

Consolidated Financial Statements Together with  
Report of Independent Certified Public Accountants

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**

September 30, 2018  
with summarized comparative information for 2017

# AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.

## TABLE OF CONTENTS

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	<b>Page</b>
Report of Independent Certified Public Accountants	1 - 2
Consolidated Financial Statements	
Consolidated Statements of Financial Position as of September 30, 2018, with summarized comparative information for 2017	3
Consolidated Statement of Activities for the year ended September 30, 2018, with summarized comparative information for 2017	4
Consolidated Statements of Cash Flows for the year ended September 30, 2018, with summarized comparative information for 2017	5
Notes to Consolidated Financial Statements	6 - 21

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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 financial statements of American Friends of the Hebrew University, Inc. (the “Organization”), which comprise the consolidated statement of financial positions as of September 30, 2018 and the related consolidated statements of activities 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 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, 2018 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Report on 2017 summarized comparative information

We have previously audited the Organization's 2017 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 28, 2018. In our opinion, the accompanying summarized comparative information as of and for the year ended September 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.



New York, New York  
March 29, 2019

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Consolidated Statements of Financial Position**  
**As of September 30, 2018, with summarized comparative information for 2017**  
**(in thousands)**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,451	\$ 5,880
Contributions receivable, net, current portion	9,152	6,902
State of Israel Bonds, current portion	46	34
Investments in split-interest agreements, current portion	1,973	1,828
Interest receivable and other assets	<u>2,044</u>	<u>1,169</u>
Total current assets	19,666	15,813
<b>LONG-TERM ASSETS</b>		
Contributions receivable, net, less current portion	13,014	12,939
Marketable securities and other investments	620,425	588,091
Investments in split-interest agreements, less current portion	24,510	22,555
State of Israel Bonds, less current portion	2,493	2,533
Real estate holdings	2,865	2,865
Assets of trusts and other split-interest agreements held by others	31,217	31,731
Property and equipment, net	68	135
Other long-term assets	<u>319</u>	<u>316</u>
Total long-term assets	<u>694,911</u>	<u>661,165</u>
Total assets	<u>\$ 714,577</u>	<u>\$ 676,978</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 2,512	\$ 1,420
Liability under split-interest agreements, current portion	1,973	1,828
Due to Hebrew University, current portion	<u>500</u>	<u>23,253</u>
Total current liabilities	<u>4,985</u>	<u>26,501</u>
<b>LONG-TERM LIABILITIES</b>		
Liability under split-interest agreements, less current portion	15,113	12,036
Due to Hebrew University, less current portion	22,324	-
Other long-term liabilities	<u>740</u>	<u>740</u>
Total long-term liabilities	<u>38,177</u>	<u>12,776</u>
Total liabilities	<u>43,162</u>	<u>39,277</u>
<b>NET ASSETS</b>		
Unrestricted	8,993	9,088
Temporarily restricted	289,154	266,349
Permanently restricted	<u>373,268</u>	<u>362,264</u>
Total net assets	<u>671,415</u>	<u>637,701</u>
Total liabilities and net assets	<u>\$ 714,577</u>	<u>\$ 676,978</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Consolidated Statement of Activities**  
**For the year ended September 30, 2018, with summarized comparative information for 2017**  
**(in thousands)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
<b>OPERATING SUPPORT AND REVENUE</b>					
Support:					
Contributions and events	\$ 6,788	\$ 16,959	\$ -	\$ 23,747	\$ 23,263
Legacies and bequests	3,396	8,351	-	11,747	13,613
Total support	<u>10,184</u>	<u>25,310</u>	<u>-</u>	<u>35,494</u>	<u>36,876</u>
Revenue:					
Investment return used for operations	553	27,123	-	27,676	25,012
Net assets released from restrictions	53,570	(53,570)	-	-	-
Total operating support and revenue	<u>64,307</u>	<u>(1,137)</u>	<u>-</u>	<u>63,170</u>	<u>61,888</u>
<b>OPERATING EXPENSES</b>					
Program services:					
Grants to Hebrew University (including endowment spending of \$21,918 in 2018 and \$19,751 in 2017)	48,508	-	-	48,508	46,001
Grants to other charitable and educational institutions in the United States and Israel	188	-	-	188	201
Education and other programs	2,286	-	-	2,286	2,481
Total program services	<u>50,982</u>	<u>-</u>	<u>-</u>	<u>50,982</u>	<u>48,683</u>
Supporting services:					
Management and general expenses	3,762	-	-	3,762	4,104
Fund-raising	8,580	-	-	8,580	8,050
Total supporting services	<u>12,342</u>	<u>-</u>	<u>-</u>	<u>12,342</u>	<u>12,154</u>
Total operating expenses	<u>63,324</u>	<u>-</u>	<u>-</u>	<u>63,324</u>	<u>60,837</u>
Surplus (deficit) of operating support and revenue over operating expenses	<u>983</u>	<u>(1,137)</u>	<u>-</u>	<u>(154)</u>	<u>1,051</u>
<b>NONOPERATING ACTIVITIES</b>					
Net investment return, in excess of amounts used for operations	(107)	24,468	-	24,361	47,585
Contributions	-	-	6,425	6,425	3,246
Legacies and bequests	-	-	4,499	4,499	7,256
Changes in value of split-interest agreements	(1,522)	241	289	(992)	1,557
Changes in assets of trusts and other split-interest agreements held by others	-	(425)	-	(425)	1,644
Net asset redesignations due to clarification of donor intent	551	(342)	(209)	-	-
Pension related expenses other than net periodic pension cost	-	-	-	-	34
Change in net assets	<u>(95)</u>	<u>22,805</u>	<u>11,004</u>	<u>33,714</u>	<u>62,373</u>
Net assets, beginning of year	<u>9,088</u>	<u>266,349</u>	<u>362,264</u>	<u>637,701</u>	<u>575,328</u>
Net assets, end of year	<u>\$ 8,993</u>	<u>\$ 289,154</u>	<u>\$ 373,268</u>	<u>\$ 671,415</u>	<u>\$ 637,701</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

# AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.

## Consolidated Statements of Cash Flows

For the year ended September 30, 2018, with summarized comparative information for 2017  
(in thousands)

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 33,714	\$ 62,373
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	67	75
Change in discount and allowance on contributions receivable	(848)	(97)
Net realized and unrealized gains	(40,326)	(61,469)
Proceeds of donated financial assets	(1,884)	(2,220)
Noncash contribution of investments	-	(43)
Contributions to permanent endowment	(7,423)	(11,612)
Changes in assets and liabilities		
(Increase) decrease in contributions receivable	(1,477)	2,267
Increase in interest receivable and other assets	(850)	(512)
Increase in accounts payable and accrued liabilities	742	35
Increase in liability under split-interest agreements	3,222	1,459
Decrease in amount due to Hebrew University	(79)	(1,369)
Net cash used in operating activities	<u>(15,142)</u>	<u>(11,113)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	138,533	115,180
Purchases of investments	(128,657)	(109,784)
Capital acquisitions for purchase of equipment	-	(2)
Increase in investments in split-interest agreements	(2,100)	(3,144)
Increase in assets of trusts and other split-interest agreements held by others	<u>514</u>	<u>(1,901)</u>
Net cash provided by investing activities	<u>8,290</u>	<u>349</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted endowment contributions	<u>7,423</u>	<u>11,612</u>
Net cash provided by financing activities	<u>7,423</u>	<u>11,612</u>
Net increase (decrease) in cash and cash equivalents	571	848
Cash and cash equivalents, beginning of year	<u>5,880</u>	<u>5,032</u>
Cash and cash equivalents, end of year	<u>\$ 6,451</u>	<u>\$ 5,880</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

# **AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**

## **Notes to Consolidated Financial Statements**

**September 30, 2018**

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### **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 and fellowships, research, capital projects, faculty recruitment, and equipment.

### **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 (“US 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. US 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. US 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 US GAAP. Accordingly, such information should be read in conjunction with the Organization’s consolidated financial statements as of and for the year ended September 30, 2017, from which the summarized information was derived.

#### **Functional Allocation of Expenses**

The costs of providing the Organization’s various program and supporting services have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated amongst program and supporting categories using methodologies determined by management.

#### **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:

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. 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. These specific purposes include projects at the Hebrew University or other institutions for matters such as scholarships and fellowships, research, capital projects, faculty recruitment, and equipment.



**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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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, Inc. at the Hebrew University or other institutions for matters such as scholarships and fellowships, research, capital projects, faculty recruitment, and equipment.

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, 2018 and 2017 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 and fellowships, research, capital projects, chairs, 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 a release from restriction.

### **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.

Through the fiscal year ended September 30, 2018, three donors signed agreements indicating intentions to make contributions totaling approximately \$2,082,000 to be paid to the Organization over periods ranging from two to ten years. Although management is confident regarding receipt of the entire \$2,082,000 since the agreements include conditional language, the related revenues cannot within the framework of US GAAP be recognized in the Organization's consolidated financial statements, except to the extent of approximately \$1,853,000 the amount for which the conditions have been met through September 30, 2018.

Not reflected on the consolidated financial statements are testamentary bequests of approximately \$32,249,000 and \$31,449,000 as of September 30, 2018 and 2017, 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.

Not reflected on the consolidated financial statements are contributions by US donors and estates made directly to Hebrew University of approximately \$5,700,000 and \$20,497,000 for the years ended September 30, 2018 and 2017, respectively (unaudited), resulting from the Organization's fundraising and marketing efforts.

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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**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 US 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.
- 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.

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.

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

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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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, 2018 and 2017. 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. Furthermore, these investments are measured using a net asset value ("NAV") and are exempted from categorization within the fair value hierarchy and related disclosures. Instead, the Organization separately discloses the information required for assets measured using the NAV practical expedient, and discloses a reconciling item between the total amount of investments categorized within the fair value hierarchy and total investments measured at fair value on the face of the financial statements.

**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.

**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 federally insured amounts.

**Fixed Assets**

Fixed assets consist of leasehold improvements, furniture 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 lesser of the useful life or the lease term.

**Grants**

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

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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The Organization and Hebrew University signed a new memorandum of understanding, effective October 1, 2018, which states AFHU is to make yearly payments of \$500,000 to the University in order to satisfy the \$22,824,000 due to Hebrew University liability.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with US 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 Organization follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without the regard to the likelihood that the tax position may be challenged.

The Organization is exempt from income tax under Internal Revenue Code section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

**Measure of Operations**

Included in operating net assets are resources used for the general support of the Organization's operations, including investment return appropriated for expenditure under the spending policy.

Non-operating activities include: (1) investment return, in excess of amounts used for operations; (2) contributions, legacies and bequests for restricted split-interest agreements and endowment purposes; (3) changes in value of restricted split-interest agreements; (4) pension related activities other than net periodic pension cost; and (5) other items considered to be unusual or nonrecurring in nature.

**Underwater Endowment Funds**

As of September 30, 2018, and 2017, there were no underwater endowment funds. Endowments with fair value less than their permanently restricted historic dollar value 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.

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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**Recent Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. This standard marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new guidance, the existing three categories of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted net assets into a single category called “net assets with donor restrictions” and renames unrestricted net assets as “net assets without donor restrictions.” There will be new reporting requirements for expenses and additional disclosures to describe an organization’s liquidity. The standard is effective for fiscal years beginning after December 15, 2017 (i.e., the Organization’s fiscal year 2019). The Organization is currently assessing the impact this will have on their consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. The modified retrospective approach would not require any transition accounting for leases that expire before the earliest comparative period presented. A full retrospective transition approach is not permitted. The guidance will be effective for the Organization beginning in after December 15, 2018 (i.e., the Organization’s fiscal year 2020). The Organization is currently assessing the impact this will have on their consolidated financial statements.

**Reclassification**

Certain reclassifications were made to the fiscal 2017 financial statements in order to conform to the fiscal 2018 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the 2017 financial statements.

**3. INTEREST RECEIVABLE AND OTHER ASSETS**

Current and long-term interest receivable and other assets consisted of \$828,000 and \$620,000 of interest and dividends receivable and \$1,535,000 and \$865,000 of other assets as of September 30, 2018 and 2017, respectively.

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

**4. CONTRIBUTIONS RECEIVABLE, NET**

Contributions receivable, net consisted of the following as of September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	(in thousands)	
Contributions receivable due in:		
Less than 1 year	\$ 9,656	\$ 8,148
1-5 years	13,797	12,058
Greater than 5 years	<u>582</u>	<u>2,352</u>
	24,035	22,558
Less:		
Allowance for uncollectible contributions	(1,155)	(1,896)
Discount to present value	<u>(714)</u>	<u>(821)</u>
	<u>\$ 22,166</u>	<u>\$ 19,841</u>

Discount rates for pledges outstanding at September 30, 2018, ranged from 0.78% to 3.59%. Discount rates for pledges outstanding at September 30, 2017, ranged from 0.75% to 2.67%.

**Concentrations**

For the years ended September 30, 2018 and 2017, one donor's contributions totaled 16% and 16%, respectively, of the Organization's total operating support and revenue. At September 30, 2018 and 2017, two donors' gross pledge balances represented 34% and 35%, respectively, of the Organization's gross contributions receivable.

**5. MARKETABLE SECURITIES AND OTHER INVESTMENTS**

The following tables summarize investments within the fair value hierarchy (see Note 2) as of September 30, 2018 and 2017 (in thousands):

	<u>2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 21,418	\$ -	\$ -	\$ 21,418
Fixed income including mutual funds and ETFs	51,957	-	-	51,957
Equities including mutual funds and ETFs	<u>470,462</u>	<u>-</u>	<u>-</u>	<u>470,462</u>
	<u>\$ 543,837</u>	<u>\$ -</u>	<u>\$ -</u>	<u>543,837</u>
Cash held for investment				1,000
Alternative investments at NAV				<u>75,588</u>
Total investments				<u>\$ 620,425</u>

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

	<b>2017</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Cash and cash equivalents	\$ 4,219	\$ -	\$ -	\$ 4,219
Fixed income including mutual funds and ETFs	59,991	-	-	59,991
Equities including mutual funds and ETFs	<u>460,292</u>	-	-	<u>460,292</u>
	<u>\$ 524,502</u>	<u>\$ -</u>	<u>\$ -</u>	<u>524,502</u>
Alternative investments at NAV				<u>63,589</u>
Total investments				<u>\$ 588,091</u>

The Organization assesses the level of investments at each measurement date, and transfers between levels are recognized as of the date of the transfer.

The Organization uses the 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 the accounting standard governing NAV as a practical expedient, the following table lists investments in other companies by major category as of September 30, 2018 and 2017 (in thousands):

<b>2018</b>						
<b>Type</b>	<b>Strategy</b>	<b>NAV in Funds</b>	<b># of Funds</b>	<b>\$ Amount of Unfunded Commitments</b>	<b>Redemption Terms</b>	<b>Redemption Restrictions</b>
<b>Private Equity</b>	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 as well as debt securities	\$ 6,555	8	\$ 24,274	N/A	Not permitted to withdraw from partnership
<b>Venture Capital</b>	Emerging growth companies	6,006	2	257	N/A	Not permitted to withdraw from partnership
<b>Hedge Funds</b>	Limited and general partnerships, trusts or hedge funds with variety investment strategies including the private and public debt and equity markets	<u>63,027</u>	5	<u>-</u>	45-95 days notice and annual/quarterly redemptions	Various
		<u>\$ 75,588</u>		<u>\$ 24,531</u>		

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

2017						
Type	Strategy	NAV in Funds	# of Funds	\$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
<b>Private Equity</b>	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	\$ 4,683	4	\$ 409	N/A	Not permitted to withdraw from partnership
<b>Venture Capital</b>	Emerging growth companies	5,785	2	287	N/A	Not permitted to withdraw from partnership
<b>Hedge Funds</b>	Limited and general partnerships, trusts or hedge funds with variety investment strategies including the private and public debt and equity markets	53,121	5	4,181	45-95 days notice and annual/quarterly redemptions	Various
		<u>\$ 63,589</u>		<u>\$ 4,877</u>		

Investment return comprises interest, dividends, and realized and unrealized gains and losses. Return for the years ended September 30, 2018 and 2017 consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Interest and dividends	\$ 553	\$ 11,158	\$ -	\$ 11,711	\$ 11,128
Net realized gains on sale of investments	(6)	35,914	-	35,908	12,323
Net unrealized (losses) gains on investments	<u>(101)</u>	<u>4,519</u>	<u>-</u>	<u>4,418</u>	<u>49,146</u>
Total investment gains	446	51,591	-	52,037	72,597
Investment return used for operations	<u>(553)</u>	<u>(27,123)</u>	<u>-</u>	<u>(27,676)</u>	<u>(25,012)</u>
Net investment return, in excess of amounts used for operations	<u>\$ (107)</u>	<u>\$ 24,468</u>	<u>\$ -</u>	<u>\$ 24,361</u>	<u>\$ 47,585</u>

The Organization's spending policy states distributions from all endowment funds if not otherwise limited shall be limited to 4% in fiscal years 2018 and 2017.

For fiscal 2018 and 2017, \$311,000 and \$271,000 respectively, of investment advisory and custodial fees were netted against investment income.



**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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**6. 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 2.4% to 3.4% and 1.6% to 2.6% for the years ended September 30, 2018 and 2017, respectively. The Organization recorded contributions from new split-interest agreements of approximately \$1,127,000 and \$1,469,000 for the years ended September 30, 2018 and 2017, respectively. These amounts are included in contributions in the accompanying consolidated statement of activities. At September 30, 2018 and 2017, the Organization's liabilities under split-interest agreements were classified as Level 3 within the fair value hierarchy as required by US GAAP for fair value measurement (see Note 2).

The following tables summarize the changes in the Organization's Level 3 liabilities under split-interest agreements for the years ended September 30, 2018 and 2017:

	<b>Liability under Split-Interest Agreements (in thousands)</b>
	<u>                    </u>
<b>Balance at September 30, 2017</b>	\$ 13,864
New agreements	2,548
Payments to annuitants	(2,160)
Terminated contracts	(493)
Change in value due to actuarial valuations	<u>3,327</u>
<b>Balance at September 30, 2018</b>	<u>\$ 17,086</u>
	<b>Liability under Split-Interest Agreements (in thousands)</b>
	<u>                    </u>
<b>Balance at September 30, 2016</b>	\$ 12,405
New agreements	2,504
Payments to annuitants	(1,786)
Terminated contracts	(861)
Change in value due to actuarial valuations	<u>1,602</u>
<b>Balance at September 30, 2017</b>	<u>\$ 13,864</u>

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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The following tables summarize investments in split-interest agreements within the fair value hierarchy (see Note 2) as of September 30, 2018 and 2017 (in thousands):

	<b>2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 312	\$ -	\$ -	\$ 312
Fixed income including mutual funds	16,143	-	-	16,143
Equities including mutual funds	10,028	-	-	10,028
Total	<u>\$ 26,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,483</u>

  

	<b>2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 768	\$ -	\$ -	\$ 768
Fixed income including mutual funds	7,582	-	-	7,582
Equities including mutual funds	16,033	-	-	16,033
Total	<u>\$ 24,383</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,383</u>

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 consolidated statement of financial position date less the present value of estimated future payments expected to be made to donors and/or other beneficiaries.

The Organization's assets of trusts and other split-interest agreements held by others are classified as Level 3 within the fair value hierarchy.

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, 2018 and 2017:

	<b>Assets of Trusts and Other Split-Interest Agreements Held by Others (in thousands)</b>
<b>Balance at September 30, 2017</b>	\$ 31,731
Unrealized loss on trust assets	(425)
Change in assets of trusts and other split-interest agreements held by others	<u>(89)</u>
<b>Balance at September 30, 2018</b>	<u>\$ 31,217</u>



**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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In accordance with NYPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization
- When appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on the Organization

The Organization has a policy of appropriating for distribution a certain percentage (4% in 2018 and 2017) of its endowment fund's average fair value over the prior twelve quarters. 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 to its endowment fund's average fair value over the prior twelve quarters. Effective October 1, 2014, this charge was increased from 75 basis points (0.75%) to 100 basis points (1%) of its endowment fund's average fair value over the prior twelve quarters.

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.

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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, 2018 and 2017 (in thousands):

<b>Endowment Net Assets Composition by Type of Fund</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets at October 1, 2017</b>	\$ -	\$ 186,259	\$ 322,059	\$ 508,318
Investment return:				
Investment income	-	5,296	-	5,296
Net appreciation (realized and unrealized)	-	34,913	-	34,913
Contributions and bequests	-	-	7,423	7,423
Appropriation of endowment assets for expenditure	-	(19,240)	-	(19,240)
<b>Endowment net assets at September 30, 2018</b>	<u>\$ -</u>	<u>\$ 207,228</u>	<u>\$ 329,482</u>	<u>\$ 536,710</u>

<b>Endowment Net Assets Composition by Type of Fund</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets at October 1, 2016</b>	\$ (53)	\$ 145,513	\$ 310,447	\$ 455,907
Investment return:				
Investment income	-	4,910	-	4,910
Net appreciation (realized and unrealized)	53	52,702	-	52,755
Contributions and bequests	-	-	11,612	11,612
Appropriation of endowment assets for expenditure	-	(16,866)	-	(16,866)
<b>Endowment net assets at September 30, 2017</b>	<u>\$ -</u>	<u>\$ 186,259</u>	<u>\$ 322,059</u>	<u>\$ 508,318</u>

**9. TEMPORARILY RESTRICTED NET ASSETS**

During the year, net assets released from restrictions consisted of the following (in thousands):

Purpose restrictions

Grants to Hebrew University and other charitable and educational institutions in the United States and Israel	\$ 48,696
Management fees charged to endowment and other releases from restriction	<u>4,874</u>
Total releases from net assets	<u>\$ 53,570</u>

At year-end, temporarily restricted net assets are purpose-restricted and available to support the Hebrew University Activities.

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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**10. 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 receive the match 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 15 years of participation, subject to statutory maximum contributions. Pension expense was \$402,000 and \$333,000 for fiscal 2018 and 2017, respectively.

**11. OTHER POSTRETIREMENT BENEFITS**

The Organization provides a benefit to qualified retirees hired prior to September 1, 2010 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 Organization also provides Medicare benefits capped at \$15,000 annually to two retirees. The accumulated postretirement benefit obligation related to these benefits totaled \$740,000 as of September 30, 2018 and 2017, respectively, and is included in other long-term liabilities on the consolidated statements of financial position.

**12. RELATED PARTY TRANSACTIONS**

Included in marketable securities on the consolidated statements of financial position are assets with a fair value at September 30, 2018 and 2017 of \$7,410,000 and \$6,651,000 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 statements of financial position are assets with a fair value at September 30, 2018 and 2017 of \$10,143,000 and \$10,130,000, respectively, the oversight and management of which is under the control of a family member of a board director.

**13. 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, 2018, minimum aggregate commitments under these obligations are as follows (in thousands):

<u>Years Ending September 30,</u>	
2018	\$ 883
2019	889
2020	747
2021	261
2022 and after	<u>173</u>
Total	<u>\$ 2,953</u>

**AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2018**

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Rent expense for fiscal 2018 and 2017 was approximately \$826,000 and \$787,000, 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, 2018, was \$99,928,000. The balance of the unfunded commitment as of September 30, 2018 was \$24,531,000. The future alternative investment commitments will be met by an allocation of investments from the pooled endowment fund.

**14. SUBSEQUENT EVENTS**

The Organization evaluated its September 30, 2018 consolidated financial statements for subsequent events through March 29, 2019, the date the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent events that would require recognition or disclosure in the accompanying consolidated financial statements.