

Financial Statements of
The Arava Institute for Environmental Studies
(Registered Association)
As of December 31, 2019

The Arava Institute for Environmental Studies (Registered Association)

Financial Statements as of December 31, 2019

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Auditor's Report to Members of the Association of
THE ARAVA INSTITUTE FOR ENVIRONMENTAL STUDIES
(Registered Association)

We have audited the accompanying balance sheets of the **Arava Institute for Environmental Studies (Registered Association)** (hereinafter: "the Association") as of December 31, 2018 and 2017 and the related statements of operations and of changes in net assets, and the cash flow reports for the year ending on this date. These financial statements are the responsibility of the Board of Directors and the management of the Association. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the aforementioned financial statements reflect appropriately, by all material aspects, the financial situation of the Association as at December 31, 2018 and 2017 the outcomes of its operations and the changes in net assets for the year then ended, according to the Israeli GAAP.

Ziv Haft, CPA
Certified Public Accountants

Tel Aviv
August 18, 2020

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The Arava Institute for Environmental Studies (Registered Association)

Balance Sheets (in NIS)

	<u>Note</u>	<u>December 31</u> <u>2019</u>	<u>2018</u>
<u>Current Assets</u>			
Cash and cash equivalents		3,021,555	1,484,840
Accounts receivable for operations	4	2,080,781	2,007,458
		<u>5,102,336</u>	<u>3,492,298</u>
<u>Other Assets</u>			
Long-term investments	5	2,302,611	1,888,476
		<u>7,404,947</u>	<u>5,380,774</u>
<u>Current Liabilities</u>			
Suppliers and service providers		405,224	383,488
Accounts payable and credit balances	6	878,336	750,639
Advanced grants and donations		590,966	976,083
Related parties	3	121,723	158,959
		<u>1,996,249</u>	<u>2,269,169</u>
<u>Long-Term Liabilities</u>			
Reserve for employee rights at severance		829,354	802,822
<u>Net Assets</u>			
Net assets without restrictions		462,149	2,308,783
		1,814,583	-
		2,302,612	-
		<u>4,579,344</u>	<u>2,308,783</u>
		<u>7,404,947</u>	<u>5,380,774</u>

Date of approval of financial statements:
August 18, 2020

Board Member

**Miriam Segal –
Board Member**

The attached notes constitute an integral part of these financial statements.

The Arava Institute for Environmental Studies (Registered Association)

Statements of Operations (in NIS)

		For year ending December 31	
	Note	2019	2018
<u>Turnover of Operations</u>			
Donations		4,369,682	2,701,051
Grants		4,140,858	4,009,987
Tuition fees		3,003,159	3,264,266
Income from provision of services		412,911	149,008
		<u>11,926,610</u>	<u>10,124,312</u>
<u>Costs of Operations</u>			
Salary and related expenses		4,454,790	4,096,328
Expenses for projects	7	6,023,690	4,904,405
		<u>10,478,480</u>	<u>9,000,733</u>
Net Income from Operations		<u>1,448,130</u>	<u>1,123,579</u>
General and administrative expenses	8	1,029,397	1,201,797
Other income and expenses	9	(200,000)	(116,056)
Net income (expenses) before financing		<u>618,733</u>	<u>37,838</u>
Financing expenses, net	10	212,755	(495,942)
Net income		<u>405,978</u>	<u>533,780</u>

The attached notes constitute an integral part of these financial statements.

Statements of Cash Flow (in NIS)

	<u>For year ending</u> <u>December 31</u>	
	2019	2018
<u>Cash Flow from Ongoing Activity:</u>		
Income for the year	405,978	533,780
Appendix A - Adjustments needed for the presentation of cash flow from ongoing activity	12,371	205,201
Total net cash resulting from ongoing activity	<u>418,349</u>	<u>738,981</u>
<u>Cash Flow from Investment Activity:</u>		
Subtraction (acquisition) of fixed assets	(708,981)	(137,595)
Long term deposits	-	376,737
Total net cash resulting from investment activity	<u>(708,981)</u>	<u>239,142</u>
<u>Cash Flow from Fianancing Activity:</u>		
Repayment of long term loams	(37,236)	(182,174)
	1,814,583	-
	50,000	-
Total net cash flow from financing activity	<u>1,827,347</u>	<u>(182,174)</u>
	405,978	533,780
<u>Cash Flow from Fianancing Activity:</u>		
	<u>1,536,715</u>	<u>795,949</u>
Cash balance and cash equivalents at the beginning of the year	<u>1,484,840</u>	<u>688,891</u>
Cash balance and cash equivalents at the end of the year	<u>3,021,555</u>	<u>1,484,840</u>

The attached notes constitute an integral part of these financial statements.

Statements of Cash Flow (in NIS)

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

	<u>For year ending</u>	
	<u>December 31</u>	
	<u>2018</u>	<u>2019</u>
<u>Income and Expenses Unrelated to Cash Flow:</u>		
Depreciation and amortization	272,856	294,853
Increase (decrease) in reserve for severance, net	4,496	26,532
	<u>277,352</u>	<u>321,385</u>
<u>Changes to Items of Assets and Liabilities:</u>		
Decrease (increase) in grants and contributions receivable	(735,234)	140,132
Increase (decrease) in accounts receivable and debit balance	469,879	(213,462)
Decrease (increase) in suppliers	291,616	21,736
Increase (decrease) in other payables and credit balances	9,403	127,697
Increase (decrease) in advanced grants and donations	(107,815)	(385,117)
	<u>(72,151)</u>	<u>(309,014)</u>
	<u>205,201</u>	<u>12,371</u>

The attached notes constitute an integral part of these financial statements.

Notes to the Financial Statements (in NIS)

Note 1 - General

The goals of the Association are as follows:

- A. Development 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 entire 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. Definitions:

In these financial statements:

Association – Arava Institute of Environmental Studies (Registered Association)

Net assets – The difference between the Association's assets and its liabilities.

Unrestricted net assets – The portion of the net assets for which there is no permanent or temporary restriction that has been determined by the donors.

Related parties – As defined in Opinion 29 of the Institute of Certified Public Accountants in Israel.

Index – The Consumer Price Index as published by the Central Bureau of Statistics.

B. Basis of Reporting

1. The Association records its assets, liabilities, income and expenses on a cumulative basis.
2. The financial statements have been compiled based on the consensus of the historical cost, without adapting the financial statements to the influence of the changes to the general buying power of the Israeli currency and without expressing an opinion of their influence on the financial state and results of the operations.

C. Manner of Presentation of the Financial Statements

1. Classification of the balances included in the net assets group was done based on a distinction between:

A) Net assets that are unrestricted.

Notes to the Financial Statements (in NIS)

Note 2 – Principal Accounting Policies (continued)

B) Net assets that are temporarily restricted.

C) Net assets that are permanently restricted.

The net assets that are unrestricted are presented with a distinction between net assets used for activity:

A) Designated by the institutions that manage the Association.

B) Not yet designated by the institutions that manage the Association.

C) Net assets used as fixed assets.

2. The Statement of Operations includes all of the income and expenses from the reporting period.

The income includes all of the income received and generated during the period without any restriction on their usage, as well as the portion of the net assets that were restricted and released from donor restrictions during the period. Expenses also include expenses that were financed from sources that were restricted by their contributors.

3. The Statement of Changes to Net Assets includes, in addition to the net result transferred from the Statement of Operations, all of the sources received whose usage was restricted and the amounts released from restriction.

Amounts released from restriction due to use for operations were transferred as income to the Statement of Operations, and amounts released from restriction due to use as fixed assets, including:

Fixed assets received as a gift (for which the consideration from their usage was not restricted) were transferred directly to the balance of net assets that are unrestricted on the Statement of Changes to Net Assets.

4. The Statement of Changes to Net Assets includes transfers between net assets that are unrestricted that were used for operations and net assets that are unrestricted that were used as fixed assets. For amounts used during the accounting year for fixed assets, there are amounts that were generated in the accounting year from using fixed assets and amounts transferred in the accounting year to cover depreciation expenses.

D. Foreign Currency Transactions

1. A transaction made in a foreign currency was registered, when first recognized, in the currency of operation, using the immediate exchange rate between the currency of operation and the foreign currency on the date of the transaction.

2. On every balance sheet date, financial items in foreign currency were converted using the immediate exchange rate on the date of the balance sheet.

3. On every balance sheet date, non-financial items measured at historical cost in foreign currency were converted using the exchange rate on the date of the transaction.

Notes to the Financial Statements (in NIS)

Note 2 – Principal Accounting Policies (continued)

4. On every balance sheet date, non-financial items measured at fair value in foreign currency were converted using the exchange rate on the date that the fair value was determined.

5. Exchange rate differences caused by removal of financial items, or due to conversion of financial items according to different exchange rates than those used for conversion at the time of their first recognition during the period, or than those used for conversion of previous financial statements, will be recognized on the profit and loss statement in the period that they were generated, excluding exchange differences, as stated in Section 6 below.

6. Exchange rate differences caused by removal of financial items, or due to conversion of financial items according to different exchange rates than those used for conversion at the time of their first recognition during the period, or than those used for conversion of previous financial statements, will be recognized on the profit and loss statement in the period that they were generated.

E. Cash and Cash Equivalents

Cash equivalents include investments whose liquidity is high, including short-term deposits at banks and for which the period until their realization date at the time of the investment was no more than 3 months.

This section does not include cash and short-term deposits at banks whose use was limited by donors for specific uses, or that were designated by the Association's Board for specific purposes.

F. Donations, Allocations, Support and Grants Receivable

1. Donations, allocations, support, grants, estates and gifts promised but not yet received at the date of the financial statements are registered as income or additions to net assets whose use is restricted, when all of the following conditions are met:

There is an irrevocable and unconditional commitment from the contributor and it applies to the reported period.

The promise was fulfilled after the date of the financial statements, or is legally enforceable and realizable. – Realization of the promise is not conditioned upon a future event taking place.

2. The amounts receivable are presented less adjustments for promises that the Association's Board believes will not materialize.

3. Donations that were received in order that they be transferred to others and for which the contributor conditioned the donation on its transfer to a specific beneficiary and did not give the Association the sole authority to change its designation, or control over the benefit expected from that donations, were not recorded as income and expenses.

Assets received as aforementioned that were not yet transferred to beneficiaries are presented as assets received for transfer to others and as liabilities for assets received for the purpose of transferring them to others.

Notes to the Financial Statements (in NIS)

Note 2 – Principal Accounting Policies (continued)

G. Fixed Assets

1. The Association's management decided to change the policy regarding handling fixed assets, as of January 1, 1997 and onward, according to Opinion no. 69 of the Institute of Certified Public Accountants in Israel and according to Accounting Standard no. 5 which replaced Opinion no. 69 as of December 19, 2010, according to which the fixed asset used by the Association and acquired by this date is presented as expenses in the previously reported years.
2. Presented according to cost less accumulated depreciation.
3. For fixed assets that were received without consideration, the cost is its fair value on the day of its receipt.
4. Depreciation is calculated according to the "straight line method" based on the estimated period of use for the assets. Adjustments for decrease in value are included when the book value of the asset is higher than its value to the Association (usually calculated as the higher value between the value of its use and its realization value).
5. Fixed assets that must be transferred for exclusive use or operation by a third party without time limitations or any financial consideration or for a nominal financial consideration only, according to donor conditions or decision by the Association's Board, are presented as an expense and not as an asset at the time of the investment.

H. Recognition of Income and Changes to Net Assets:

1. Income and changes to net assets that are restricted are recorded on a cumulative basis.
2. Disposable assets and goods received without consideration that have a material monetary value on an overall basis in relation to the Association's scope of operation and whose fair value can be assessed at a reasonable level of accuracy are recorded both as income and costs on the Statement of Operations.
3. Services requiring skill and professional specialization, which the Association would have needed to purchase had it not received them, that have a material monetary value on an overall basis in relation to the Association's scope of operation and whose fair value can be assessed at a reasonable level of accuracy are recorded both as income and costs on the Statement of Operations.

4. Income from investments:

Profits and losses from a change to the fair value of current investments are credited to the Statement of Operations and/or the Statement of Changes to Net Assets when they are generated, as part of the net financing income (expenses) for the period.

5. Surplus from the realization of assets received without consideration, restricted to be used for specific purposes only and the consideration for their realization will be used for those purposes only, are credited directly to the net assets that were restricted.

Notes to the Financial Statements (in NIS)

Note 2 – Principal Accounting Policies (Continued)

I. Taxes

1. Salary tax imposed by VAT and employer's tax are included in the salary expenses. VAT paid for inputs that are non-reimbursable were included in the expenses sections or the with assets for which the tax was imposed.
2. Taxes for certain expenses ("excess expenses") are included in the expenses sections or with the assets for which the tax was imposed.
3. The Association operates as a "public institution" in accordance with section 9 (2) of the Income Tax Ordinance and as a non-profit organization for the purpose of the Value Added Law.
4. The Association was approved as a "public institution" in regards to donations under section 46 of the Income Tax Ordinance, and accordingly, donations are recognized for tax purposes on the part of the donor.

J. Use of Estimates in the Preparation of Financial Statements

In preparation of the financial statements in accordance with the accepted accounting policies, the management used estimates and evaluations that affect the amounts of the assets and liabilities presented in the financial statements and their attached notes. Due to the nature of estimates and evaluations, the actual results might differ from these estimates.

K. Financial Instruments

The fair value of financial instruments is determined according to the following rules:

1. The fair value of financial instruments is the amount for which an asset may be exchanged or liability in a transaction removed in good faith between the buyer, willingly, and the seller, willingly, in a logical manner.
2. When a financial instrument is traded on an active, liquid market, its rate on the market provides the best proof of its fair value.
3. When market activity is not frequent and the market is not well based, a small volume relative to the number of negotiable unit of the financial instrument are traded, or when the market rate is not available – it is possible to use evaluation techniques to determine the fair value.
4. The book value of the historical cost of amounts receivable and payable at regular commercial credit terms is usually close to the fair value.

Notes to the Financial Statements (in NIS)

Note 3 – Related Parties

3.1 Kibbutz Ketura

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

This relationship is anchored in various agreements subject to each of the services provided by the Kibbutz. Therefore, the service providers and suppliers' balance includes a balance of ILS 159K in debt to Kibbutz Ketura for these services. This amount constitutes part of the liabilities to suppliers and service providers in the balance sheet.

3.2 Arava Institute Research and Development, Ltd.

The Arava Institute of Environmental Studies (Registered Association) (hereinafter: the Association) holds full ownership of the subsidiary Arava Institute Research and Development Ltd. (hereinafter: the R&D Company).

The Arava Institute Research and Development Ltd. is a holding company, and holds 0.78% of Capital Nature Ltd., which invests in initiatives, research and development in the field of renewable energy.

3.3 Global Sun Israel L.P.

The Arava Institute holds 1% of the partnership rights of Global Sun Israel Ltd. (Arava Power), a company for the development and production of solar energy. These rights are pledged to Kibbutz Ketura for the loan given to the Institute by the Kibbutz.

Notes to the Financial Statements (in NIS)

Note 4 – Accounts receivable for operations

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Grants and contributions receivable*	1,401,972	1,563,084
Advanced student scholarships	210,473	26,666
Checks receivable	628	6,450
Operating expenses	395,316	374,336
Others	10,148	27,613
Advances to suppliers	62,244	9,309
	<u>2,080,781</u>	<u>2,007,458</u>
Grants and contributions receivable*		
Grants receivable	87,221	124,048
Donations receivable	1,314,751	1,439,036
	<u>1,401,972</u>	<u>1,563,084</u>

Notes to the Financial Statements (in NIS)

Note 5 – Fixed Assets

	<u>Computers</u>	<u>Electronic equipment</u>	<u>Vehicles</u>	<u>Furniture and Supplies</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>Cost</u>						
Balance on January 1, 2019	394,302	672,574	123,490	613,978	3,545,686	5,350,030
	(6,941)	(10,889)	-	(2,283)	-	(20,113)
Additions during the year	82,366	59,939	-	55,657	511,019	708,981
Balance on December 31, 2019	469,727	721,624	123,490	667,352	4,056,705	6,038,898
<u>Depreciation Accumulated</u>						
Balance on January 1, 2019	351,743	544,098	123,490	360,241	2,081,991	3,461,563
	(19,124)	(13,599)	-	36,692	(24,098)	(20,129)
Additions during the year	34,925	35,101	-	46,790	178,037	294,853
Balance on December 31, 2019	367,544	565,600	123,490	443,723	2,235,930	3,736,287
Fixed assets, net on December 31, 2019	102,183	156,024	-	223,629	1,820,775	2,302,611
Fixed assets, net on December 31, 2018	42,559	89,032	-	293,188	1,463,697	1,888,476

Note 6 – Accounts Payable

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Employees and institutions, for employees	545,024	485,492
Advances from customers and students	70,651	35,805
Expenses to be paid	32,175	27,500
	230,486	201,842
	878,336	750,639

Note 7 – Project Expenses

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Operating expenses in Israel	3,128,211	2,057,875
Conferences and workshops	1,815,326	2,012,927
Professionals and research, primarily for green initiatives	333,778	52,158
Operating expenses, overseas projects	64,519	130,689
Rent and maintenance	336,830	293,791
Professional advertisements	138,629	164,641
Depreciation	206,397	192,324
	<u>6,023,690</u>	<u>4,904,405</u>

Note 8 – Administrative and General Expenses

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Salaries and related benefits	476,261	619,707
Travel in Israel and overseas	68,702	67,649
Office maintenance	165,044	238,378
Professional services and continuing education	192,846	185,883
Depreciation expenses	88,456	80,532
Miscellaneous	38,088	9,648
	<u>1,029,397</u>	<u>1,201,797</u>

Note 9 – Advanced Grants and Donations

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>

	<u>200,000</u>	<u>116,056</u>
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Note 10 – Advanced Grants and Donations

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>

	222,930	(310,848)
	4,116	22,131

	<u>(14,291)</u>	<u>(207,225)</u>
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	<u>212,755</u>	<u>(495,942)</u>
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Note 11 – List of Donors

The following is information required according to the Associations Regulations (Determination of Maximum Sum and Procedures for Registering Anonymous Donations in Financial Statements), 5763 – 2002, presenting the names of the donors who contributed during the 2017 financial year, in cumulative amounts of over NIS 20,000:

Name of Donor	Amount	Purpose of Donation
FRIENDS OF ARAVA INST. LTD	2,905,705	
USA JNF	2,917,648	
CROWN FOUNDATION	359,631	Research
SCHWABER FUND	330,197	
	278,520	Research
RUBENSTEIN FOUNDATION	172,800	Research
	100,000	Academic program
ETHAN GROSSMAN	138,240	TRACK 2
Donations from Foreign Country Entities		
USAID	567,648	Research
EUROPEAN COMMISSION	720,555	Research