

THE FRIENDS OF THE ARAVA INSTITUTE, LTD
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

THE FRIENDS OF THE ARAVA INSTITUTE, LTD

FINANCIAL STATEMENTS

December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
The Friends of the Arava Institute, Ltd
Newton Centre, Massachusetts

Report on the Financial Statements

I have audited the accompanying financial statements of The Friends of the Arava Institute, Ltd., (FAI, a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, cash flows and functional expenses 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Friends of the Arava Institute, Ltd., as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

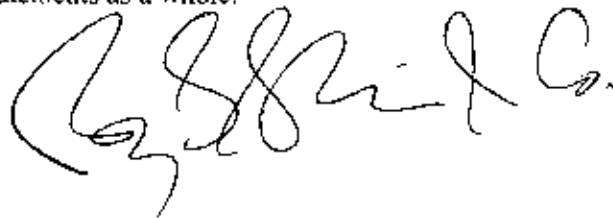
Prior Period Financial Statements

The financial statements of The Friends of the Arava Institute, Ltd., as of December 31, 2016, were audited by other auditors whose report dated October 26, 2017, expressed an unqualified opinion on those statements.

Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional expenses for the years ended December 31, 2017 and 2016, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the 2017 financial statements as a whole. The 2016 summarized comparative information in the schedule of functional expenses was subjected to auditing procedures applied in the audit of the 2016 basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2016 financial statements as a whole.

Sharon, Massachusetts
October 3, 2018



THE FRIENDS OF THE ARAVA INSTITUTE, LTD
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

ASSETS:	<u>2017</u>	<u>2016</u>
Cash and cash equivalents (Note 1)	\$ 2,539,952	\$ 719,124
Contributions receivable (Note 1)	106,676	184,932
Cash savings for operations (Note 1)	250,816	250,665
Prepaid and other expenses	8,656	11,533
Property and equipment, net (Notes 1 and 4)	2,417	3,417
Security deposit	7,390	4,775
Beneficial Interest in Assets held by Trustee (Notes 1, 5 and 6)	741,724	676,000
TOTAL ASSETS	<u>\$ 3,657,631</u>	<u>\$ 1,850,446</u>
LIABILITIES:		
Accounts payable and accrued expenses	194,527	\$ 209,275
Grants payable	185,047	-
Due to AIFS for tuition (Note 12)	49,567	61,569
Deferred revenue (Note 1)	56,507	33,060
TOTAL LIABILITIES	<u>485,648</u>	<u>303,904</u>
NET ASSETS:		
Unrestricted (Note 1)	247,335	652,542
Temporarily restricted (Notes 1 and 10)	2,182,924	218,000
Permanently restricted (Notes 1, 5 and 10)	741,724	676,000
TOTAL NET ASSETS	<u>3,171,983</u>	<u>1,546,542</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,657,631</u>	<u>\$ 1,850,446</u>

The accompanying notes are an integral part of these financial statements.

THE FRIENDS OF THE ARAVA INSTITUTE, LTD
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

CHANGES IN UNRESTRICTED NET ASSETS:

REVENUE AND SUPPORT:

	<u>2017</u>	<u>2016</u>
Contributions	\$ 456,822	\$ 664,708
Foundations	10,500	105,895
Other income	83,530	6,568
Rental income	11,000	-
Interest income	523	302
	562,377	777,473

Special event revenue	914,799	977,912
Less: cost of event	665,799	572,111
	249,000	405,801

TOTAL UNRESTRICTED REVENUE AND SUPPORT	811,377	1,183,274
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Net assets released from restricted accounts	224,124	186,000
TOTAL UNRESTRICTED REVENUE AND OTHER SUPPORT	1,035,501	1,369,274

EXPENSES:

Program services	1,049,543	739,084
Fundraising	201,708	205,470
Administrative and general	189,457	231,467
TOTAL FUNCTIONAL EXPENSES	1,440,708	1,176,021

(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(405,207)	193,253
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CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:

Contributions	2,189,048	182,000
Net assets released from restrictions	(224,124)	(186,000)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	1,964,924	(4,000)

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:

Unrealized gains	65,724	76,000
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	65,724	76,000

INCREASE IN NET ASSETS	1,625,441	265,253
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NET ASSETS, beginning of year	1,546,542	1,281,289
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NET ASSETS, end of year	\$ 3,171,983	\$ 1,546,542
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The accompanying notes are an integral part of these financial statements.

THE FRIENDS OF THE ARAVA INSTITUTE, LTD
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2017</u>	<u>2016</u>
Increase in net assets	\$ 1,625,441	\$ 265,253
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	1,000	1,758
Unrealized gain on investments	(65,724)	(76,000)
Decrease (increase) in contributions receivable	78,256	(59,935)
Decrease (increase) in prepaid expenses	2,877	(11,533)
Increase in security deposit	(2,615)	(500)
Decrease in accounts payable and accrued expenses	(14,748)	(41,555)
Increase in grants payable	185,047	-
Decrease in due to AIES for tuition	(12,002)	-
Increase (decrease) in deferred revenue	23,447	(1,122)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,820,979</u>	<u>76,366</u>
 CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Savings for operations	<u>(151)</u>	<u>499,729</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(151)</u>	<u>499,729</u>
 INCREASE IN CASH	1,820,828	576,095
 CASH AND CASH EQUIVALENTS, beginning of year	<u>719,124</u>	<u>143,029</u>
 CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,539,952</u>	<u>\$ 719,124</u>

Additional information:

The Organization incurred and paid no interest or taxes during the years ended June 30, 2017 and 2016.

The accompanying notes are an integral part of these financial statements.

THE FRIENDS OF THE ARAYA INSTITUTE, LTD
STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017				2016
	Program Services	Fundraising	Administrative and General	Total	Total
EXPENSES:					
Advertising and promotion	\$ 1,446	\$ 644	\$ 624	\$ 2,714	\$ 48,770
Conferences, conventions and meetings	30,211	14,179	12,633	57,023	-
Consulting	-	-	-	-	141,539
Depreciation expense	533	237	230	1,000	1,758
Fundraising event expenses	-	-	-	-	13,940
Grants - AIES	301,349	-	-	301,349	55,796
Grants - Hazon	144,243	-	-	144,243	170,023
Grants - Econet	187,500	-	-	187,500	-
Information technology	8,510	3,789	3,671	15,970	18,859
Insurance	-	-	2,604	2,604	2,343
Miscellaneous	1,252	1,539	2,664	5,455	-
Occupancy	31,736	14,130	13,691	59,557	45,542
Office expenses	14,943	6,653	7,286	28,882	15,777
Personnel - salaries and wages	227,029	101,080	97,940	426,049	446,775
- payroll taxes and benefits	27,914	12,428	12,042	52,384	58,921
Professional fees	2,223	1,502	28,744	32,469	11,255
Taxes and fees	-	-	2,238	2,238	2,599
Travel	70,654	45,527	5,090	121,271	142,124
TOTAL EXPENSES	\$ 1,049,543	\$ 201,708	\$ 189,457	\$ 1,440,708	\$ 1,176,021

The accompanying notes are an integral part of these financial statements.

THE FRIENDS OF THE ARAVA INSTITUTE, LTD.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

The Friends of the Arava Institute, Ltd., (the "Organization"), is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Formerly known as Machon Ha Arava North America, Ltd., the Organization legally changed its name in 2007. The Organization's goal is to provide scholarship and general support to the Arava Institute for Environmental Studies located on Kibbutz Ketura, Israel and is supported primarily through donor contributions, grants, and special events.

Basis of Accounting and Use of Estimates:

The financial statements are prepared under the accrual basis of accounting. The accrual basis of accounting records revenue in the period in which it is earned and records expenses in the period in which they are incurred. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may vary from those estimates.

Cash and Cash Equivalents:

For the purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The balances in the accounts may exceed the Federally-insured limits from time to time.

Contributed Services:

The Organization receives a substantial amount of services donated by unpaid volunteer officers and committees for the purposes of carrying out its functions. The value of this contributed time is not reflected in the accompanying financial statements since the donated time does not meet the criteria for recognition.

Restricted and Unrestricted Revenue:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Property and Equipment:

Property and equipment is carried at cost or, if donated, at fair value at the date of donation. Major items and betterments over \$1,000 are capitalized; minor items and repairs are expensed as incurred. Depreciation is calculated on the straight-line basis over the estimated useful lives of the respective assets.

Deferred Revenue:

Deferred revenue results from recognizing special event registration fees in the period in which the related special event is performed. Accordingly, special event registration fees received for the subsequent year are deferred until the instruction commences.

Advertising Costs:

Advertising costs incurred in the production and printing of the Organization's literature are charged to expense as incurred.

Revenue Recognition:

Contributions are recognized when the funds are received or, in the case of pledges, when the donor makes an unconditional promise to give to The Friends of the Arava Institute, Ltd.

Basis of Presentation:

The Organization reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence of absence of restrictions on use that are placed by its donors: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are resources available to support operations. Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are reported in this class if the donor limited their use, as are promised contributions that are not yet due. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets in the Statement of Activities as net assets released from restrictions. Permanently restricted net assets are resources whose use is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The Organization is committed to maintaining in this net asset class the beneficial interest in a perpetual charitable trust held by a bank as trustee.

2. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates made by management.

3. LEASE OBLIGATION

The Organization rents its premises for its office space located in Newton Centre, Massachusetts, under a six-year lease commenced on May 1, 2017. Rent is payable in monthly installments, initially \$3,455.25, with annual escalator adjustments. Rent expense for the year ended December 31, 2017, was \$47,075.

Minimum annual obligations under this lease are as follows for years ended December 31:

2018	\$ 43,631
2019	45,799
2020	47,425
2021	49,051
2022	50,677
2023	<u>17,073</u>
	<u>\$ 253,656</u>

In 2017, the Organization and an unrelated third party entered into a one-year sublease of part of its facility for \$1,000 per month.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Computers and equipment	\$ 12,575	\$ 12,575
Less: accumulated depreciation	<u>(10,158)</u>	<u>(9,158)</u>
Property and equipment, net	<u>\$ 2,417</u>	<u>\$ 3,417</u>

5. BENEFICIAL INTEREST IN ASSETS HELD BY TRUSTEES

The Organization is the beneficiary of trust accounts held in perpetuity by a trustee with no financial relationship and is entitled to a portion of the annual distributions. The Organization received \$30,000 and \$31,342 of distributions from the trust during the years ended December 31, 2017 and 2016, respectively. Distributions from this trust are available for general use by the Organization, however, all funds received must be used within the United States or its possessions.

6. FAIR VALUE MEASUREMENT

Fair value measurements are determined based on the assumptions, referred to as "inputs", that market participants would use in pricing the asset or liability. Fair value standards require an entity to maximize the use of observable inputs (such as appraisals or valuation techniques) to determine fair value. The Organization reports its investments using the net asset value per share as determined by investment managers under the so-called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require the Organization to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with the net asset value practical expedient rules which allow for either a Level 2 or Level 3 classification depending on lock up and notice periods associated with the underlying funds. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 also includes investments reported at net asset value per share with lock up periods of 90 days or less.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also includes investments reported at net asset value per share with lock up periods in excess of 90 days.

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used as of December 31, 2017 and 2016.

Beneficial Interest – valued at the closing price reported for similar assets in the markets that are not active.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The 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. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities.

The following tables set forth, by level, the Organization's investments at fair value, within the fair value hierarchy, as of December 31, 2017 and 2016:

Fair Value Measurements at Reporting Date Using

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	<u>Total</u>
December 31, 2017					
Beneficial Interest	\$ 741,724	-	\$ 741,724	-	\$ 741,724
December 31, 2016					
Beneficial Interest	\$ 676,000	-	\$ 676,000	-	\$ 676,000

All assets have been valued using a market approach, except for Level 3 assets. Level 3 assets are valued using the income approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. Fair values for assets in Level 3 are calculated using assumptions about discounted cash flow and other present value techniques. There were no changes in the valuation techniques during the years ended December 31, 2017 and 2016.

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended December 31, 2017 and 2016, there were no transfers into or out of Levels 1, 2 or 3.

7. OTHER ORGANIZATIONAL ACTIVITIES

The Friends of the Arava Institute (FAI) has an agreement with a National Fundraising Organization to provide direct support for the Arava Institute for Environmental Studies (AIES). This agreement provides that

FAI provide direct and indirect support to this organization to solicit donors who direct the contribution to the AIES through this Organization. That organization makes distributions to the AIES. Certain charitable foundations and other organizations elect to make direct donations to AIES in a similar manner. FAI provides direct and indirect support to facilitate these donations.

8. RETIREMENT PLAN

Effective April 1, 2017, the Organization adapted a defined-contribution retirement plan under Section 403(b) of the Internal Revenue Code covering all eligible employees. Employees may contribute a percentage of their eligible gross wages to the plan. The Organization does not contribute to the plan.

9. CONCENTRATIONS OF CREDIT RISK AND MAJOR DONORS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents in financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization, however, generally exceeds this insured maximum, but does not deem the credit risk to be significant due to the nature and size of the institution.

10. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available as of December 31, 2017, for the following purposes:

Support designated for future periods	\$ 2,040,000
Student scholarships	81,376
Track II Forum 2018	46,548
Solar powered desalination technology	<u>15,000</u>
	<u>\$ 2,182,924</u>

Temporarily restricted net assets of \$224,124 were released from restrictions for general operations during the year ended December 31, 2017.

Permanently restricted net assets are available as of December 31, 2017, for the following purposes:

General Operations – Beneficial Interest in Assets Held by Trustees	<u>\$ 741,724</u>
	<u>\$ 741,724</u>

Permanently restricted net assets were increased by unrealized gains of \$65,724 during the year ended December 31, 2017.

Temporarily restricted net assets were available as of December 31, 2016, for the following purposes:

Solar powered Desalination Technology	15,000
Support Designated for Future Period	<u>203,000</u>
	<u>\$ 218,000</u>

Temporarily restricted net assets of \$186,000 were released from restrictions for general operations during the year ended December 31, 2016.

Permanently restricted net assets were available as of December 31, 2016, for the following purposes:

General Operations – Beneficial Interest in Assets Held by Trustees	<u>\$ 676,000</u>
	<u>\$ 676,000</u>

Permanently restricted net assets were increased by unrealized gains of \$76,000 during the year ended December 31, 2016.

11. INCOME TAXES

The Friends of the Arava Institute, Ltd, is a not-for-profit organization exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3). The Organization's Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the Internal Revenue Service, generally for three years after filing. The Organization is also exempt from state taxes under applicable state laws.

12. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 3, 2018, the date which the financial statements were available to be issued. No events occurred during that time which require disclosure in these financial statements.