

American Friends of the Tel Aviv University, Inc.

Independent Auditor's Report and Financial Statements

September 30, 2019



American Friends of the Tel Aviv University, Inc.
September 30, 2019

Contents

Independent Auditor's Report..... 1

Financial Statements

Statement of Financial Position..... 3
Statement of Activities 4
Statement of Functional Expenses..... 6
Statement of Cash Flows 7
Notes to Financial Statements 8

Independent Auditor's Report

Board of Directors
American Friends of the Tel Aviv University, Inc.
New York, New York

We have audited the accompanying financial statements of American Friends of the Tel Aviv University, Inc., which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Friends of the Tel Aviv University, Inc. as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 2* to the financial statements, in 2019 American Friends of the Tel Aviv University, Inc. adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

As discussed in *Note 17* to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

BKD, LLP

New York, New York
April 3, 2020

American Friends of the Tel Aviv University, Inc.

Statement of Financial Position

September 30, 2019

Assets

Cash	\$ 3,736,312
Certificates of deposit	3,049,257
Investments	47,314,189
Contributions receivable, net of allowance for uncollectible accounts of \$2,037,000	45,948,785
Beneficial interest in remainder annuity trusts	1,826,740
Security deposits and other assets	79,605
Prepaid expenses	93,090
Donated real property - land	30,000
Property and equipment, net	84,811
	<hr/>
Total assets	<u>\$ 102,162,789</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 267,739
Deferred revenue	2,246,180
Deferred rent	34,687
Capital lease payable	56,571
Annuity obligations	1,915,673
	<hr/>
Total liabilities	<u>4,520,850</u>

Net Assets

Without donor restrictions	
Operating	710,485
Student program	352,520
	<hr/>
Total without donor restrictions	<u>1,063,005</u>
With donor restrictions	
Purpose and time restrictions	67,258,480
Perpetual in nature	29,320,454
	<hr/>
Total net assets	<u>97,641,939</u>
	<hr/>
Total liabilities and net assets	<u>\$ 102,162,789</u>

American Friends of the Tel Aviv University, Inc.
Statement of Activities
Year Ended September 30, 2019

	Without Donor Restrictions			With Donor Restrictions		Total
	Operating	Student Program	Total Without Donor Restrictions	Purpose and Time Restrictions	Perpetual in Nature	
Revenues, Gains and Other Support						
Contributions and grants	\$ 1,280,146	\$ -	\$ 1,280,146	\$ 40,899,959	\$ 32,801	\$ 42,212,906
Legacies and bequests	21,461	-	21,461	140,978	30,013	192,452
Fundraising events						
Ticket sales	-	-	-	81,858	-	81,858
Direct cost of special events	-	-	-	(181,027)	-	(181,027)
Overseas student revenue	-	9,563,817	9,563,817	-	-	9,563,817
Investment income	133,533	-	133,533	1,756,564	-	1,890,097
Change in value of split-interest agreements	810,380	-	810,380	7,099	16,792	834,271
Other income	267	-	267	2,529	-	2,796
Net assets released from restrictions	33,467,447	-	33,467,447	(33,467,447)	-	-
	<u>35,713,234</u>	<u>9,563,817</u>	<u>45,277,051</u>	<u>9,240,513</u>	<u>79,606</u>	<u>54,597,170</u>
Expenses						
Program services						
Student	-	9,254,680	9,254,680	-	-	9,254,680
Other projects	33,467,447	-	33,467,447	-	-	33,467,447
	<u>33,467,447</u>	<u>9,254,680</u>	<u>42,722,127</u>	<u>-</u>	<u>-</u>	<u>42,722,127</u>

American Friends of the Tel Aviv University, Inc.
Statement of Activities (Continued)
Year Ended September 30, 2019

	Without Donor Restrictions			With Donor Restrictions		Total
	Operating	Student Program	Total Without Donor Restrictions	Purpose and Time Restrictions	Perpetual in Nature	
Expenses (continued)						
Supporting services						
Management and general	\$ 1,933,189	\$ 293,759	\$ 2,226,948	\$ -	\$ -	\$ 2,226,948
Fundraising	3,671,927	-	3,671,927	-	-	3,671,927
Total supporting services	5,605,116	293,759	5,898,875	-	-	5,898,875
Total expenses	39,072,563	9,548,439	48,621,002	-	-	48,621,002
Change in net assets before other changes	(3,359,329)	15,378	(3,343,951)	9,240,513	79,606	5,976,168
Other Changes						
Assumption of supporting services by Tel Aviv University	3,662,997	-	3,662,997	-	-	3,662,997
Change in value of life insurance policy	-	-	-	-	(848)	(848)
Bad debt losses	-	-	-	(302,500)	-	(302,500)
Change in Net Assets	303,668	15,378	319,046	8,938,013	78,758	9,335,817
Net Assets, Beginning of Year	406,817	337,142	743,959	58,320,467	29,241,696	88,306,122
Net Assets, End of Year	<u>\$ 710,485</u>	<u>\$ 352,520</u>	<u>\$ 1,063,005</u>	<u>\$ 67,258,480</u>	<u>\$ 29,320,454</u>	<u>\$ 97,641,939</u>

American Friends of the Tel Aviv University, Inc.
Statement of Functional Expenses
Year Ended September 30, 2019

	Program Services			Supporting Services				Direct Costs of Special Events	
	University Projects			Management and General					
	Student	Other Projects	Total	Student	Other Projects	Fundraising	Total	Total	
Salaries	\$ 334,067	\$ -	\$ 334,067	\$ -	\$ 979,494	\$ 2,082,843	\$ 3,062,337	\$ -	\$ 3,396,404
Payroll taxes and employee benefits	121,452	-	121,452	-	267,372	568,553	835,925	-	957,377
Total salaries and related expenses	455,519	-	455,519	-	1,246,866	2,651,396	3,898,262	-	4,353,781
Transmissions to Tel Aviv University	8,600,000	30,209,652	38,809,652	-	-	-	-	-	38,809,652
Grants and awards	-	3,257,795	3,257,795	-	-	-	-	-	3,257,795
Office equipment and supplies	9,683	-	9,683	-	28,537	60,681	89,218	-	98,901
Telecommunications	5,187	-	5,187	-	12,154	25,844	37,998	-	43,185
Postage and shipping	3,673	-	3,673	-	3,039	6,461	9,500	-	13,173
Occupancy	35,000	-	35,000	-	96,217	204,602	300,819	-	335,819
Credit card processing and other fees	-	-	-	222,159	-	-	222,159	-	222,159
Conferences, conventions and meetings	21,082	-	21,082	-	30,840	65,581	96,421	-	117,503
IDEAS California-Illinois Technology Conferences	-	-	-	-	-	74,366	74,366	-	74,366
Publicity and public relations	-	-	-	71,600	-	152,161	223,761	-	223,761
Travel and entertainment	46,547	-	46,547	-	60,603	123,975	184,578	-	231,125
Insurance	7,000	-	7,000	-	16,452	34,985	51,437	-	58,437
Professional fees	31,562	-	31,562	-	367,073	-	367,073	-	398,635
Consultants	-	-	-	-	5,022	10,678	15,700	-	15,700
Printing, brochures and production	7,549	-	7,549	-	4,037	8,586	12,623	-	20,172
Network and IT services	31,878	-	31,878	-	43,332	92,144	135,476	-	167,354
Direct mail campaign	-	-	-	-	-	124,031	124,031	-	124,031
Hotel food and entertainment	-	-	-	-	-	-	-	181,027	181,027
Depreciation and amortization	-	-	-	-	17,134	36,436	53,570	-	53,570
Interest expense	-	-	-	-	1,883	-	1,883	-	1,883
Total expenses	9,254,680	33,467,447	42,722,127	293,759	1,933,189	3,671,927	5,898,875	181,027	48,802,029
Less:									
Direct costs of special events	-	-	-	-	-	-	-	(181,027)	(181,027)
Total expenses reported by function on the statements of activities	<u>\$ 9,254,680</u>	<u>\$ 33,467,447</u>	<u>\$ 42,722,127</u>	<u>\$ 293,759</u>	<u>\$ 1,933,189</u>	<u>\$ 3,671,927</u>	<u>\$ 5,898,875</u>	<u>\$ -</u>	<u>\$ 48,621,002</u>

American Friends of the Tel Aviv University, Inc.

Statement of Cash Flows Year Ended September 30, 2019

Operating Activities

Change in net assets	\$ 9,335,817
Items not requiring (providing) operating activities cash flows	
Depreciation	53,570
Net realized and unrealized gains on investments	(644,652)
Actuarial gains on annuity obligations	(841,376)
Losses on remainder annuity trusts	7,105
Contributions restricted for long-term investment	(62,814)
Changes in	
Contributions receivable	(14,901,639)
Security deposits and other receivables	27,549
Prepaid expenses and other assets	12,567
Accounts payable and accrued expenses	(36,830)
Deferred revenue	(414,364)
Deferred rent	(12,653)
	<u>(7,477,720)</u>
Net cash used in operating activities	<u>(7,477,720)</u>

Investing Activities

Proceeds from sale of investments	14,884,101
Purchase of investments	(13,431,036)
Purchases of certificates of deposit	(6,911,829)
Proceeds from sale certificates of deposit	10,754,352
Acquisitions of property and equipment	(14,858)
	<u>5,280,730</u>
Net cash provided by investing activities	<u>5,280,730</u>

Financing Activities

Proceeds from contributions restricted for long-term investment	188,518
Principal payments on capital lease obligations	(17,935)
Income on annuity obligations restricted for reinvestment	195,219
Payment of annuity obligations	(251,365)
	<u>114,437</u>
Net cash provided by financing activities	<u>114,437</u>

Decrease in Cash

(2,082,553)

Cash and Cash Equivalents, Beginning of Year, as Previously Reported

12,627,818

Restatement (Note 17)

(6,808,953)

Cash and Cash Equivalents, Beginning of Year, as Restated

5,818,865

Cash, End of Year

\$ 3,736,312

Supplemental Cash Flows Information

Interest paid	\$ 1,883
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American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

American Friends of the Tel Aviv University, Inc. (AFTAU) is a not-for-profit organization whose primary purpose, as stated in its bylaws, is to raise funds for the development and advancement of higher education, student programs, research and training in all branches of knowledge in Israel and elsewhere. In addition, AFTAU provides opportunities for American students to study at the University of Tel Aviv. AFTAU's primary sources of funding are contributions and grants, overseas students' revenue, legacies and bequests and investment income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Certificates of Deposit

Certificates of deposit have maturity dates of more than three months and are considered investments for purposes of cash flow reporting.

Investments and Investment Return

Investments in equity securities and mutual funds having a readily determinable fair value are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend and interest; realized and unrealized gains.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as net assets without donor restrictions and then released from restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

AFTAU maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Individual items with a cost of \$2,000 and a useful life exceeding one year are capitalized. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Depreciation of furniture and equipment is recorded on the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives, which range from five to seven years.

Long-Lived Asset Impairment

AFTAU evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended September 30, 2019.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions

Contributions are provided to AFTAU either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on AFTAU overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Nature of the Gift	Value Recognized
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Overseas Student Revenue

AFTAU charges tuition for American students attending the Tel Aviv University (the University) and contracts with the University to provide educational and related services to these students. Revenue is recognized over the period the student is attending the University. Amounts received in advance of the student's attendance are recorded as deferred revenue.

Operating Leases

Rent expense has been recorded on the straight-line basis over the life of the lease. Deferred rent is recorded when material.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs, management and general and fundraising categories based on the amount of time spent by level of employee, square footage allocations, and other methods.

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Transmissions to Tel Aviv University

AFTAU's finance and management committee is informed of all transmissions of funds to the University. On an annual basis, an audit of these transmissions is performed by Fahn Kanne Grant Thornton to ensure that the funds have been appropriately applied to the correct projects. This audit report is distributed to the entire AFTAU board of directors.

Grants and Awards

Grants and awards consists primarily of grants made to the Institute for National Security Studies, a research center for security studies established by the University in 1975. Other grants and awards are made to institutions of higher education around the world as related to their cooperative agreements with Tel Aviv University, to individuals as approved recipients of scholarships and awards, and to individuals and vendors for their work related to university projects.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on period ending date. During the year ended September 30, 2019, there were no transfers between fair value hierarchy levels.

Income Taxes

AFTAU is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, AFTAU is subject to federal income tax on any unrelated business taxable income.

AFTAU files tax returns in the U.S. Federal jurisdiction.

Note 2: Change in Accounting Principle

In 2019, AFTAU adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Expenses are reported by both nature and function in one location.

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

- Investment return is shown net of external investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

These changes had no impact on previously reported total change in net assets.

Note 3: Contributions Receivable

All contributions receivable have been reflected at present value. Receivables due in more than one year have been discounted to their present value using a discount rate of 3 percent.

Contributions receivable consisted of the following:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose and Time Restrictions	Perpetual in Nature	
Current (due by September 30, 2020	\$ 24,737	\$ 11,894,156	\$ 221,223	\$ 12,140,116
2021	35,520	13,895,450	86,875	14,017,845
2022	35,520	9,503,600	-	9,539,120
2023	35,520	8,007,817	-	8,043,337
2024	35,520	5,470,700	-	5,506,220
Thereafter	348,694	867,800	-	1,216,494
	515,511	49,639,523	308,098	50,463,132
Less				
Allowance for uncollectible contributions	(22,000)	(2,000,000)	(15,000)	(2,037,000)
Unamortized discount	(93,914)	(2,380,903)	(2,530)	(2,477,347)
	<u>\$ 399,597</u>	<u>\$ 45,258,620</u>	<u>\$ 290,568</u>	<u>\$ 45,948,785</u>

Note 4: Beneficial Interest in Trusts

AFTAU is the beneficiary under a perpetual trust administered by an outside party. Under the terms of the trust, upon the passing of the donor, AFTAU has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$973,627, which represents the fair value of the trust assets at September 30, 2019.

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

AFTAU is the beneficiary under several irrevocable trusts administered by an outside party. Under the terms of the trusts, upon maturity, the assets held in trust will be distributed by the trust to AFTAU and other parties to the trust. The estimated value of the expected future cash flows is \$853,113, which represents the fair value of the trust assets at September 30, 2019.

Note 5: Property and Equipment

Property and equipment at September 30, 2019 consist of:

Leasehold improvements	\$	139,233
Furniture and equipment		<u>371,067</u>
		510,300
Less accumulated depreciation		<u>(425,489)</u>
	\$	<u><u>84,811</u></u>

Note 6: Annuities and Trusts Payable

AFTAU has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. AFTAU has recorded a liability at September 30, 2019 of \$1,392,667, which represents the present value of the future annuity obligations. The liability has been determined using discount rates of 1.2 percent to 6.8 percent and rates of return of 4.7 percent to 11.3 percent. Contribution revenue recognized under such agreements was \$167,457 for the year ended September 30, 2019.

AFTAU administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for AFTAU's use. Assets held in the charitable remainder trusts are recorded at fair value of \$1,826,740 as of September 30, 2019. AFTAU has recorded a liability at September 30, 2019 of \$523,006 which represents the present value of the future obligations to make distributions to the designated beneficiaries. On an annual basis, AFTAU revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 3 percent and applicable mortality tables. The portion of the trust attributable to the future interest of AFTAU is recorded in the statement of activities as net assets with donor restrictions in the period the trust is established, based on donor stipulation of the end use of the remainder trust. No contribution revenue was recognized under such agreements for the year ended September 30, 2019. Changes in value of trusts with donor stipulations requiring the remainder to be held by AFTAU in perpetuity are recorded as net assets with donor restrictions on the statement of activities.

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Note 7: Net Assets with Donor Restrictions

Net assets with donor restrictions at September 30, 2019 are restricted for the following purposes or periods:

Subject to expenditure for specified purpose or period	
Scholarships, fellowships and prizes	\$ 6,863,413
Institutes	1,720,473
Centers	3,723,201
Chairs	769,287
Research	29,545,407
Buildings and campus improvements	12,064,205
Equipment	4,194,941
Other	3,355,558
Annuity obligations	187,102
Accumulated gain on endowment	4,834,893
	<u>4,834,893</u>
	<u>\$ 67,258,480</u>

Perpetual endowments; income is subject to NFP endowment spending policy and appropriation:

Scholarships	\$ 13,719,384
Institutes	4,992,690
Centers	2,152,328
Research	1,264,088
Chairs	3,520,562
Other activities of the organization	3,581,009
Annuities and trusts	90,393
	<u>90,393</u>
	<u>\$ 29,320,454</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Scholarships, fellowships and prizes	\$ 3,963,782
Institutes	3,658,663
Centers	903,614
Chairs	194,575
Research	11,722,000
Buildings and campus improvements	7,308,994
Equipment	1,415,944
Other	4,299,875
	<u>4,299,875</u>
	<u>\$ 33,467,447</u>

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Note 8: Endowment

AFTAU's governing body is subject to the State of New York Prudent Management of Institutional Funds Act (NYPMIFA). As a result, AFTAU classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. The net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with NYPMIFA, AFTAU considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the organization
7. Investment policies of the organization

AFTAU's endowment consists of approximately 60 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and the accumulated gain on endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The composition of net assets by type of endowment fund at September 30, 2019 was:

	<u>With Donor Restrictions</u>
Donor-restricted endowment funds	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 29,320,454
Accumulated investment gains	<u>4,834,893</u>
 Total endowment funds	 <u><u>\$ 34,155,347</u></u>

American Friends of the Tel Aviv University, Inc.
Notes to Financial Statements
September 30, 2019

Changes in endowment net assets for the year ended September 30, 2019 were:

	With Donor Restrictions
Endowment net assets, beginning of year	\$ 33,994,429
Investment return	
Investment income	274,884
Net appreciation	943,211
Total investment return	1,218,095
Contributions and grants	62,814
Change in value of split-interest agreements and life insurance policy	16,792
Appropriation of endowment assets for expenditure	(1,136,783)
Endowment net assets, end of year	\$ 34,155,347

Investment and Spending Policies

AFTAU has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Under AFTAU's policies, endowments assets are invested in a diversified portfolio of investments. AFTAU expects its endowment funds to provide an average rate of return of approximately 5.8 percent annually over time. Actual returns in any given year may vary from this amount.

AFTAU has a spending policy of appropriating for expenditure each year 3.75 percent of its endowment fund's income. In establishing this policy, the AFTAU considered the long-term expected return on its endowment. This is consistent with AFTAU's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Underwater Endowments

The governing body of AFTAU has interpreted NYPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, AFTAU considers a fund to be underwater if the fair value of the fund is less than the sum of:

- a) the original value of initial and subsequent gift amounts donated to the fund; and
- b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

AFTAU has interpreted NYPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

AFTAU has a policy that does not permit spending from underwater endowment funds. AFTAU did not have any underwater endowments as of September 30, 2019.

Note 9: Pension Plan

AFTAU has a defined contribution plan for all eligible employees. Each year, AFTAU contributes a percentage of eligible employees' salary to the plan. The percentage depends on the employees' length of service. Pension expense for the year ended September 30, 2019 was \$207,904.

Note 10: Operating Lease

AFTAU has entered into leases for rental of various offices. The rent expense for the year was \$335,819.

Future minimum lease payments under operating leases are:

Year to End September 30	New York National Office	Western Region Los Angeles Office	Total
2020	\$ 248,601	\$ 51,528	\$ 300,129
2021	62,531	53,074	115,605
2022	-	31,721	31,721
Total minimum lease payments	<u>\$ 311,132</u>	<u>\$ 136,323</u>	<u>\$ 447,455</u>

The New York national office lease expires December 31, 2020.

The Los Angeles office lease expires April 30, 2022.

American Friends of the Tel Aviv University, Inc.
Notes to Financial Statements
September 30, 2019

Note 11: Capital Leases Payable

AFTAU financed certain purchases of property and equipment under variable terms, with capital lease payments required monthly through March of 2022. Future noncancelable lease payments are due as follows:

Year Ending September 30		
2020	\$	19,818
2021		19,818
2022		19,818
Total		59,454
Less amount representing interest		(2,883)
Present value of lease payments	\$	56,571

Note 12: Assumption of Supporting Services and Overhead Charges

By agreement between AFTAU and the University, the University provides for annual overhead to cover a portion of management and general and fundraising expenses of AFTAU. For the year ended September 30, 2019, \$3,662,997 has been reflected in these financial statements as assumption of supporting services by the University.

Through May 31, 2019, AFTAU charged an overhead of 15 percent on all designated gifts except those designated for research or endowment, or if prevented by donor stipulation. Beginning June 1, 2019, AFTAU charges an overhead of 15 percent on all designated gifts except those designated for endowment or buildings, if modified through negotiation with AFTAU and the University or if prevented by donor stipulation.

Note 13: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Investments				
Cash equivalents	\$ 552,628	\$ -	\$ -	\$ -
Equity securities				
Energy	254,807	254,807	-	-
Industrials	1,017,669	1,017,669	-	-
Consumer cyclical	190,170	190,170	-	-
Consumer defensive	303,733	303,733	-	-
Health care	1,129,865	1,129,865	-	-
Financials	691,135	691,135	-	-
Technology	199,205	199,205	-	-
Telecommunication services	86,875	86,875	-	-
Utilities	1,071,068	1,071,068	-	-
Real estate	248,002	248,002	-	-
Basic materials	23,469	23,469	-	-
Mutual funds				
Large cap U.S.	394,942	394,942	-	-
Mid cap U.S.	36,200	36,200	-	-
Small cap U.S.	65,619	65,619	-	-
International	6,657,308	6,657,308	-	-
Fixed income	1,348,062	1,348,062	-	-
Growth	355,574	355,574	-	-
Value	394,212	394,212	-	-
Real estate	2,031,130	2,031,130	-	-
Ultra short bond	150,606	150,606	-	-
Emerging markets	1,464,526	1,464,526	-	-
U.S. corporate bonds	3,842,157	-	3,842,157	-
U.S. Government agencies	6,674,816	6,674,816	-	-
Common trust funds	18,106,641	-	18,106,641	-
State of Israel bonds	17,750	-	17,750	-
Life insurance policy	6,020	-	6,020	-
	47,314,189	24,788,993	21,972,568	-
Beneficial interest in remainder annuity trusts	1,826,740	-	-	1,826,740
Total assets	\$ 49,140,929	\$ 24,788,993	\$ 21,972,568	\$ 1,826,740

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2019.

Equity securities, mutual funds and U.S. government agency obligations: Valued at the closing price reported on the active market on which the individual securities and obligations are traded.

U.S. corporate bonds: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations, considering the creditworthiness of the issuer.

Common trust funds: Valued based upon the closing price of the assets held by the fund as reported on the active markets on which the underlying securities and obligations are traded.

State of Israel bonds: Valued based upon comparable securities of issuers with similar yields and similar credit ratings.

Life insurance policy: Valued at cash surrender value.

For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Beneficial Interest in Remainder Annuity Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	Beneficial Interest in Remainder Annuity Trusts
Balance, October 1, 2018	\$ 1,833,845
Change in value of beneficial interest	<u>(7,105)</u>
Balance, September 30, 2019	<u>\$ 1,826,740</u>

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at September 30, 2019:

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Beneficial interest in remainder annuity trusts	\$ 1,826,740	Present value of future cash flows	Discount rate	3%–8%

Note 14: Significant Estimates and Concentrations

GAAP require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Cash

At September 30, 2019, AFTAU's cash accounts exceeded federally insured limits by approximately \$3,525,000.

Investments

AFTAU invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Contributions Receivable

Contributions receivable of AFTAU include pledges from two contributors totaling \$23,600,000 at September 30, 2019. This represents significant portions of total contributions receivable.

Contributions

Contributions to AFTAU include gifts from two contributors totaling \$30,000,000 for the year ending September 30, 2019. This represents significant portions of total contributions.

Annuity Obligations

AFTAU utilizes the 2012 IAR mortality tables to determine the liabilities recorded for annuity obligations related to charitable remainder trusts and gift annuities. Due to the uncertainty in these mortality tables, changes in calculated obligations may affect the amounts reported in the accompanying statement of financial position.

Note 15: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of September 30, 2019, comprise the following:

Cash	\$ 3,736,312
Certificates of deposit	3,049,257
Investments	47,314,189
Contributions receivable	<u>45,948,785</u>
Total financial assets	100,048,543
Less contributions receivable due in more than one year	(374,860)
Less donor imposed restrictions funds	<u>(96,578,934)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,094,749</u>

AFTAU manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. AFTAU forecasts its future cash flows and monitors its liquidity quarterly.

Note 16: Subsequent Events

Subsequent events have been evaluated through April 3, 2020, which is the date the financial statements were available to be issued.

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

There has been significant volatility in the investment markets both nationally and globally since September 30, 2019 resulting in an overall market decline which has resulted in a substantial decline in the value of our investment portfolio.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, changes in net assets and cash flows of AFTAU. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 17: Restatement

The October 1, 2018 cash and cash equivalents included certain certificates of deposit that did not meet the definition of cash equivalents under GAAP. This was corrected in the current year as an adjustment to beginning cash and cash equivalents of \$6,808,953 within the statement of cash flows.

Note 18: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018 for nonpublic entities. AFTAU is in the process of evaluating the impact the amendment will have on the financial statements.

American Friends of the Tel Aviv University, Inc.

Notes to Financial Statements

September 30, 2019

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020 and any interim periods within annual reporting periods that begin after December 15, 2021. AFTAU is evaluating the impact the standard will have on the financial statements.