

The Arava Institute for Environmental Studies
(Registered Association)

Financial statements

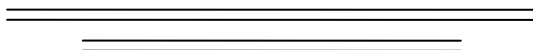
As of December 31, 2011

The Arava Institute for Environmental Studies (Registered Association)

Financial statements as of December 31, 2011

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Auditor's Report to Members of the Association of

THE ARAVA INSTITUTE FOR ENVIRONMENTAL STUDIES (Registered Association)

We have audited the accompanying balance sheets of the **Arava Institute for Environmental Studies (Registered Association)** (hereinafter, "the Association") as of December 31, 2011 and 2010, and the related statements of operations and of changes in net assets, and the cash flow reports for each of the years ending on these dates. These financial statements are the responsibility of the Board of Directors and the management of the Association. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards, including those prescribed by the Accountants' Regulations (Means of Operation of Accountants) 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes sample examination of evidence supporting the amounts and disclosures in the financial statements. An audit further incorporates an assessment of accounting principles implemented and of the substantial estimates made by the Association's Board of Directors and management, as well as an evaluation of the propriety of the entirety of the financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements reflect appropriately, by all material aspects, the financial situation of the Association as of December 31, 2011 and 2010, the outcomes of its operations and the changes in net assets for each of the years then ended – in nominal values.

Marcovich Cohen
Certified Public Accountants

Balance Sheets

	<u>Note</u>	<u>December 31</u>	
		<u>2011</u> <u>NIS</u>	<u>2010</u> <u>NIS</u>
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents		39,019	142,461
Grants and contributions receivable		365,299	484,307
Clientele		1,255	44,687
Related parties	<u>3c</u>	130,646	127,788
Accounts receivable and debit balance	<u>5</u>	614,819	760,007
Total current assets		1,151,038	1,559,250
<u>Fixed Assets</u>			
Fixed asset costs	<u>6</u>	4,412,964	3,452,893
Accumulated depreciation		1,556,563	1,192,700
Net fixed assets		2,856,401	2,260,193
Total assets		4,007,439	3,819,443
<u>Liabilities and Net Assets</u>			
<u>Current Liabilities</u>			
Banks		20,148	373,817
Checks payable		398,938	326,668
Suppliers and service providers	<u>3a</u>	503,853	668,114
Advanced grants and donations – scholarships		95,526	95,075
Advanced grants and donations – for projects		1,308,827	1,058,867
Related parties	<u>4</u>	688,264	-
Other payables and credit balances	<u>7</u>	158,298	343,352
Total current liabilities		3,173,854	2,865,893
<u>Long Term Liabilities</u>			
Reserve for subsidiary net losses	<u>3b</u>	53,370	-
Total liabilities		3,227,224	2,865,893
<u>Net Assets</u>			
Net assets for which there are no restrictions:			
Used for activities		(2,140,418)	(1,231,893)
Used for fixed assets		2,920,421	2,185,234
Net assets for which there are temporary restrictions			
Total net assets		780,215	953,341
Total liabilities and net assets		4,007,439	3,819,443

Roy Kagan –
Board Member

Glen Pagelson –
Board Member

Date of approval of financial statements: _____ 2012

The accompanying notes form an integral part of the financial statements.

Statements of Operations

		For year ending December 31	
	<u>Note</u>	<u>2011</u> <u>NIS</u>	<u>2010</u> <u>NIS</u>
<u>Turnover of Activities</u>			
Donations		2,288,504	2,104,795
Tuition fees		1,919,406	2,520,393
Allocations, grants		3,424,676	4,151,366
Income from provision of services		94,579	78,757
Total turnover		7,727,165	8,855,311
<u>Costs of Activities:</u>			
Research and Policy Center		2,619,504	3,192,057
Curriculum		2,188,036	2,647,384
Sababa		57,513	68,784
Alumni Project		561,437	477,626
Environmental Consulting		1,713	23,554
ACSD		116,792	-
Eco Paths (including cycling tour)		1,093,699	1,778,650
Total cost of activities		6,638,694	8,188,055
Net income from activities		1,088,471	667,256
General & administrative expenses	<u>8</u>	(947,728)	(1,259,262)
Net income (expenses) before financing		140,743	(592,006)
Financing expenses	<u>9</u>	(234,041)	(122,520)
Net expenses from normal activities		(93,298)	(714,526)
Share of the Association in subsidiary losses	<u>3b</u>	(80,037)	-
Annual net surplus (deficit)		(173,335)	(714,526)

The accompanying notes form an integral part of the financial statements.

Statements of Changes in Net Assets

	Net Assets for which there are no restrictions			
	<u>Used for Activities</u>	<u>Used for Activities Designated by NPO's Institutions</u>	<u>Used for Fixed Assets</u>	<u>Total</u>
Balance brought forward on January 1, 2008	356,090	-	1,227,993	1,584,083
Additions during 2008:				
Net annual deficit	(1,774)		-	(1,774)
Used as fixed assets	(271,753)		271,753	-
Subtractions during 2008				
Depreciation costs	155,895		(155,895)	-
Balance as of December 31, 2008	<u>238,458</u>		<u>1,343,851</u>	<u>1,582,311</u>
Additions during 2009:				
Net annual revenues	85,765		-	85,765
Used as fixed assets	(748,954)		748,954	-
Subtractions during 2009:				
Depreciation costs	300,901		(204,913)	-
Balance as of December 31 2009	<u>(219,818)</u>		<u>1,887,892</u>	<u>1,668,076</u>
Additions during 2010:				
Net annual revenues	(714,736)		-	(714,736)
Used as fixed assets	(598,243)		598,243	-
Subtractions during 2010:				
Depreciation costs	300,901		(300,901)	-
Balance as of December 31 2010	<u>(1,231,896)</u>		<u>2,185,234</u>	<u>953,340</u>
Additions during 2011:				
Net annual revenues	(173,335)		-	(173,335)
Used as fixed assets	(960,071)		960,071	-
Subtractions during 2011:				
Depreciation costs	224,884		(224,884)	-
Balance as of December 31 2011	<u>(2,140,418)</u>		<u>2,920,421</u>	<u>780,005</u>

The accompanying notes form an integral part of the financial statements.

The Arava Institute for Environmental Studies (Registered Association)

	<u>For year ending</u>	
	<u>December 31</u>	
	<u>2010</u>	<u>2011</u>
	<u>NIS</u>	<u>NIS</u>
<u>Cash Flow from Ongoing Activity:</u>		
Net surplus (deficit) according to the business outcome report	(173,335)	(714,736)
<hr/>		
<u>Adjustments needed for the presentation of cash flow from ongoing activity – Appendix A</u>		
Income and expenses unrelated to cash flows	224,884	300,901
Changes to assets and liabilities	348,067	338,967
Total adjustments needed for presentation of cash flow from ongoing activity – Appendix A	572,951	639,868
Total net cash resulting from ongoing activity	399,616	(74,868)
<u>Cash Flow from Investment Activity:</u>		
Acquisition of fixed assets	(821,092)	(598,243)
Proceeds from realization of fixed assets		
Investment in subsidiaries and related companies	50,512	(61,770)
Total net cash resulting from investment activity	(770,580)	(660,013)
<u>Cash Flow from Financing Activity:</u>		
Short term bank credit, net	(355,228)	373,817
Short term loans received	622,750	-
Total net cash flow from financing activity	267,522	373,817
Increase (decrease) in cash and cash equivalent	(103,442)	(361,061)
Cash balance and cash worth for the beginning of the year	142,461	503,522
Cash balance and cash worth for the end of the year	39,019	142,461

The accompanying notes form an integral part of the financial statements.

Adjustments Needed for Presentation of Cash Flow from Ongoing Activity – Appendix A

	<u>For year ending</u>	
	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS</u>	<u>NIS</u>
<u>Income and Expenses Unrelated to Cash Flows:</u>		
Depreciation and amortization	224,884	300,901
<u>Changes to Items of Assets and Liabilities:</u>		
Decrease (increase) in grants and contributions receivable	162,440	(174,770)
Decrease (increase) in accounts receivable and debit balance	145,188	65,449
Increase (decrease) in suppliers	(98,747)	217,424
Increase (decrease) in other payables and credit balances	(183,495)	53,488
Increase (decrease) in checks payable	72,270	105,822
Increase (decrease) in advanced grants and donations	250,411	71,554
Total changes to items of assets and liabilities	348,067	338,967
Total adjustments needed for presentation of cash flow from ongoing activity – Appendix A	572,951	639,868

The accompanying notes form an integral part of the financial statements.

Note 1 - General

The Goals of the Association are as Follows:

A. Cultivation and activities in the fields of education, science and culture:

Our mission is to create a world-class environmental teaching and research institute at Kibbutz Ketura, which will:

- Prepare future Arab and Jewish leaders to cooperatively solve the region's environmental challenges
- Maintain high academic standards.
- Deliver teaching and trans-boundary research opportunities at the highest quality and level to students from the Middle East and from all over the world
- Play a leading role in research, conservation, environmental protection and sustainable development in the region.
- Generate capacity for conciliation and cooperation in the Middle East, in order to transcend political boundaries and achieve environmental change

B. Raising awareness and promotion of environmental quality.

Note 2 – Principal Accounting Policies

A. Basis of Reporting

The financial statements have been compiled on an accumulative basis. The Association adopts the principles set in Opinion 69 of the Institute of Certified Public Accountants in Israel and Standard no. 5 regarding accounting policy and the reporting practices of not-for-profit organizations.

B. Cash and Cash Equivalents

Cash and cash equivalents include cash and deposits for a period of up to three months at the time of deposit and which are not restricted in their withdrawals.

C. Net Assets

In the financial statements net assets are presented separately:

- a) Net assets for which there is no restriction:
 - for ongoing activity
 - designated by the Association's institutions
- b) Net assets for which there are restrictions of a temporary nature:
 - Assets that the use of which had been restricted by external factors.

The accompanying notes form an integral part of the financial statements.

Note 2 – Principal Accounting Policies (Contd.)

D. Linked Balances

Financial balances in and linked to foreign currencies were presented in accordance with the representative exchange rates published by the Bank of Israel on December 31, 2011 – US\$ 1 = NIS 3.8210 (on December 31, 2010 – US\$ 1 = NIS 3.549).

E. "Linked Parties" – as defined in Opinion no. 29 of the Institute of Certified Public Accountants in Israel.

F. Use of Estimates in the Preparation of Financial Statements

Preparation of financial statements in accordance with accepted accounting policies requires the management to use estimates and evaluations affecting the amounts of the assets and liabilities presented in the financial statements, the discovery regarding conditioned assets and pending liabilities for the dates of the financial statements and the sums of income and expenditure in the reported periods. The actual results might differ from these estimates.

G. Amendment 11 to the Associations Law of 1980

On January 24, 2008, amendment no. 11 to the Associations Law came into force. The amendment states that an association whose turnover exceeds NIS 300,000 should mention in its financial report whether or not it received donations from "foreign political entities" of an accumulated value exceeding NIS 20,000 during the year of the report.

The Association received donations from "foreign political entities" in the year covered by this report, as follows:

From the US Department of State, by means of USAID, NIS 105,846, for research.

Note 3 – Related Parties

3a) Kibbutz Ketura

The Arava Institute was established by members of Kibbutz Ketura and resides in the Kibbutz itself, which provides the Institute an extensive array of services, including among others, student catering, dormitory rental, laundry services, rental of offices and halls and the like. A number of Kibbutz members are employees of the Institute.

This relationship is anchored in various agreements subject to each of the services provided by the Kibbutz, therefore the suppliers' balance includes a balance of NIS 235,238 debt to Kibbutz Ketura due to these services. This amount constitutes a part of the liabilities to suppliers and service providers in the balance sheet.

The accompanying notes form an integral part of the financial statements.

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There is a further balance of advanced rent (NIS 564,802 as of December 31, 2011), 5, which results from the total investment of the institute in the office building, which sums up to NIS 1,129,301. This last amount is depreciated annually for 10 years in accordance with Income Tax Regulations, starting in 2007, during which time it was agreed by the parties that this investment shall constitute the rent for a period of 24 years. Furthermore, the Institute is paying monthly nominal rent fees on the land for the entire period.

Additionally, Kibbutz Ketura provides collateral in the amount of NIS 300,000 for the Arava Institute at Mizrahi Bank.

3b) "Arava Institute Research and Development, Ltd."

The Arava Institute holds full ownership of the subsidiary Arava Institute Research and Development Ltd.

The Arava Institute Research and Development Ltd. is a holding company, and it holds 50% of the stock of Arava EC&T Ltd, as well as 0.78% of Capital Nature Ltd., which invests in initiatives, research and development in the field of renewable energy.

This year equity losses of the subsidiary Arava EC&T Ltd. for the years 2009-2011 were included in the sum of NIS 53,340.

3c) Arava EC&T Ltd.

Arava EC&T is an implementation company, whereby Arava Institute Research and Development Ltd. is a 50% partner, and A3 Ltd. is a 50% partner. The company emerged from the vision of the Arava Institute and with full identification with its values. The company constitutes a connecting link between economics, environment and society, through three major channels of activity:

- Consultation and management of projects in the environmental field.
- Support and development of technological research on environmental issues and environmental technologies.
- Development of social awareness to environmental issues by means of legislation and media.

There is a debt for running costs of Arava EC&T Ltd. in the sum of NIS 130,646. Due to flow difficulties these were paid by the Arava Institute

3d) Global Sun Israel L.P.

The Arava Institute holds 1% of the partnership rights of Global Sun Israel Ltd. (Arava Power), a company for the development and production of solar energy.

Note 4 – Related Parties (in credit)

This sum is due to a loan from Kibbutz Ketura in the sum of NIS 600,000, provided on July 17, 2011. This loan will bear interest in the rate of prime and an addition of 1.75% and with the addition of VAT on the interest. The loan and interest will be payable by July 1, 2012, in 6 consecutive monthly installments starting on January 1, 2012 until June 30, 2012.

The accompanying notes form an integral part of the financial statements.

Note 5 – Accounts Receivable and Debit Balance

Composition

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS</u>	<u>NIS</u>
Prepaid expenses – advanced rent	564,802	677,702
Loans to students	36,034	62,041
Others	13,983	20,264
Total accounts receivable and debit balance	<u>614,819</u>	<u>760,007</u>

Note 6 – Fixed Assets

<u>Cost</u>	<u>Buildings and improvements</u>	<u>Computers</u>	<u>Furniture & Equipment</u>	<u>Vehicles</u>	<u>Total</u>
Balance as of January 1, 2011	2,655,366	674,848	851,856	123,490	4,305,560
Additions during the year	3,767	-	144,306	-	148,073
Subtractions during the year	(32,451)	(8,218)	-	-	(40,669)
Balance as of December 31, 2011	2,626,682	666,630	996,162	123,490	4,412,964
<u>Accumulated Depreciation</u>					
Balance as of January 1, 2011	203,365	469,036	491,210	29,089	1,192,700
Additions during the year	254,795	99,101	93,022	24,698	471,616
Subtractions during the year	-	-	(107,753)	-	(107,753)
Balance as of December 31, 2011	458,160	568,137	476,479	53,787	1,556,563
Depreciated Value as of December 31, 2011	2,168,522	98,493	519,683	69,703	<u>2,856,401</u>
Depreciated Value as of December 31, 2010	1,711,090	136,018	318,684	94,401	<u>2,260,193</u>

* Detailing of the fixed assets is available in the depreciation form.

The accompanying notes form an integral part of the financial statements.

Note 7 – Other Payables and Credit Balance

Composition:

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS</u>	<u>NIS</u>
Institutions (income tax, national insurance)	13,878	38,936
Employees due to salary	110,094	121,930
Expenses to pay	-	136,722
Students	2,003	10,616
Pension funds and Study funds	31,336	32,602
Credit cards	987	2,546
Total other payables and credit balance	158,298	343,352

Note 8 – Administrative and General Expenses

	<u>For year ending December 31</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS</u>	<u>NIS</u>
Salaries	916,906	837,376
Travel	54,440	144,671
Rent	123,962	128,789
Office and administration	38,180	52,801
Insurance	15,204	18,007
Mail & telephones	22,843	24,515
Advertising	-	53,482
Refreshments	4,212	27,360
Electricity & gas	24,871	27,667
Computing expenses	32,674	108,869
Taxes & charges	21,089	29,230
Maintenance and repairs	59,524	54,841
Literature & training courses	674	1,656
Sub-contractors, legal and consultants	16,302	60,616
Overseas travel	12,809	16,524
Participation of others in expenses	(638,313)	(668,492)
Miscellaneous	17,467	40,449
Depreciation expenses	224,884	300,901
Total administrative and general expenses	947,728	1,259,262

The accompanying notes form an integral part of the financial statements.

Note 9 – Financing Expenses

Composition:

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS</u>	<u>NIS</u>
Interest and commission	(59,491)	(5,547)
Bank commissions	(23,621)	(29,116)
Exchange rate differentials	(150,929)	(88,067)
Total financing expenses	<u>(234,041)</u>	<u>(122,730)</u>

Note 10 – Taxes on Income

Final assessments for the Association have not yet been produced since 2005.

Notification Regarding the Highest Salaried Employees of the Association in Accordance with Section 36(b) of the Associations Law, 1980

<u>Name of Employee</u>	<u>Position</u>	Total Gross Salary for <u>2011</u> <u>NIS</u>
Dorit Davidovich	Director of Renewable Energy Initiative	229,251
Tareq Abu Hamed	Director of Center for Renewable Energy	175,224
Clive Lipchin	Director of Water Resources Management Center	141,797
Elaine Solway	Director of Sustainable Agriculture Center	87,432
Gail Osman	Director of Resource Development	94,737

Board Member

Board Member

The Arava Institute for Environmental Studies (Registered Association)

List of Donors to the Association – Over NIS 20,000

<u>Name of Donor</u>	<u>Purpose of Donation</u>	<u>For Year Ending December 31 2011 NIS</u>
American Embassy	Research	528,781
Arison Family Foundation	Computer equipment	154,350
Beverly Fund	Alumni Project	43,292
Cohen Scholarships	Academic program	95,075
Friends of the Arava Institute (FAI)	Israel Ride + Overhead	1,170,218
Irmgard Baum Fund	Overhead + Academic program	429,246
Jewish Agency	Renewable Energy	243,873
JNF USA	Israel Ride + Overhead	911,663
Krieger Fund	Alumni Project	41,160
Merrin Family Foundation	Research	892,130
Oreg Foundation	Overhead	47,530
Pomegranate Fund	Overhead	40,740
The Ullmann Trust	Research	27,855

The accompanying notes form an integral part of the financial statements.