THE FRIENDS OF THE ARAVA INSTITUTE, LTD

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

THE FRIENDS OF THE ARAVA INSTITUTE, LTD

FINANCIAL STATEMENTS
December 31, 2019 and 2018

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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 statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the years 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 audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sharon, Massachusetts
October 28, 2020

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

DECEMBER 31, 2019 AND 2018

		2019		2018
ASSETS:				
Cash and cash equivalents (Note 1)	$	648,641	$	1,451,039
Investments (Notes 1 & 5)		1,317,728		1,513,893
Contributions receivable (Note 1)		205,000		71,443
Accounts receivable		32,947		66,177
Prepaid and other		86,076		14,303
Property and equipment, net (Notes 1 & 4)		417		1,417
Security deposit		7,390		7,390
Beneficial Interest in Assets held by Trustee (Notes 1 & 6)		744,519		661,716
TOTAL ASSETS	$	3,042,718	$	3,787,378
LIABILITIES:				
Accounts payable and accrued expenses	$	181,295	$	431,024
Grants payable		79,869		58,500
Due to AIES for tuition (Note 7)		67,360		76,598
Deferred revenue (Note 1)		86,558		88,845
TOTAL LIABILITIES		415,082		654,967
NET ASSETS:				
Without donor restrictions (Note 1)		541,787		667,139
With donor restrictions (Notes 1, 6 & 10)		2,085,849		2,465,272
TOTAL NET ASSETS		2,627,636		3,132,411
TOTAL LIABILITIES AND NET ASSETS	$	3,042,718	$	3,787,378

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, 2019 AND 2018

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUE AND GAINS:	2019	2018
Contributions	$ 633,862	$ 589,960
Other income	14,692	15,886
Rental income	18,600	16,500
Investment income	37,763	20,175
Interest income	209	485
Unrealized gain (loss)	16,258	(6,282)
	721,384	636,724
Special event revenue	979,491	1,274,003
Less: cost of event	775,251	895,517
	204,240	378,486
TOTAL REVENUE AND GAINS WITHOUT DONOR RESTRICTIONS	925,624	1,015,210
Net assets released from restricted accounts	1,110,565	621,548
TOTAL REVENUE, GAINS AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	2,036,189	1,636,758
EXPENSES:		
Program services	1,598,594	854,875
Fundraising	332,774	205,339
Administrative and general	230,173	156,740
TOTAL FUNCTIONAL EXPENSES	2,161,541	1,216,954
(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(125,352)	419,804
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	648,339	242,180
Unrealized gain (loss)	82,803	(80,008)
Net assets released from restrictions	(1,110,565)	(621,548)
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	(379,423)	(459,376)
DECREASE IN TOTAL NET ASSETS	(504,775)	(39,572)
NET ASSETS, beginning of year	3,132,411	3,171,983
NET ASSETS, end of year	$ 2,627,636	$ 3,132,411

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (504,775)	$ 56,228
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	1,000	1,000
Unrealized (gain) loss on investments	(82,803)	80,008
(Increase) decrease in contributions receivable	(133,557)	35,233
Decrease (increase) in accounts receivable - other	33,230	(90,977)
Increase in prepaid expenses	(71,773)	(5,647)
(Decrease) increase in accounts payable and accrued expenses	(249,729)	236,497
Increase (decrease) in grants payable	21,369	(126,547)
Decrease in due to AIES for tuition	(9,238)	(43,969)
(Decrease) increase in deferred revenue	(2,287)	32,338
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(998,563)	174,164
CASH FLOWS USED BY INVESTING ACTIVITIES:		
Net change in investments	196,165	(1,513,893)
Savings for operations	-	250,816
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	196,165	(1,263,077)
DECREASE IN CASH	(802,398)	(1,088,913)
CASH AND CASH EQUIVALENTS, beginning of year	1,451,039	2,539,952
CASH AND CASH EQUIVALENTS, end of year	$ 648,641	$ 1,451,039

Additional information:

The Organization incurred and paid no interest or taxes during the years ended December 31, 2019 and 2018.

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

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

YEAR ENDED DECEMBER 31, 2019, WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018

	2019				2018
	Program Services	Fundraising	Administrative and General	Total	Total
EXPENSES:					
Advertising and promotion	$ 13,720	$ 9,185	$ 1,191	$ 24,096	$ 4,481
Conferences, conventions and meetings	4,605	5,989	31,978	42,572	27,829
Depreciation expense	524	310	165	999	1,000
Grants - AIES	1,016,587	-	-	1,016,587	166,668
Grants - Hazon	110,222	-	-	110,222	152,125
Information technology	10,374	6,138	3,275	19,787	13,674
Insurance	1,697	1,004	536	3,237	1,853
Miscellaneous	-	-	6,258	6,258	235
Occupancy	35,921	21,254	11,339	68,514	60,701
Office expenses	12,853	16,058	4,278	33,189	25,256
Personnel - salaries and wages	307,126	181,720	96,948	585,794	509,935
- payroll taxes and benefits	43,867	25,955	13,847	83,669	71,789
Professional fees	-	10,000	47,891	57,891	59,849
Taxes and fees	-	-	1,525	1,525	2,080
Travel	41,098	55,161	10,942	107,201	119,479
TOTAL EXPENSES	$ 1,598,594	$ 332,774	$ 230,173	$ 2,161,541	$ 1,216,954

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

The Friends of the Arava Institue, 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 financial support to the Arava Institute for Environmental Studies located on Kibbutz Ketura, Israel, primarily through donor contributions, grants, North American student recruitment 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 exceed the Federally-insured limits from time to time.

Contributions Receivable:

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are met.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met in the reporting period in which the income and gains are recognized. For contributed investments, fair value is determined by the market value at the date of donation.

Fair Value Measurements:

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 socalled "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.

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 net assets with donor restrictions or net assets without donor restrictions, 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, repairs and personal computers 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, contributions, and sponsorships in the period in which the related special event occurs. Accordingly, special event registration fees received for a future period are deferred until the special event 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 and New Accounting Pronouncement:

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-For-Profit Entities.* The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards changed the following aspects of the Organization's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed *net assets without donor restrictions.*
- The format of the statement of cash flows has changed to the direct method of reporting cash flows from operations, which we believe to be more understandable for the users of our financial statements.

The Organization is committed to maintaining in the net assets with donor restrictions the beneficial interest in a perpetual charitable trust held by a bank as trustee.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. FUNCTIONAL ALLOCATION OF EXPENSES

The Organization allocates its expenses on a functional basis across various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly to that program or service using natural expense classifications. Expenses that are attributable to more than one program or supporting function are allocated on a basis that is consistently applied. Allocated expenses include personnel costs, office expenses, information technology and occupancy. Personnel costs are allocated based on estimates of time and effort. Other expenses are allocated in proportion to personnel costs for the respective program or supporting function.

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 years ended December 31, 2019 and 2018, was $54,827 and $46,206, respectively.

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

2020	$ 47,425
2021	49,051
2022	50,677
2023	17,073
2024	-
	$ 164,226

The Organization and an unrelated third party entered in to a one-year sublease of part of its facility for $1,550 per month for both years.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2019	2018
Computers and equipment	$ 12,575	$ 12,575
Less: accumulated depreciation	(12,158)	(11,158)
Property and equipment, net	$ 417	$ 1,417

5. INVESTMENTS

Investments are measured and recorded on a recurring basis at fair value and have been categorized based upon the fair value hierarchy as of December 31, 2019 and 2018.

Investments consist of the following as of December 31, 2019:

		Fair Value	
	Cost	Level 1	Level 2
Money market	$ -	$ 264,482	$ -
Common stock and bonds	1,250,000	1,053,246	-
	$ 1,250,000	$ 1,317,728	$ -

Investment income from these investments consists of the following as of December 31:

	2019	2018
Interest and dividends	$ 37,578	$ 20,175
Unrealized gain (loss)	16,258	(6,282)
	$ 53,836	$ 13,893

6. BENEFICIAL INTEREST IN ASSETS HELD BY TRUSTEES/FAIR VALUE MEASUREMENT

The Organization is the beneficiary of trust accounts that are held in perpetuity by a trustee with which it has no financial relationship and it is entitled to a portion of the annual distributions from the trust accounts. The Organization received $31,973 and $31,140 of distributions from the trust during the years ended December 31, 2019 and 2018, 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.

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, 2019 and 2018.

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, 2019 and 2018:

Fair Value Measurements at Reporting Date Using

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2019					
Beneficial Interest	$ 744,519	-	$ 744,519	-	$ 744,519
December 31, 2018					
Beneficial Interest	$ 661,716	-	$ 661,716	-	$ 661,716

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, 2019 and 2018, there were no transfers into or out of Levels 1, 2 or 3.

7. OTHER ORGANIZATIONAL ACTIVITIES

Friends of the Arava Institute (FAI) has a strategic partnership agreement with a national fundraising organization to increase funds raised for the Arava Institute for Environmental Studies (AIES) through collaborative donor identification, stewardship, and solicitations. Donations resulting from this collaboration are paid directly to the partner organization and distributed directly to AIES. These funds are counted toward FAI's annual fundraising commitment to AIES. As a partner in these fundraising activities, FAI's fundraising expenses include costs incurred in connection with the aforementioned activities.

FAI is also responsible for recruiting North American students and interns to attend the AIES. Tuition paid by students and interns is collected by FAI and remitted to AIES, and it is counted toward FAI's annual commitment to AIES. FAI's program expenses include costs incurred in connection with recruitment activities.

8. RETIREMENT PLAN

Effective April 1, 2017, the Organization adopted 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

Net assets with donor restrictions are available as of December 31, 2019, for the following purposes:

Time restricted	$ 1,000,000
Center for Transboundary Water Management	120,000
Green Kiln Charcoal Production	75,000
Gaza Waste Water Treatment Plant	60,000
Center for Renewable Energy and Energy Conservation	48,830
Peace Building Seminar	10,000
Scholarships	27,500
Beneficial Interest in Assets Held by Trustees	744,519
	$ 2,085,849

Net assets with donor restrictions of $1,110,565 were released from restrictions for general operations during the year ended December 31, 2019.

The Beneficial Interest in Assets Held by Trustees was increased by unrealized gains of $82,803 during the year ended December 31, 2019.

Net assets with donor restrictions are available as of December 31, 2018, for the following purposes:

Time restricted	$ 1,540,000
Scholarships	121,376
Alumni Innovation Fund	50,000
Other Programs	50,000
Track II Forum 2019	27,180
Solar Powered Desalinization Technology	15,000
Beneficial Interest in Assets Held by Trustees	661,716
	$ 2,465,272

Net assets with donor restrictions of $621,548 were released from restrictions for general operations during the year ended December 31, 2018.

The Beneficial Interest in Assets Held by Trustees was decreased by unrealized losses of ($80,008) during the year ended December 31, 2018.

11. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at December 31, 2019 and 2018:

Financial assets at year-end:	2019	2018
Cash and cash equivalents	$ 648,641	$ 1,451,039
Contributions receivable	205,000	71,443
Accounts receivable	32,947	66,177
Investments	1,317,728	1,513,893
Beneficial Interest In Assets Held by Trustees	744,519	661,716
Total financial assets	2,948,835	3,764,268
Less amounts not available to be used withing one year:		
Net assets with donor restrictions	2,085,849	2,465,272
Financial assets available to meet general expenditures over the next twelve months	$ 862,986	$ 1,298,996

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Further, the investment portfolio consists of assets which are not subject to any constraints limiting the Organization's ability to respond quickly to changes in market conditions.

12. 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.

13. PRIOR PERIOD ADJUSTMENT

The accompanying financial statements of The Friends of the Arava Institute, Ltd. have been restated to correct errors made in the prior year. In the fiscal year ended December 31,2018, the Organization erroneously recorded tuition income and related grant expenses that should have been a pass-through transaction with AIES. The net effect on the statement of activities from this adjustment is an additional loss of $95,800 in fiscal year ended December 31, 2018. The adjustments to the prior year's financial statements are as follows:

Other income as previously reported	Adjusted other income	Grant expense - AIES as previously reported	Adjusted grant expense AIES	Accounts receivable as previously reported	Adjusted accounts receivable	Due to AIES for tuition as previously reported	Adjusted due to AIES for tuition
$ 117,186	$ 15,886	$ 172,168	$ 166,668	$ 90,977	$ 61,177	$ 5,598	$76,598

14. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 28, 2020, the date which the financial statements were available to be issued. No events occurred during that time which require disclosure in these financial statements.