception and pays up to \$3,000 of non-reimbursed medical expenses. The accumulated postretirement benefit obligation related to these benefits totaled \$260,000 and \$236,000 as of September 30, 2010 and 2009, respectively and is included in other long term liabilities on the consolidated statements of financial position.

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10. RELATED PARTY TRANSACTIONS

Included in marketable securities on the consolidated statement of financial position are assets with a fair value at September 30, 2010 and 2009 of \$4,679,000 and \$4,527,000, respectively, the oversight and management of which is under the control of the donor, who is a board member. Also included in marketable securities on the consolidated financial statements are private equity assets with a fair value at September 30, 2010 of \$1,000,000, of which a board member is a principal of the investment entity.

11. COMMITMENTS

The Organization has one employment contract and leases office space under non-cancellable operating leases. The leases for office space provide for monthly rental payments to be made that include escalations each year. At September 30, 2010, minimum aggregate commitments under these obligations are as follows (in thousands):

Year ending September 30,	
2011	\$ 1,089
2012	1,032
2013	934
2014	825
2015	404
2016 and after	30
Total	<u>\$ 4,314</u>

Rent expense for fiscal 2010 and 2009 was approximately \$603,000 and \$593,000, respectively.

In addition, since fiscal year 2001, the Organization has been investing in various alternative investments including private equity and venture capital funds. The total actual and committed investment contemplated as of September 30, 2010, was \$48,000,000. The balance of the unfunded commitment as of September 30, 2010, was 10,563,000. The future alternative investment commitments will be met by an allocation of investments from the pooled endowment fund.

12. SUBSEQUENT EVENTS

The Organization evaluated its September 30, 2010 consolidated financial statements for subsequent events through May 9, 2011, the date the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.