

The Arava Institute for Environmental Studies
(Registered Association)

Financial Statements

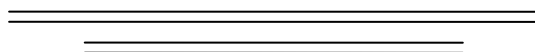
As of December 31, 2014

The Arava Institute for Environmental Studies (Registered Association)

Financial statements as of December 31, 2014

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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, 2014 and 2013, 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, 2014 and 2013, 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 2015

Balance Sheet

		December 31	
	Note	2014	2013
Assets		NIS	NIS
<u>Current Assets</u>			
Cash and cash equivalents		889,539	949,615
Grants and donations receivable		1,144,686	430,927
Clients		272,530	551,510
Related parties	3A , 3C	135,146	135,146
Receivable and debit balance	5	434,697	409,718
Total current assets		2,876,598	2,476,916
<u>Fixed Assets</u>			
Fixed assets, cost	6	5,462,165	5,392,913
Accumulated depreciation		2,885,263	2,426,855
Net fixed assets		2,576,902	2,966,058
Total assets		5,453,500	5,442,974
<u>Liabilities and Net Assets</u>			
<u>Current Liabilities</u>			
Checks payable		-	269,140
Suppliers and service providers	3	501,696	508,533
Deferred grants and donations – scholarships		245,962	19,826
Deferred grants and donations – for projects		1,086,195	1,049,721
Related parties		471,429	10,432
Other payables and credit balances	7	331,450	294,954
Total current liabilities		2,636,732	2,152,605
<u>Long Term Liabilities</u>			
Reserve for subsidiary net losses		146,256	105,501
Reserve for employee severance pay.		773,316	655,890
Loan from related parties and entities	4	781,777	1,184,249
Total long term liabilities		1,701,349	1,945,640
Total liabilities		4,338,081	4,098,245
<u>Net Assets</u>			
Unrestricted net assets			
Used for activities:			
not designated by NPO's institutions		(1,461,483)	(1,650,755)
Used for fixed assets		2,576,902	2,966,058
Temporarily restricted net assets			
Total net assets		1,115,419	1,308,740
Total liabilities and net assets		5,453,500	5,442,974

Miriam Segal –
Board Member

----- Glen Pagelson – -----
Board Member

Date of approval: June 24th 2015

Statement of Activities

		For year ending December 31	
	<u>Note</u>	2014 <u>NIS</u>	2013 <u>NIS</u>
<u>Revenue from Activities</u>			
Donations		2,842,050	2,406,491
Tuition fees		2,116,303	1,855,283
Allocations, grants		2,780,342	3,798,790
Income from provision of services		483,031	162,769
Income from cash equivalents		-	118,680
Total turnover		8,221,726	8,342,013
<u>Costs of Activities:</u>			
Salary and work costs		3,263,924	2,559,799
Project costs	8	3,692,125	3,666,409
Total cost of activities		6,956,049	6,226,208
Net income from activities		1,265,678	2,115,805
General & administrative expenses	<u>9</u>	<u>(1,336,737)</u>	<u>(1,376,103)</u>
Net income (expenses) before financing costs		<u>(71,059)</u>	<u>739,702</u>
Financing costs	10	(81,507)	(93,377)
Net income		<u>(152,566)</u>	646,325
Share of the Association in subsidiary losses	3.2	(40,755)	2,373
Annual net surplus (deficit)		<u>(193,321)</u>	<u>648,698</u>

The Arava Institute for Environmental Studies (Registered Association)

Statements of Changes in Net Assets

	<u>Net Unrestricted Assets Not Designated by NPO's Institutions (NIS)</u>	<u>Used for Fixed Assets</u>	<u>Total</u>
Balance brought forward on January 1, 2013	<u>(2,501,210)</u>	<u>3,167,815</u>	<u>660,042</u>
Additions during the year:			
Net annual revenues	648,698		648,698
Disposals during the year:			
Transfer of unrestricted amounts			
Used for fixed assets	(253,996)	253,996	
Amounts transferred to cover depreciation expenses	455,753	(455,753)	
	<u>201,757</u>	<u>(201,757)</u>	
Balance as at December 31, 2013	<u>(1,650,755)</u>	<u>2,966,058</u>	<u>1,308,740</u>
Additions during the year:			
Deficit for the year	(193,321)		(193,321)
Disposals during the year:			
Used for fixed assets	(75,840)	75,840	
Amounts transferred to cover depreciation expenses	458,433	(458,433)	
	<u>382,593</u>	<u>(382,593)</u>	
Balance as of December 31, 2014	<u>(1,461,483)</u>	<u>2,576,902</u>	<u>1,115,419</u>

The Arava Institute for Environmental Studies (Registered Association)

	<u>For year ending</u>	
	<u>December 31</u>	
	2014	2013
	<u>NIS</u>	<u>NIS</u>
<u>Cash Flow from Ongoing Activities</u>		
Net surplus (deficit) according to the Statement of Activities	(193,321)	648,698
<hr/>		
<u>Adjustments needed for the presentation of cash flow from ongoing activities – Appendix A</u>		
Income and expenses unrelated to cash flows	582,422	455,752
Changes to assets and liabilities	(400,292)	242,146
Total adjustments needed for presentation of cash flow from ongoing activities – Appendix A	182,130	697,898
<hr/>		
Total net cash resulting from ongoing activities	(11,191)	1,346,596
<u>Cash Flow from Investment Activities:</u>		
Acquisition of fixed assets	(75,840)	(253,996)
Investment in subsidiaries and related companies	40,755	2,897
<hr/>		
Total net cash resulting from investment activities	(35,085)	(256,893)
<u>Cash Flow from Financing Activities:</u>		
Short term bank credit, net	(5,234)	130,777
Receipt (repayment) of long term loans	(402,472)	5,757
Receipt (repayment) of short term loans	393,906	(33,611)
Total net cash flow from financing activities	(13,800)	(158,631)
<hr/>		
Increase (decrease) in cash and cash equivalent	(60,076)	931,072
Cash balance and cash equivalents at the beginning of the year	949,615	18,543
<hr/>		
Cash balance and cash equivalents at the end of the year	889,539	949,615
<hr style="border-top: 1px dashed black;"/>		

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

	<u>For year ending December 31</u>	
	<u>2014</u>	<u>2013</u>
	<u>NIS</u>	<u>NIS</u>
<u>Income and Expenses Unrelated to Cash Flows:</u>		
Depreciation and amortization	464,996	455,752
Increase in reserve for severance, net
	582,422	1,111,642

<u>Changes to assets and liabilities:</u>		
Decrease (increase) in grants and donations receivable	(470,768)	322,541
Decrease (increase) in accounts receivable and debit balance	54,404	122,909
Increase (decrease) in suppliers	(86,220)	(213,900)
Increase (decrease) in other payables and credit balances	108,821	30,055
Increase (decrease) in checks payable	(269,140)	82,401
Increase (decrease) in deferred grants and donations	262,611	(753,380)
Total changes to assets and liabilities	(400,292)	(409,375)

Total adjustments needed for presentation of cash flow from ongoing activities – Appendix A	697,898

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, 2014 – US \$1 = NIS 3.889, €1 Euro = NIS 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 NIS 300,000 should note in its financial statements if 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 USAID of the US Department of State, NIS 904,650, for research.

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Note 3 – Related Parties

3.1 Kibbutz Ketura

The Association was established by members of Kibbutz Ketura (hereinafter: the "Kibbutz") and is physically located in the Kibbutz, which provides the Association an extensive array of services, including among others, student catering, dormitory rental, laundry services, rental of offices and halls, etc. A number of Kibbutz members are employees of 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 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 (NIS 226,102 as of December 31, 2014), See Note 5, which results from the total investment of the Association in the office building, totaling NIS 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 the subsidiary R&D Company, which is a holding company, and which owns 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 year 2014 were included totaling NIS 40,775. The cumulative amount of equity losses is NIS 146,256.

On April 28, 2015, a draft agreement was drawn between Arava EC&T Ltd. and the R&D Company and the Association. The agreement sets forth that The R&D Company is selling its shares to Arava EC&T Ltd. (see also Note 13 regarding events after the date of the balance sheet).

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3.3 Arava EC&T Ltd.

Arava EC&T is a business firm, with the R&D Company a 50% partner, and A3 Ltd. a 50% partner. The company emerged from the vision of the Arava Institute with full identification with its values.

Arava EC&T has a debt to the Association of NIS 135,146 for running costs in 2010-2011, which due to cashflow difficulties, were paid by the Association. In addition, Arava EC&T Ltd. owes the R&D Company the sum of NIS 28,460 ([see Note 13](#) regarding events after the balance sheet date).

The Arava Institute for Environmental Studies (Registered Association)

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. [See Note 13](#) regarding events after the balance sheet date).

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Note 4 – Loans from Related Parties

Kibbutz Ketura loaned a total of NIS 745,777 to the Association; the loan return agreement was signed in 2015, [see Note 13.2](#) regarding events after the balance sheet date.

An additional loan totaling \$100,000 was received from board members of the Friends of Arava Institute , USA. The Association pays annual interest at the prime rate in the US + 3%.

One loan of NIS \$50,000 was fully paid on January 12, 2015.

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Note 5 – Accounts Receivable and Debit Balance

Composition

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
	<u>NIS</u>	<u>NIS</u>
Checks payable	79,383	-
Advances to suppliers	19,862	-
Prepaid expenses (rent)	240,502	343,401
Student loans	32,371	30,579
Others	26,459	11,020
Gov't Authorities	36,120	24,718
	<u>434,697</u>	<u>409,718</u>
Total accounts receivable and debit balance	434,697	409,718

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Note 6 – Fixed Assets

	<u>As at 31 December</u>			
	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Accumulated</u>	<u>Amortized Cost</u>	<u>Amortized</u>
	<u>NIS</u>	<u>Depreciation</u>	<u>NIS</u>	<u>Cost NIS</u>
		<u>NIS</u>		
Building improvements	3,247,373	1,238,085	2,009,288	1,360,200
Computers	750,966	722,685	28,281	57,922
Furniture and equipment	559,226	278,130	281,096	604,410
Electronic equipment	781,110	522,873	258,237	923,219
Vehicles	123,490	123,490	-	20,307
	<u>5,462,165</u>	<u>2,885,263</u>	<u>2,576,902</u>	<u>2,966,058</u>

* Details of the fixed assets are available on the depreciation form.

[BACK TO BALANCE SHEET](#)

Note 7 – Other Payables and Credit Balance

Composition:

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
	<u>NIS</u>	<u>NIS</u>
Government Institutions	51,458	23,684
Employees due to salary	128,724	78,103
Advances from clients	33,753	25,195
Students	30,899	41,739
Pension funds and Study funds	59,129	47,432
Credit cards	-	5,234
Payables	24,501	70,581
Miscellaneous	2,986	2,986
	<hr/>	<hr/>
Total other payables and credit balance	331,450	294,954

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Note 8 – Project costs

	<u>For year ending December 31</u>	
	<u>2014</u>	<u>2013</u>
	<u>NIS</u>	<u>NIS</u>
Overhead expenses	845,696	608,393
Insurance	61,764	51,167
Mail & telephones	39,468	35,942
Computers	60,268	40,484
Electricity & gas	83,473	69,903
Fees	11,447	8,937
Travel	851,992	829,136
Overseas travel	89,935	24,532
Literature & training courses	-	1,304
Sub-contractors and consultants	201,666	556,782
Miscellaneous	43,358	32,826
Courier services	114	1,624
Rent	153,325	256,316
Office and management expenses	24,993	41,537
Lecturers and instructors	1,180	224,862
Conferences and workshops	710,468	557,866
Refreshments and per diem expenses	88,530	16,083
Materials	253,468	179,685
Maintenance and repairs	104,617	43,002
Advertising and marketing	37,875	75,972
Financing expenses	28,488	4,020
	<hr/>	<hr/>
Total project costs	3,692,125	3,666,409

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Note 9 – Administrative and General Expenses

	<u>For year ending December 31</u>	
	<u>2014</u>	<u>2013</u>
	<u>NIS</u>	<u>NIS</u>
Salaries and related benefits	854,062	818,530
Computers	63,725	57,795
Travel	72,285	49,106
Rent	136,097	101,291
Office and management expenses	36,711	65,070
Insurance	23,779	22,037
Mail & telephones	11,314	2,374
Mobile phone	7,729	11,950
Advertising & marketing	157,077	152,185
Refreshments	41,714	14,601
Electricity	44,817	20,524
Taxes & fees	50,920	4,601
Maintenance & repairs	-	10,172
Literature & training courses	15,637	19,749
Subcontractors & consultants	6,608	7,055
Lab services	3,447	-
Fundraising	24,328	-
Legal expenses and account auditing	151,139	110,821
Overseas travel	27,719	17,899
Participation of others in expenses	(858,522)	(620,873)
Miscellaneous	1,155	55,464
Depreciation expenses	464,996	455,752
	<hr/>	<hr/>
Total administrative and general expenses	1,336,737	1,376,103

[BACK TO P&L](#)

Note 10 – Financing Costs

Composition:

	<u>December 31</u>	
	<u>2014</u>	<u>2013</u>
	<u>NIS</u>	<u>NIS</u>
Interest	(17,745)	(69,929)
Bank fees	(35,374)	(45,072)
Interest income	3,049	-
Exchange rate differences	(31,437)	21,624
Total Financing Costs	<hr/> <u>(81,507)</u>	<hr/> <u>(93,377)</u>

[BACK TO P&L](#)

Note 12 – Taxes on Income

Final taxes assessments for the Association have not been assessed since 2005.

Note 13 – Events After the Balance Sheet date

13.1 Sale of Shares in Arava EC&T Ltd.

After the balance sheet date, a draft agreement was drawn between the Association (hereinafter: “the **Association**”) and the Arava Institute of Research and Development Ltd. (hereinafter: “the **R&D Company**”) on one side, and Arava EC&T Ltd. (hereinafter: the “Company”) on the other side. The R&D Company, an entity under the Association’s full ownership, holds shares which constitute 50% of the share capital issued and repaid by the Company. The Association and the R&D Company are no longer interested in possessing holdings in the Company and therefore intend to transfer the shares to the Company. The Company is interested in receiving the holdings of the R&D Company and returning the loan balances to it. The primary loan returns are as follows:

- A. As of the date of the draft agreement, the Company owes the R&D Company a total of NIS 28,460. In addition, the Company owes the Association NIS 135,146 (hereinafter jointly: “the Loans”).
- B. The Loans balance will be linked to the consumer price index beginning from the date of the signing of this agreement, while the base index is the final index known on the date of the signing of this agreement.
- C. The Loans balance will incur a fixed annual interest at a rate of 3%, calculated annually.
- D. The Loans will be repaid in equal quarterly payments of NIS 3,000 principal and interest on the first day of every calendar quarter, until the entire Loans balance has been repaid.

13.2 Loan Agreement with Kibbutz Ketura

After the balance sheet date, an agreement was reached between Kibbutz Ketura (hereinafter: “the Kibbutz”) on one side and the Association (hereinafter: “the Association”) on the other side, regarding a loan given by the Kibbutz to the Association in 2012 for a total of NIS 745,777. The terms of the loan and the repayment were agreed upon as follows:

- A. The loan will bear interest at a rate of 4% per year, beginning from January 1, 2015, for any unpaid amount of the loan, until it is paid.
- B. The Association commits to repay the Kibbutz the principal of the loan and the interest in 10 annual, consecutive payments beginning from December 31, 2020.
- C. Beginning from the date of the signing of the agreement, all of the amounts that applied orally due to the loan between the Association and the Kibbutz are null and void. This includes encumbrance of the rights in the Global Sun Israel Ltd. (Arava Power) partnership, regarding rights previously pledged to Kibbutz Ketura for the loan given to the Association by the Kibbutz.

The Arava Institute for Environmental Studies (Registered Association)

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 2014 <u>NIS</u>
Lipkin, Clive	311688212	Head Researcher, Research Center	229,588
Lehrer, David	11139532	CEO	186,413
Mayo, Eliza	303812374	Director of the Development Dept.	158,744
Solowey, Elaine	12990925	Head Researcher, Research Center	147,696
Nusinov, Uri	17694860	Financial Director	143,220

**Miriam Segal –
Board Member**

**Glen Pagelson –
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>NIS</u>
JNF – USA	Environment + Scholarships + Overhead	1,577,503
USAID	Research and Education	944,514
JNF – USA	Environmental	540,307
F.A.I. LTD.	Environment + Scholarships + Overhead	447,181
The European Commission	Research	359,442
Rubinstein Foundation	Research	172,500
US Institute for Peace	Education	146,401
The Osprey Foundation	Research	113,322
Hans Seidel Foundation	Academic Program	97,306
Cathy Myrowitz	Alumni Program	70,460
Paul Schiller Foundation	Academic Program	47,323
Alfred Akirov – Australian Wool Industries Ltd.	Overhead	25,000
		4,541,259

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, 2014 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, 2014, 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, 2014 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.

The Arava Institute for Environmental Studies (Registered Association)

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.

15. On December 31, 2014, 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,

**Miriam Segal –
Board Member**

**Glen Pagelson –
Board Member**