

The Arava Institute for Environmental Studies
(Registered Association)

Financial Statements

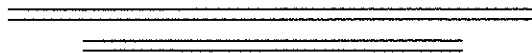
As of December 31, 2015

The Arava Institute for Environmental Studies (Registered Association)

Financial statements as of December 31, 2015

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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 financial statements of the **Arava Institute for Environmental Studies (Registered Association)** (hereinafter, "the Association") as of December 31, 2015 and 2014, and the related statements of activities, 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 substantial estimates made by the Association's Board of Directors and management, as well as an evaluation of the propriety of the entire financial statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements reflect appropriately, in all material aspects, the financial situation of the Association as of December 31, 2015 and 2014, the outcomes of its activities and the changes in net assets for each of the years then ended – in nominal values.

Marcovich Cohen
Certified Public Accountants

Tel Aviv
June 2016

Balance Sheet

<u>Assets</u>	<u>Note</u>	<u>December 31</u>	
		<u>2015</u> <u>ILS</u>	<u>2014</u> <u>ILS</u>
<u>Current Assets</u>			
Cash and cash equivalents		1,329,047	889,539
Chients		37,348	272,004
Receivables and debit balance	5	356,891	433,784
Grants and contributions receivable		1,202,772	1,144,686
Related parties	3C	135,146	135,146
Total current assets		3,061,204	2,875,159
<u>Fixed Assets</u>			
Net fixed assets	6	2,222,805	2,576,902
Total assets		5,284,009	5,452,061
<u>Liabilities and Net Assets</u>			
<u>Current Liabilities</u>			
Suppliers and service providers	3	228,436	501,696
Other payables and credit balances	7	407,052	330,011
Deferred grants and donations – scholarships		207,724	245,962
Deferred grants and donations – for projects		1,028,176	1,086,195
Related parties	3A,	368,807	471,429
Total current liabilities		2,240,195	2,635,293
<u>Long Term Liabilities</u>			
Reserve for employee severance pay		770,379	773,316
Reserve for subsidiary net losses		146,256	146,256
Loan from related parties and entities	4	611,776	781,777
Total long term liabilities		1,528,411	1,701,349
Total liabilities		3,768,606	4,336,642
<u>Net Assets</u>			
Unrestricted net assets			
Used for activities:			
not designated by NPO's institutions		(707,402)	(1,461,483)
Used for fixed assets		2,222,805	2,576,902
Temporarily restricted net assets			
Total net assets		1,515,403	1,115,419
Total liabilities and net assets		5,284,009	5,452,061

Noah Morris
Board Member

Moshe Falkoff
Board Member

Date of approval: June 21st 2016

Statement of Activities

		For year ending December 31	
	<u>Note</u>	2015 ILS	2014 ILS
<u>Revenue from Activities</u>			
Donations		3,118,733	2,842,051
Allocations, grants		3,312,481	2,780,342
Tuition fees		1,970,626	2,116,303
Income from provision of services		328,999	483,031
Total turnover		8,730,839	8,221,727
<u>Costs of Activities:</u>			
Salary and work costs		2,649,380	3,168,949
Project costs	<u>8</u>	4,353,609	3,787,100
Total cost of activities		7,002,989	6,956,049
Net income from activities		1,727,851	1,265,678
General & administrative expenses	<u>9</u>	1,465,956	1,336,737
Net income (expenses) before financing costs		261,895	(71,059)
Financing costs	<u>10</u>	(31,919)	(81,507)
Net income after financing costs		229,976	(152,566)
Other income and expenses		170,008	
Net income (expenses)		399,984	(152,566)
Share of the Association in subsidiary losses			(40,755)
Annual net surplus (deficit)		399,984	(193,321)

The Arava Institute for Environmental Studies (Registered Association)

Statements of Changes in Net Assets

	<u>Net Unrestricted Assets Not Designated by NPO's Institutions (ILS)</u>	<u>Used for Fixed Assets</u>	<u>Total</u>
Balance brought forward on January 1, 2014	(1,650,755)	2,959,495	1,308,740
Additions during the year:			
Deficit	(193,321)	-	(193,321)
Disposals during the year:			
Transfer of unrestricted amounts			
Used for fixed assets	75,840	(75,840)	
Amounts transferred to cover depreciation expenses	(458,433)	458,433	
	382,593	(382,593)	
Balance as at December 31, 2014	(1,461,483)	2,576,902	1,115,419
Additions during the year:			
Net Surplus for the year	399,984	-	399,984
Disposals during the year:			
Transfer of unrestricted amounts			
Used for fixed assets	126,965	(126,965)	
Amounts transferred to cover depreciation expenses	(481,062)	481,062	
	354,097	(354,097)	
Balance as of December 31, 2015	(707,402)	2,222,805	1,515,403

The Arava Institute for Environmental Studies (Registered Association)

	<u>For year ending</u> <u>December 31</u>	
	<u>2015</u>	<u>2014</u>
	<u>ILS</u>	<u>ILS</u>
<u>Cash Flow from Ongoing Activities</u>		
Net surplus (deficit) according to the Statement of Activities	399,984	(193,321)
<u>Adjustments needed for the presentation of cash flow from ongoing activities – Appendix A</u>		
Income and expenses unrelated to cash flows	(363,771)	582,422
Changes to assets and liabilities	48,669	(400,292)
Total adjustments needed for presentation of cash flow from ongoing activities – Appendix A	(315,102)	182,130
Total net cash resulting from ongoing activities	84,882	(11,191)
<u>Cash Flow from Investment Activities:</u>		
Acquisition of fixed assets	714,931	(75,840)
Investment in subsidiaries and related companies	-	40,755
Total net cash resulting from investment activities	714,931	(35,085)
<u>Cash Flow from Financing Activities:</u>		
Short term bank credit, net		(5,234)
Receipt (repayment) of long term loans	(170,001)	(402,472)
Receipt (repayment) of short term loans	(190,304)	393,906
Total net cash flow from financing activities	(360,305)	(13,800)
Increase (decrease) in cash and cash equivalent	439,508	(60,076)
Cash balance and cash equivalents at the beginning of the year	889,539	949,615
Cash balance and cash equivalents at the end of the year	1,329,047	889,539

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

	<u>For year ending December 31</u>	
	<u>2015</u>	<u>2014</u>
	<u>ILS</u>	<u>ILS</u>
<u>Income and Expenses Unrelated to Cash Flows:</u>		
Depreciation and amortization	(360,834)	464,996
Increase (decrease) in reserve for severance, net	(2,937)	117,426
	<u>(363,771)</u>	<u>582,422</u>
<u>Changes to assets and liabilities:</u>		
Decrease (increase) in grants and donations receivable	176,570	(470,242)
Decrease (increase) in accounts receivable and debit balance	118,361	55,317
Increase (decrease) in suppliers	(273,260)	(86,220)
Increase (decrease) in other payables and credit balances	164,723	107,382
Increase (decrease) in checks payable	(41,468)	(269,140)
Increase (decrease) in deferred grants and donations	(96,257)	262,611
Total changes to assets and liabilities	<u>48,669</u>	<u>(400,292)</u>
Total adjustments needed for presentation of cash flow from ongoing activities – Appendix A	<u>(315,102)</u>	<u>182,130</u>

The Arava Institute for Environmental Studies (Registered Association)

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 non-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 which are not restricted in their withdrawals.

C. Net Assets

In the financial statements net assets are presented separately:

- a) Unrestricted Net assets:
 - for ongoing activities
 - designated by the Association's institutions
- b) Temporarily restricted Net assets:
 - Assets whose use has been restricted by outside parties.

D. Linked Balances

Financial balances linked to foreign currencies were presented in accordance with the representative exchange rates published by the Bank of Israel on December 31, 2015 – US \$1 = ILS 3.902, €1 Euro = ILS 4.2468 and rates on December 31, 2014 - US \$1 = 3.889, €1 Euro = 4.7246

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

The preparation of financial statements in accordance with accepted accounting policies requires the management to use estimates and evaluations affecting the amounts of assets and liabilities as presented in the financial statements, and transparency regarding conditional assets and pending liabilities for the dates of the financial statements, and the amounts of income and expenditure in the reported periods. The actual results may differ from these estimates.

Note 2 – Principal Accounting Policies (Continued)

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 ILS 300,000 should note in its

The Arava Institute for Environmental Studies (Registered Association)

financial statements if it received donations from "foreign political entities" of an accumulated value exceeding ILS 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 USAID of the US Department of State, ILS 742,470, for research.

BACK TO BALANCE SHEET

Note 3 – Related Parties

3.1 Kibbutz Ketura

The Association was established by members of Kibbutz Ketura (hereinafter: the "Kibbutz") and is physically located on the Kibbutz, which provides the Association an array of services, including among others, student catering, dormitory rental, laundry services, rental of offices and halls, etc. A number of Kibbutz members are employed by the Association.

This relationship is anchored in various agreements for each of the services provided by the Kibbutz; therefore the suppliers' balance includes a debt balance of ILS 165,205 due to the Kibbutz for these services. This amount constitutes a part of the liabilities to suppliers and service providers in the balance sheet.

There is a further balance of prepaid rent (ILS 117,602 as of December 31, 2015), See Note 5, which results from the total investment of the Association in the office building, totaling ILS 1,129,301. This latter 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 Association is paying monthly nominal rent fees on the land for the entire period.

3.2 Arava Institute Research and Development, Ltd. (hereinafter: "R&D Company")

The Association has full ownership of its subsidiary R&D Company; the R&D Company is a holding company, and holds stock of 0.78% of Capital Nature Ltd., which invests in initiatives, research and development in the field of renewable energy.

Until 2015 the R&D Company held 50% of the stock of Arava EC&T Ltd. On June 21, 2015, an agreement was signed between Arava EC&T Ltd., the R&D Company and the Association. As per the agreement, the R&D Company divested itself of the said shares, with Arava EC&T Ltd committed to returning a debt of ILS 135,146 to the Association and ILS 28,460 to the R&D Company.

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3.3 Arava EC&T Ltd.

See Para 3.2

3.4 Global Sun Israel L.P.

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

BACK TO BALANCE SHEET

Note 4 – Loans from Related Parties

Kibbutz Ketura loaned a total of ILS 745,777 to the Association; the loan return agreement was signed on May 8th 2015.

A loan totaling \$50,000, was received in 2012 from a board member of the Friends of Arava Institute, USA, and was returned in full on January 19, 2016 (after the date of the Balance sheet). The shekel value of the loan on December 31, 2015 = ILS 203,601

BACK TO BALANCE SHEET

Note 5 – Accounts Receivable and Debit Balance

Composition

	<u>December 31</u>
	2015
	2014

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	<u>ILS</u>	<u>ILS</u>
Checks payable	120,851	79,383
Advances to suppliers	24,873	19,862
Prepaid expenses)	117,602	240,501
Gov't Authorities	36,120	36,120
Employees	9,666	-
Others	13,042	26,459
Student loans	34,737	31,459
Total accounts receivable and debit balance	<u>356,891</u>	<u>433,784</u>

BACK TO BALANCE SHEET
Note 6 – Fixed Assets

	As at 31 December			
	2015	2015	2015	2014
	<u>Cost</u> <u>ILS</u>	<u>Accumulated</u> <u>Depreciation</u> <u>ILS</u>	<u>Amortized Cost</u> <u>ILS</u>	<u>Amortized</u> <u>Cost</u> <u>ILS</u>
Building improvements	3,158,606	1,428,661	1,729,945	2,009,288
Computers	315,655	268,265	47,390	28,281
Furniture and equipment	476,910	210,330	266,580	281,096
Electronic equipment	672,573	493,683	178,890	258,237
Vehicles	123,490	123,490	-	
	<u>4,747,234</u>	<u>2,524,429</u>	<u>2,222,805</u>	2,576,902

- In 2015 the Association wrote off fixed assets which were fully depreciated and no longer used by the Association with an original cost of ILS 840,000.

BACK TO BALANCE SHEET

The Arava Institute for Environmental Studies (Registered Association)

Note 7 – Other Payables and Credit Balance

Composition:

	<u>December 31</u>	
	<u>2015</u> <u>ILS</u>	<u>2014</u> <u>ILS</u>
Payables	-	24,501
Advances from clients	52,060	33,753
Government Institutions	53,657	51,458
Employees	224,332	128,724
Students	41,057	29,460
Pension funds and Study funds	35,946	59,129
Miscellaneous		2,986
Total other payables and credit balance	<u>407,052</u>	<u>330,011</u>

BACK TO BALANCE SHEET

Note 8 – Project costs

BACK TO P&L

For year ending December 31

	<u>2015</u> <u>ILS</u>	<u>2014</u> <u>ILS</u>
Overhead expenses	903,635	845,696
Insurance	55,147	61,764
Mail & telephones	40,826	39,468
Computers	9,502	60,268
Electricity & gas	100,766	83,473
Fees	4,951	11,447
Travel	318,886	851,992
Overseas travel	155,696	89,935
Sub-contractors and Professional services	576,090	201,666
Miscellaneous	219,500	43,358
Courier services	-	114
Rent	206,140	153,325
Office expenses	68,248	24,993
Lecturers and instructors	204,762	96,155
Conferences and workshops	954,028	710,468
Refreshments and per diem expenses	146,761	88,530
Materials	388,198	253,468
Maintenance and repairs	53,930	104,617
Advertising and marketing	1,090	37,875
Financing expenses	(54,547)	28,488
Total project costs	<u>4,353,609</u>	<u>3,787,100</u>

Note 9 – Administrative and General Expenses

The Arava Institute for Environmental Studies (Registered Association)

For year ending December 31

	2015	2014
	<u>ILS</u>	<u>ILS</u>
Salaries and related benefits	808,571	854,062
Computers	66,586	63,725
Travel	79,958	72,285
Rent	141,209	136,907
Office expenses	40,216	36,711
Insurance	40,717	23,779
Mail & telephones	16,060	11,314
Mobile phone	14,509	7,729
Advertising & marketing	94,369	157,077
Refreshments	40,256	41,714
Electricity	48,187	44,817
Taxes & fees	57,203	50,920
Maintenance & repairs	17,517	
Literature & training courses	14,625	15,637
Subcontractors & consultants		6,608
Lab services	8,954	3,447
Fundraising	-	24,328
Legal expenses and account auditing	374,961	151,139
Overseas travel	11,660	27,719
Participation of others in expenses	(903,636)	(858,522)
Miscellaneous	10,471	1,155
Depreciation expenses	481,062	464,996
Total administrative and general expenses	<u>1,465,956</u>	<u>1,336,737</u>

BACK TO P&L

Note 10 – Financing Costs

	December 31	
	2015	2014
	<u>ILS</u>	<u>ILS</u>
Interest	(54,329)	(17,745)
Bank fees	(467)	(35,374)
Interest income	309	3,049
Exchange rate differences	22,568	(31,437)
Total Financing Costs	<u>(31,919)</u>	<u>(81,507)</u>

BACK TO P&L

The Arava Institute for Environmental Studies (Registered Association)

Note 12 – Taxes on Income

Final taxes assessments for the Association have not been assessed 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>ID number</u>	<u>Position</u>	Total Gross Salary for <u>2015</u> <u>ILS</u>
Lipkin, Clive	311688212	Head Researcher, Research Center	226,265
Lehrer, David	11139532	Executive Director	204,408
Solowey, Elaine	12990925	Head Researcher, Research Center	175,109
Granit, Katherine	321651697	Director of the Academic program	151,312
Mayo, Eliza	303812374	Director, Development Dept	148,251



Noah Morris
Board Member



Moshe Falkoff
Board Member

The Arava Institute for Environmental Studies (Registered Association)

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

<u>Name of Donor</u>	<u>Purpose of Donation</u>	<u>For Year Ending December 31, 2015</u>	<u>ILS</u>
JNF – USA	Research, Scholarships and Overhead		2,699,800
USAID	Research		742,470
JNF – USA	Ecopaths		673,225
FRIENDS OF THE ARAVA INSTITUTE	Ecopaths, Scholarships and Overhead		1,115,812
RUBINSTEIN FOUNDATION	Research		193,350
WYNGATE FOUNDATION	Academic Program		59,146
HANS SEIDEL FOUNDATION	Academic Program		49,917
UK TOREMET	Research		56,109

The Arava Institute for Environmental Studies (Registered Association)

For:
Marcovich – Cohen
Certified Public Accountants

To whom it may concern,

Re: Directors Declaration

In regard to the audit of our financial reports for the year which ended on December 31, 2015 which you have executed to assess that they indeed properly reflect, according to the accepted rules of accounting, the financial situation of the Association and the outcomes of the activities, we declare the following, to the best of our knowledge and belief:

General:

1. We are aware that the accuracy of the financial statements and their entirety is first and foremost our responsibility.
2. We have made available to you all the accounting books , related documentation and the protocols from Board Of Directors and management meetings which have been held to date.
3. If there were irregularities or faults in the Association's internal auditing which might have affected the financial statements, they were brought to your attention.
4. We have no plans liable to significantly affect the values or balance classification of assets and liabilities not expressed in our financial statements.
5. The Association is not involved in any legal suit, neither as a plaintiff, and there are no legal hearings which are liable to end with such a legal suit.
6. We understand that you have examined the records in the Association's accounting books, as well as other documentation, according to the methods and the scope which you saw fit, in order to provide an opinion regarding the financial reports, and we understand that this type of audit sampling does not always uncover irregularities as referred to in section 3 above.
7. It is clear to us that you cannot ensure that the reports to the tax authorities which you assist in preparing , including the tax adjustment report or consultations regarding taxation, will be unequivocally accepted by the authorities.
8. There were no incidents or issues taking place after the balance sheet date which might cause the financial statements to be significantly inaccurate or misleading.
9. All of the transactions were properly registered in the accounting books.

Assets:

10. All of the assets of the Association were properly included in the financial statements, and the Association possesses proper ownership documentation for all of its assets.
11. The Association's assets and any part thereof, on December 31, 2015, were not and are not mortgaged or allotted as a deposit to secure contract obligations or the like.
12. The balances of the checks for collection and the receivables on December 31, 2015 constitute valid claims from debtors. Sufficient sums have been set aside to cover losses which are liable to accumulate while these debts are being collected.
13. If there are limitations regarding the usage by the Association of cash balances in banks or other assets, this matter was brought to their attention.

Liabilities:

14. All of the direct liabilities of the Association, including dependent liabilities, were properly included in the financial statements.

The Arava Institute for Environmental Studies (Registered Association)

15. On December 31, 2015, the Association did not have unexecuted commitments for acquisitions which exceed the normal demand for consumption or at prices which significantly exceed market prices. In addition, the Association was not a party to rental contracts at prices which were significantly lower than the current rental prices. Where necessary, allocations for losses from such commitments were properly included in the financial statements.

Sincerely,



Noah Morris
Board Member



Moshe Falkoff
Board Member

