

CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

AMERICAN FRIENDS OF THE HEBREW UNIVERSITY, INC.

September 30, 2009

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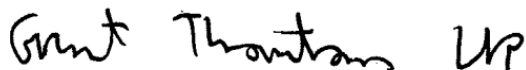
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2009, 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 consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization’s fiscal 2008 consolidated financial statements and, in our report dated March 30, 2009, 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 consolidated financial position of American Friends of the Hebrew University, Inc. as of September 30, 2009, and the consolidated 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.



New York, New York
May 3, 2010

American Friends of the Hebrew University, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30, 2009 and 2008
(in thousands)

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 11,166	\$ 17,321
Contributions receivable, net	23,646	25,389
Interest receivables and other assets	1,002	1,871
Investments:		
Marketable securities and other investments	391,505	381,030
State of Israel bonds	4,430	8,652
Real estate holdings	3,090	3,090
Assets of trusts and other split interest agreements held by others	13,215	12,782
Fixed assets, net	<u>1,040</u>	<u>1,154</u>
Total assets	<u>\$ 449,094</u>	<u>\$ 451,289</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,990	\$ 2,302
Liability under split interest agreements	6,460	6,146
Due to Hebrew University	<u>27,279</u>	<u>35,890</u>
Total liabilities	<u>35,729</u>	<u>44,338</u>
Net assets:		
Unrestricted:		
General operating	3,433	2,868
Underwater endowments	<u>(3,480)</u>	<u>(5,509)</u>
Total unrestricted	(47)	(2,641)
Temporarily restricted	126,840	124,865
Permanently restricted	<u>286,572</u>	<u>284,727</u>
Total net assets	<u>413,365</u>	<u>406,951</u>
Total liabilities and net assets	<u>\$ 449,094</u>	<u>\$ 451,289</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, 2009, with comparative information for 2008
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
Operating support and revenue:					
Support:					
Contributions	\$ 5,240	\$ 14,750	\$ -	\$ 19,990	\$ 36,653
Legacies and bequests	<u>4,099</u>	<u>697</u>	<u>-</u>	<u>4,796</u>	<u>2,566</u>
Total support	9,339	15,447	-	24,786	39,219
Revenue:					
Net investment income (including realized gains of \$5,974 in 2009 and \$21,420 in 2008)	423	13,612	-	14,035	31,833
Net assets released from restrictions	<u>30,231</u>	<u>(30,231)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating support and revenue	<u>39,993</u>	<u>(1,172)</u>	<u>-</u>	<u>38,821</u>	<u>71,052</u>
Operating expenses:					
Program services:					
Grants to Hebrew University (including payments to the University of \$34,378 in 2009 and \$43,177 in 2008)	27,380	-	-	27,380	45,303
Grants to other charitable and educational institutions in the United States and Israel	<u>794</u>	<u>-</u>	<u>-</u>	<u>794</u>	<u>1,356</u>
Total program services	<u>28,174</u>	<u>-</u>	<u>-</u>	<u>28,174</u>	<u>46,659</u>
Supporting services:					
Management and general expenses	3,153	-	-	3,153	3,068
Fund-raising	<u>8,461</u>	<u>-</u>	<u>-</u>	<u>8,461</u>	<u>9,015</u>
Total supporting services	<u>11,614</u>	<u>-</u>	<u>-</u>	<u>11,614</u>	<u>12,083</u>
Total operating expenses	<u>39,788</u>	<u>-</u>	<u>-</u>	<u>39,788</u>	<u>58,742</u>
Excess of operating support and revenue over operating expenses	<u>205</u>	<u>(1,172)</u>	<u>-</u>	<u>(967)</u>	<u>12,310</u>
Non-Operating activities:					
Net gain (loss) on investments (including unrealized appreciation (depreciation) of \$37,420 in 2009 and \$(141,882) in 2008)	2,372	(1,948)	-	424	(123,892)
Contributions	-	898	4,376	5,274	5,692
Legacies and bequest	-	-	2,312	2,312	2,930
Changes in value of split-interest agreements	-	(321)	(325)	(646)	(1,515)
Net asset redesignations	-	4,518	(4,518)	-	-
Pension related expenses other than net periodic pension cost	<u>17</u>	<u>-</u>	<u>-</u>	<u>17</u>	<u>169</u>
Change in net assets	2,594	1,975	1,845	6,414	(104,306)
Net assets, beginning of year	<u>(2,641)</u>	<u>124,865</u>	<u>284,727</u>	<u>406,951</u>	<u>511,257</u>
Net assets, end of year	<u>\$ (47)</u>	<u>\$ 126,840</u>	<u>\$ 286,572</u>	<u>\$ 413,365</u>	<u>\$ 406,951</u>

The accompanying notes are an integral part of this statement.

American Friends of the Hebrew University, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30, 2009 and 2008
(in thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,414	\$ (104,306)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	204	217
Change in discount and allowance on contributions receivable	(613)	689
Net realized and unrealized (gains) losses	(6,398)	102,472
Noncash contribution of investments	(32)	(2,125)
Contributions to permanent endowment	(7,551)	(14,091)
Changes in assets and liabilities:		
Decrease (increase) in contributions receivable	2,356	(6,796)
Decrease in interest receivables and other assets	869	14
Decrease in accounts payable and accrued liabilities	(312)	(495)
Increase in liability under split-interest agreements	314	650
(Decrease) increase in amount due to Hebrew University	<u>(8,611)</u>	<u>849</u>
Net cash used in operating activities	<u>(13,360)</u>	<u>(22,922)</u>
Cash flows from investing activities:		
Sale of investments	374,805	311,179
Purchases of investments	(374,626)	(298,532)
Capital acquisition for purchases of equipment	(92)	(82)
(Increase) decrease in beneficial interest in remainder trusts	<u>(433)</u>	<u>5,274</u>
Net cash (used in) provided by investing activities	<u>(346)</u>	<u>17,839</u>
Cash flows from financing activities:		
Permanently restricted endowment contributions	<u>7,551</u>	<u>14,091</u>
Net cash provided by financing activities	<u>7,551</u>	<u>14,091</u>
Net (decrease) increase in cash and cash equivalents	(6,155)	9,008
Cash and cash equivalents, beginning of year	<u>17,321</u>	<u>8,313</u>
Cash and cash equivalents, end of year	<u>\$ 11,166</u>	<u>\$ 17,321</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, 2009

NOTE A - 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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, 2008, from which the summarized information was derived.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE B (continued)

2. 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. 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, 2009 and 2008 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 research, chairs, fellowships, lectureships, books and library, publications 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.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE B (continued)

3. 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.

In 2008, one donor signed an agreement stating its intention to make a \$15 million contribution to the Organization. In addition, in 2007, one donor signed an agreement stating its intention to make a \$2.25 million contribution to the Organization. Although management is confident regarding receipt of the entire \$17.25 million, since the agreements specified an intention to give rather than an unconditional promise, only \$7 million, the amount received in aggregate through September 30, 2009, has been recognized in the Organization's consolidated financial statements. An additional \$3 million was received subsequent to September 30, 2009.

Not reflected on the consolidated financial statements are testamentary bequests (unaudited) of approximately \$31,471,000 and \$35,657,000 as of September 30, 2009 and 2008, 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.

4. 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. Generally Accepted Accounting Principles for fair value measurement, effective for the Organization's fiscal year beginning October 1, 2008 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.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE B (continued)

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 E 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.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE B (continued)

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 State Street 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, 2009 and 2008. 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.

5. 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; as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; or as increases in unrestricted net assets if there are no donor-imposed 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.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE B (continued)

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% and 3.8% at September 30, 2009, and 3.6% to 6.2% at September 30, 2008.

At September 30, 2009, the Organization's annuity payment liabilities 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 B4). The following table summarizes the changes in the Organization's Level 3 annuity payment liability balances for the year ended September 30, 2009:

	Split Interest Agreements <u>(in thousands)</u>
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	<u>594</u>
Balance at September 30, 2009	<u>\$ 6,460</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 balance sheet date less the present value of estimated future payments expected to be made to donors and/or other beneficiaries.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE B (continued)

7. 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.

8. 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.

9. 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 \$5,771,000 in 2009 and \$6,093,000 in 2008 resulting from the Organization's fundraising and marketing efforts.

10. 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.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE B (continued)

11. New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) issued new guidance to establish the FASB Accounting Standards Codification (the “Codification”) as the single source of authoritative nongovernmental U.S. GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009. The adoption of this standard has not had a material impact on the Organization’s financial statements.

The FASB issued guidance which 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 cumulative effect of applying this will be reported as an adjustment to net assets at the beginning of the period in which it is adopted. The effectiveness for applying this criterion has been deferred for certain not-for-profit organizations until fiscal years beginning after December 15, 2008. The Organization is currently assessing the impact of this criterion but does not expect the adoption to have a material impact on its consolidated financial statements. Management believes that the Organization has not taken any uncertain tax positions.

12. Underwater Endowment Funds

As of September 30, 2009 and 2008, 144 and 186 individual, named endowment funds had estimated fair values that aggregated \$3,480,000 and \$5,509,000 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. As of December 31, 2009, the Organization’s underwater endowments decreased to approximately \$2 million (unaudited).

NOTE C - INTEREST RECEIVABLES AND OTHER ASSETS

Miscellaneous receivables and other assets consisted of \$410,000 and \$935,000 of interest and dividend receivables and \$592,000 and \$936,000 of other assets as of September 30, 2009 and 2008, respectively.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE D - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of September 30, 2009 and 2008:

	2009	2008
	(in thousands)	
Contributions receivable due in:		
Less than 1 year	\$ 11,625	\$ 10,743
1-5 years	10,585	13,137
Greater than 5 years	<u>5,830</u>	<u>6,516</u>
	28,040	30,396
Less:		
Allowance for uncollectible contributions	(2,614)	(2,835)
Discount to present value	<u>(1,780)</u>	<u>(2,172)</u>
	<u>\$ 23,646</u>	<u>\$ 25,389</u>

Discount rates for pledges outstanding at September 30, 2009, ranged from .40% to 4.02%. Discount rates for pledges outstanding at September 30, 2008, ranged from 1.78% to 4.43%.

At September 30, 2009, one donor's pledge balance represented 24% of contributions receivable. At September 30, 2008, the same donor's pledge balance represented 25% of contributions receivable.

NOTE E - INVESTMENTS

The following table summarizes investments within the fair value hierarchy (see Note B4) as of September 30, 2009. The fair value of investment assets as of September 30, 2008 is also included in the table below in total by asset allocation only:

	Level 1	Level 2	Level 3	2009 Total	2008 Total
Cash and cash equivalents held for					
long-term investment	\$ 18,507	\$ -	\$ -	\$ 18,507	\$ 3,680
Fixed income including mutual funds	67,265	-	4,619	71,884	69,145
Equities including mutual funds	273,021	-	-	273,021	261,289
Alternative investments:					
Private equity	-	-	7,879	7,879	8,244
Venture capital	-	-	1,989	1,989	2,077
Funds that invest in equity	-	-	-	-	18,397
Fund of funds	-	-	18,225	18,225	18,198
Total	<u>\$ 358,793</u>	<u>\$ -</u>	<u>\$ 32,712</u>	<u>\$ 391,505</u>	<u>\$ 381,030</u>

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE E (continued)

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:

	Private Equity	Venture Capital	Fund of Funds	Fixed Income	Funds that invest in equity	Total
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 gains and (losses), net	<u>(705)</u>	<u>(264)</u>	<u>27</u>	<u>-</u>	<u>(787)</u>	<u>(1,729)</u>
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>

At September 30, 2009, 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 \$11,838,000 are classified as level 1. Split interest agreements held by others of approximately \$1,377,000 are classified as level 3.

The following table summarizes the changes in the Organization's Level 3 assets of trusts and other split interest agreements held by others for the year ended September 30, 2009 (000's omitted):

	Assets of trusts and other split interest agreements held by others <u>(in thousands)</u>
Balance at June 30, 2008	\$ 1,229
New agreements	155
Unrealized depreciation in fair value	<u>(7)</u>
Balance at June 30, 2009	<u>\$ 1,377</u>

Investment return comprises interest, dividends, and realized and unrealized gains and losses. Return for the years ended September 30, 2009 and 2008 consisted of the following:

	2009	2008
	<u>(in thousands)</u>	
Operating investment return:		
Interest and dividends	\$ 8,061	\$ 10,413
Realized gains	<u>5,974</u>	<u>21,420</u>
Total operating investment return	<u>14,035</u>	<u>31,833</u>

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE E (continued)

	<u>2009</u>	<u>2008</u>
	(in thousands)	
Nonoperating investment return:		
Realized (losses) gains	\$ (36,996)	\$ 17,990
Unrealized gains (losses)	<u>37,420</u>	<u>(141,882)</u>
Total nonoperating investment return	<u>424</u>	<u>(123,892)</u>
Total investment return	<u>\$ 14,459</u>	<u>\$ (92,059)</u>

The Organization's spending policy states distributions from all pooled endowment funds if not otherwise limited shall be limited to 4.5% and 5% in fiscal years 2009 and 2008, respectively. For fiscal year 2008, the Board approved an additional 2% distribution from certain pooled endowment funds meeting specific criteria. During fiscal 2009 and 2008, the Organization did not make distributions on their underwater endowments.

For fiscal 2009 and 2008, \$189,000 and \$139,000, respectively, of investment advisory and custodial fees were netted against investment income.

As of September 30, 2009, the investment balances included pending purchases and pending sales of \$223,000. There were no pending purchases or sales as of September 30, 2008.

Up until November, 2008 the Organization had participated in a securities lending program whereby certain equities and bonds included in its investment portfolio were loaned to brokerage firms. In return for the securities loaned, the Organization received cash or securities as collateral in amounts at least equal to the fair value of the securities loaned. The Organization had retained all rights of ownership to the securities loaned and received all interest and dividend income. In November, 2008, the Organization was notified by a financial institution that approximately \$6.2 million in funds invested under the securities lending program would be removed from the securities lending program, however, would not be liquidated and paid to the Organization on schedule. The financial institution is permitting a 4% withdrawal each month of the value of the assets at the end of the previous month. The estimated fair value of these assets reflected in the consolidated statements of financial position at September 30, 2009 is approximately \$4,619,000. Management has referred this matter to outside counsel.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE F - FIXED ASSETS

Fixed assets consisted of the following at September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	(in thousands)	
Leasehold improvements	\$ 1,379	\$ 1,379
Furniture and equipment	<u>1,722</u>	<u>1,704</u>
	3,101	3,083
Less: Accumulated depreciation	<u>(2,061)</u>	<u>(1,929)</u>
	<u>\$ 1,040</u>	<u>\$ 1,154</u>

Depreciation expense amounted to approximately \$204,000 and \$217,000 for the years ended September 30, 2009 and 2008, respectively.

NOTE G - ENDOWMENT

The Uniform Management of Institutional Funds Acts (“UMIFA”) as enacted by the State of New York in 1978 applies to all the institutional funds of the Organization unless the donor has specifically directed otherwise. The Board of Directors of the Organization interprets UMIFA as requiring the preservation of the “historic dollar value” of the original gift as of the gift date for donor-restricted endowment funds in the absence of explicit donor stipulations to the contrary. As a result of such interpretation, the Organization classifies as permanently restricted net assets the original value of donor-restricted endowment funds, the original value of subsequent gifts to donor-restricted endowment funds and the value of accumulations to such funds made in accordance with the applicable gift instrument at the time the relevant accumulation was added to the fund.

The remaining portion of the donor-restricted endowment fund not classified in permanently restricted net assets is classified either as unrestricted or temporarily restricted net assets, depending on the intent of each endowment fund until those amounts are appropriated for expenditure by the Organization in a manner consistent with the uses, benefits, purposes and duration for which the endowment is established and the standard of prudence prescribed by UMIFA.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE G (continued)

The Organization has a policy of appropriating for distribution each year a Board of Directors approved spending rate of its endowment fund's average fair value over twelve rolling quarters. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to grow at a pace at least equal to inflation. 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.

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.

In August 2008, the FASB issued new accounting guidance related to the disclosure of endowment funds and addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). A key component of this guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Should the State of New York adopt a version of UPMIFA in a future period, the Organization will need to interpret the relevant law at that time. In addition, the FASB issued guidance requiring new disclosures about an organization's donor-restricted and board-designated endowment funds. The Organization adopted the disclosure requirements as of October 1, 2008, as required.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE G (continued)

With the exception of endowment pledges and split interest agreements, the following table summarizes endowment net asset composition by type of fund as of September 30, 2009:

Endowment Net Assets Composition by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 57,167	\$ 277,299	\$ 334,466
Total	<u>\$ -</u>	<u>\$ 57,167</u>	<u>\$ 277,229</u>	<u>\$ 334,466</u>
Endowment net assets, beginning of year	\$ -	\$ 61,276	\$ 273,822	\$ 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	-	-	7,551	7,551
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(8,933)</u>	<u>-</u>	<u>(8,933)</u>
Endowment net asset, end of year	<u>\$ -</u>	<u>\$ 57,167</u>	<u>\$ 277,299</u>	<u>\$ 334,466</u>

NOTE H - 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 \$115,000 and \$238,000 for fiscal 2009 and 2008, 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.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE I - 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.

Obligations using a measurement date of September 30, 2009 and 2008 include the estimated value of these benefits.

The following table illustrates the effects of applying SFAS No. 158:

	2009	2008
	(in thousands)	
Net periodic postretirement benefit cost:		
Service cost	\$ 18	\$ 23
Interest cost	13	21
Amortization of:		
Unrecognized net (asset) obligation	16	16
Net (gain) loss	<u>(14)</u>	<u>(3)</u>
Net periodic postretirement benefit cost	<u>\$ 33</u>	<u>\$ 57</u>
 Change in benefit obligation		
Accumulated postretirement benefit obligation, beginning of year	\$ 241	\$ 389
Service cost	18	23
Interest cost	13	21
Actuarial (gain) loss	(16)	(156)
Benefits paid	<u>(20)</u>	<u>(36)</u>
Accumulated postretirement benefit obligations, end of year	<u>\$ 236</u>	<u>\$ 241</u>
 Change in plan assets		
Plan assets at fair value, beginning of year		
Company contributions	\$ 20	\$ 36
Benefits paid*	<u>(20)</u>	<u>(36)</u>
Plan assets of fair value, end of year	<u>\$ -</u>	<u>\$ -</u>
 Benefit obligation at September 30	\$ 236	\$ 241
Fair value of plan assets at September 30	<u>-</u>	<u>-</u>
Funded status	<u>\$ (236)</u>	<u>\$ (241)</u>

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE I (continued)

	<u>2009</u>	<u>2008</u>
	(in thousands)	
Liabilities	<u>\$ (236)</u>	<u>\$ (241)</u>
Amounts recognized in unrestricted net assets consist of:		
Transition obligation	\$ 125	\$ 142
Prior service cost (credit)		
Net loss (gain)	<u>(253)</u>	<u>(253)</u>
Total amount recognized in unrestricted net assets	<u>\$ (128)</u>	<u>\$ (111)</u>
Net periodic postretirement benefit cost	\$ 33	\$ 57
Amounts in unrestricted net assets expected to be recognized as components of net periodic postretirement cost in fiscal 2009 consist of:		
Amortization of transition obligation	\$ 16	\$ 16
Amortization of net gain	<u>(15)</u>	<u>(15)</u>
Total amount	<u>\$ 1</u>	<u>\$ 1</u>
Weighted-average assumptions used to determine obligations as of September 30:		
Discount rate	5.25%	5.75%
Expected return on plan assets	N/A	N/A
Initial health care trend rate assumed for next year	8.00%	9.00%
Ultimate trend rate	3.00%	3.00%
Fiscal year in which ultimate rate is reached	2016	2015
Weighted-average assumptions used to determine net periodic benefit cost for fiscal year:		
Discount rate	5.25%	5.75%
Expected return on plan assets	N/A	N/A
Expected contributions for 2010	<u>\$ 19</u>	

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE I (continued)

Future expected benefit payments

2010	\$ 19
2011	18
2012	18
2013	18
2014	18
2015-2019	113

* Based on actual contributions for 2009 and 2008

NOTE J - RELATED PARTY TRANSACTIONS

Included in marketable securities on the consolidated statement of financial position are assets with a fair value at September 30, 2009 and 2008 of \$4,527,000 and \$5,030,000, respectively, the oversight and management of which is under the control of the donor, who is a board member.

NOTE K - COMMITMENTS

The Organization has one employment contract and leases office space under non-cancellable operating leases. At September 30, 2009, minimum aggregate commitments under these obligations are as follows (in thousands):

Year Ending September 30,	
2010	\$ 1,118
2011	971
2012	571
2013	466
2014	457
2015 and after	<u>369</u>
Total	<u>\$ 3,952</u>

Rent expense for fiscal 2009 and 2008 was approximately \$593,000 and \$579,000, respectively.

American Friends of the Hebrew University, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2009

NOTE K (continued)

In addition, since fiscal year 2001, the Organization has been investing in various alternative investments including private equity and hedge funds. The total actual and committed investment contemplated as of September 30, 2009, was \$33,000,000. The balance of the unfunded commitment as of September 30, 2009, was \$4,564,390. The future alternative investment commitments will be met by an allocation of investments from the pooled endowment fund.

NOTE L – SUBSEQUENT EVENTS

In May 2009, the FASB issued new guidance regarding the reporting of subsequent events to incorporate the accounting and disclosure requirements for subsequent events into U.S. generally accepted accounting principles. This guidance introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the statement of financial position date. The Organization adopted the new guidance as of September 30, 2009.

The Organization evaluated its September 30, 2009 consolidated financial statements for subsequent events through May 3, 2010, the date the consolidated financial statements were available to be issued. In December 2009, the Organization entered into an agreement to invest \$5,000,000 in a private equity fund which will be met by an allocation of investments from the pooled endowment fund. The Organization is not aware of any other subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.