

FRIENDS OF THE ARAVA INSTITUTE, LTD.

Financial Statements

Year Ended December 31, 2020

(With Independent Auditors' Report Thereon)

FRIENDS OF THE ARAVA INSTITUTE, LTD.

FINANCIAL STATEMENTS

Year Ended December 31, 2020

	<u>Page Number</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Friends of the Arava Institute, Ltd.:

We have audited the accompanying financial statements of Friends of the Arava Institute, Ltd. (a non-profit organization) (FAI), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 FAI'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 FAI's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of the Arava Institute, Ltd. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, certain adjustments were made to amounts previously recorded in net assets with donor restrictions. Accordingly, net assets as of January 1, 2020 have been restated to reflect these adjustments.

September 21, 2021

FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF FINANCIAL POSITION
December 31, 2020



Assets

Cash and cash equivalents	\$	888,494
Contributions receivable		125,000
Prepaid and other assets		15,478
Investments		1,330,797
Security deposit		7,391

Total Assets	\$	2,367,160
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Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$	102,466
Grants payable		73,978
PPP loan payable		102,262
Deferred revenue		171,371
Total liabilities		450,077

Net Assets:

Without donor restrictions		938,224
With donor restrictions		978,859
Total net assets		1,917,083

Total Liabilities and Net Assets	\$	2,367,160
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FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2020



	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	\$ 1,791,348	\$ 334,423	\$ 2,125,771
Program registration fees	52,047	-	52,047
Other income	11,344	-	11,344
Rental income	1,550	-	1,550
Investment income, net	13,387	-	13,387
Net assets released from restrictions	696,894	(696,894)	-
Total support and revenue	2,566,570	(362,471)	2,204,099
Expenses:			
Program services	1,901,962	-	1,901,962
Management and general	241,497	-	241,497
Fundraising	26,674	-	26,674
Total expenses	2,170,133	-	2,170,133
Change in net assets	396,437	(362,471)	33,966
Net Assets, beginning of year, as restated (Note 3)	541,787	1,341,330	1,883,117
Net Assets, end of year	\$ 938,224	\$ 978,859	\$ 1,917,083

FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2020



	<u>Program</u>		Management and General	Fundraising	Total
	Israel Ride	Other			
Grants and other assistance	\$ 127,839	\$ 1,001,974	\$ -	\$ -	\$ 1,129,813
Compensation and benefits	58,623	484,706	169,050	26,674	739,053
Advertising	15,293	6,617	-	-	21,910
Consulting and professional fees	733	41,172	43,485	-	85,390
Information technology	18,008	14,720	5,052	-	37,780
Occupancy	5,069	43,676	15,556	-	64,301
Supplies and office expense	25,778	17,145	8,354	-	51,277
Travel, conferences and meetings	15,614	24,995	-	-	40,609
Total expenses	\$ 266,957	\$ 1,635,005	\$ 241,497	\$ 26,674	\$ 2,170,133

FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2020



Cash Flows from Operating Activities:	
Change in net assets	\$ 33,966
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	417
Unrealized loss on investments	5,298
Changes in operating assets and liabilities:	
Contributions receivable	80,000
Accounts receivable	32,946
Prepaid and other assets	70,598
Accounts payable and accrued expenses	(146,189)
Grants payable	(5,891)
Deferred revenue	84,813
Net cash provided by operating activities	<u>155,958</u>
Cash Flows from Investing Activities:	
Purchases of investments	<u>(18,367)</u>
Net cash used by investing activities	<u>(18,367)</u>
Cash Flows from Financing Activities:	
Proceeds from PPP loan payable	<u>102,262</u>
Net cash provided by financing activities	<u>102,262</u>
Net Increase in Cash and Cash Equivalents	239,853
Cash and Cash Equivalents, beginning of year	<u>648,641</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 888,494</u></u>

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2020

1. Nature of Operations

Friends of the Arava Institute, Ltd. (a not-for-profit organization) (FAI) located in Newton, MA, provides financial support to the Arava Institute for Environmental Studies (AIES) located on Kibbutz Ketura, Israel, primarily through public awareness, student recruitment and fundraising campaigns.

FAI has a strategic partnership agreement with a national fundraising organization to increase funds raised for 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 not included in FAI's revenue and support, but they are counted toward FAI's annual fundraising commitment to AIES. 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 AIES. Tuition paid by students and interns, collected by FAI and remitted to AIES, is not included in FAI's revenue and support, but it is counted toward FAI's annual commitment to AIES. FAI's program expenses include costs incurred in connection with recruitment activities. As of December 31, 2020, accounts payable and accrued expenses includes \$9,500 due to AIES.

In 2021, FAI changed its fiscal year-end to June 30.

2. Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist the reader in understanding FAI's financial statements. The financial statements and notes are representations of FAI's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Financial Statement Presentation

FAI prepares its financial statements on the accrual basis of accounting and, in accordance with authoritative guidance, reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2020

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction is satisfied, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of three months or less, except for money market funds included in investments.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected after one year are discounted at an appropriate rate commensurate with the risk involved. If material, receivables with amounts due beyond one year are discounted to their net present value using the interest rate for treasury bills with a remaining term equal to future receipts. Conditional promises to give are not included as support until the conditions are met. FAI evaluates its contributions receivable and establishes an allowance for doubtful accounts, based on a history of past collection experience and current credit conditions. At December 31, 2020, management determined an allowance was not necessary.

Investments and Fair Value Measurements

FAI measures its investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by authoritative guidance, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities FAI has the ability to access.

Level 2 inputs (other than quoted prices included within level 1) are observable for the asset or liability, either directly or indirectly.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2020

Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs are developed based on the best information available in the circumstances and may include FAI's own data.

FAI reports investments at fair value on a recurring basis. The investments are classified as level 1 within the fair value hierarchy.

Money market funds - The carrying amount of money market funds is deemed to be a reasonable estimate of fair value.

Realized and unrealized gains and losses on investments are reported as changes in net assets without donor restrictions, unless gains and losses on investments are restricted by a donor's explicit stipulation or by a law that extends a donor's restriction.

Dividends and interest are recorded as received, which does not differ materially from the accrual basis. Purchases and sales of securities are recorded on the trade date.

Certificates of deposit are reported at original cost-plus accrued interest, which approximates fair value because of their short-term nature. As of December 31, 2020, FAI had two certificates of deposit yielding an interest rate of 2.7%, maturing on March 29, 2021.

Computers and Equipment

All expenditures for computers and equipment in excess of \$5,000 are capitalized at cost; the fair value of donated assets is similarly recorded. Computers and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to five years. At December 31, 2020, computers and equipment have been fully depreciated.

Grants Payable and Grant Expense

Unconditional grants expected to be paid during subsequent years are presented as grants payable in the accompanying statement of financial position. Grants that provide for certain conditions that must be satisfied by a specific time or for a specific purpose are recorded as expense when the conditions have been met.

PPP Loan Payable

FAI received a Paycheck Protection Program loan (PPP Loan) and has elected to record this funding as a loan payable. Loan forgiveness will be recognized when FAI satisfies the conditions for loan forgiveness and the forgiveness amount is formally approved by the U.S. Small Business Administration (SBA).

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2020

Revenue and Support Recognition

Effective January 1, 2020, FAI adopted Financial Accounting Standards Board (FASB) Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which replaces most existing revenue recognition guidance in accounting principles generally accepted in the United States. The adoption of ASU 2014-09 using the full retrospective method for all contracts did not have significant effect on FAI's financial statements.

Contributions and Grants - FAI recognizes contributions and grants in the year in which the contribution or grant is made. Contributions and grants are recorded either as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Restricted contributions and grants are classified as net assets without donor restrictions if the restrictions are satisfied in the same reporting period in which the contributions or grants are received.

Program Registration Fees – Revenue from performance obligations satisfied at a point in time consists of program registration fees related to the annual Israel Ride, which are recorded in the period in which the Israel Ride occurs. Program registration fees and sponsorships received for a future period are deferred until the ride takes place. Program registration fees included in deferred revenue at December 31, 2020 and 2019, were \$79,486 and \$85,058, respectively.

Donated Services - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by FAI. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Advertising Costs

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

Allocation of Expenses

FAI's operating costs have been allocated between program, management and general, and fundraising expenses based on direct identification when possible, and allocation if a single expenditure benefits more than one program or function. Expenditures that require allocation are allocated based on personnel cost.

Income Taxes

FAI is exempt from income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Management believes that FAI operates in a manner consistent with its tax-exempt status at both the state and federal levels.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2020

FAI annually files IRS Form 990 - *Return of Organization Exempt From Income Tax*, reporting various information that the IRS uses to monitor the activities of tax-exempt entities. These tax returns are subject to review by the taxing authorities, generally for a period of three years after they were filed. FAI currently has no tax examinations in progress.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Recent Accounting Pronouncements

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which provides new presentation and disclosure requirements for contributed nonfinancial assets. The standard will be effective for FAI's year ending December 31, 2022.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which is effective for annual periods beginning after December 15, 2021. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for FAI's year ending June 30, 2023, with early adoption permitted. FAI is currently in the process of evaluating the impact of adoption on the financial statements.

Subsequent Events

Management has evaluated subsequent events through September 21, 2021, which is the date these financial statements were available to be issued.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2020

3. Prior-period Adjustment

During the year ended December 31, 2020, management determined that FAI is only an income beneficiary in the Jerome E. Toffler Private Foundation Trust (the Trust), and therefore the value of the Trust's net assets should not be reported as an asset in FAI's financial statements. Prior to the year ended December 31, 2020, FAI reported the fair value of the Trust in its financial statements. As a result, FAI recorded a prior-period adjustment to restate the beginning net assets with donor restrictions to remove the beneficial interest in assets held by trustee as follows:

	As of December 31, 2019, as previously reported	Prior-period Adjustment	As of December 31, 2019, as restated
	<u> </u>	<u> </u>	<u> </u>
Net assets with donor restrictions	\$ 2,085,849	\$ (744,519)	\$ 1,341,330
	<u> </u>	<u> </u>	<u> </u>

4. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets:	
Cash and cash equivalents	\$ 888,494
Contributions receivable	125,000
Investments	1,330,797
Financial assets, end of year	<u>2,344,291</u>
Less those unavailable for general expenditure within one year due to:	
Purpose restrictions	228,859
Contributions receivable due after one year	<u>45,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,070,432</u>

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2020

FAI's financial assets available for general expenditure consist of funds intended to be used to cover short-term operating expenses, including its AIES grant program. These financial assets are invested with the purpose of preserving assets to cover operating expenses and realizing earnings in a way that allows for immediate liquidity to meet FAI's ongoing programmatic and operational needs.

COVID-19 Pandemic

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state, and local authorities leading to an overall decline in economic activity. The extent of the impact of COVID-19 on FAI's future operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and state and local limitations, which are uncertain and cannot be predicted. While FAI's operations continue, it is possible that this outbreak will negatively impact future operating results. FAI is not able to reliably estimate the length or severity of this outbreak and the related financial impact at this time.

5. Contributions Receivable

Contributions receivable consist of promises to give from donors to support FAI's charitable mission. The promised contributions are due as follows:

Within one year	\$ 80,000
One to two years	<u>45,000</u>
Total	<u>\$ 125,000</u>

6. Investments

Investments, excluding certificates of deposit, are presented in the statement of financial position at their aggregate fair value and consist of the following:

Level 1:	
Money market funds	<u>\$ 827,537</u>

At December 31, 2020, FAI held certificates of deposit totaling \$503,260.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2020

7. Trust Income Beneficiary

FAI is an income beneficiary in the Jerome E. Toffler Living Trust (the Trust), the assets of which are not in FAI's possession, and is entitled to a portion of the annual distributions from the Trust. FAI received \$31,901 of distributions from the Trust during the year ended December 31, 2020, which is included in contributions and grants without donor restrictions on the statement of activities. Distributions from the Trust are for general use by FAI; however all funds must be used within the United States or its possessions.

FAI is also the income beneficiary in an irrevocable Arava Institute for Environmental Studies Endowment Fund (the Fund), the assets of which are not in FAI's possession. The Fund is maintained through an endowment fund at Jewish National Fund that three donors established to provide funding for general operations and scholarships for students from diverse backgrounds seeking to study and/or do environmental research in the Middle East, specifically through the funding of scholarships for research and study at the Arava Institute. FAI received \$29,000 of distributions from the Fund during the year ended December 31, 2020, which is included in contributions and grants without donor restrictions on the statement of activities.

8. PPP Loan Payable and Subsequent Event

On May 1, 2020, FAI received loan proceeds of \$102,262 under the Paycheck Protection Program (PPP), which was established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in response to the COVID-19 outbreak. Proceeds from this loan (PPP Loan) may only be used for payroll costs, costs used to continue group health care benefits, mortgage interest payments, rent, utilities, and interest on other debt obligations, provided the related agreements were effective prior to February 15, 2020. The PPP Loan was set to mature on May 1, 2022 and bore interest at a rate of 1% per annum, payable monthly. Under the terms of the PPP, certain amounts of the PPP Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. FAI used the proceeds in accordance with the loan terms and applied for forgiveness from the SBA. On February 24, 2021, FAI received notification of SBA approval for forgiveness of the entire PPP loan proceeds.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2020

9. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows at December 31, 2020:

Time-restricted	\$	750,000
Restricted for Specified Purpose:		
Center for Transboundary Water Management		104,046
Green Kiln Charcoal Production		75,000
Track II Forum		25,738
Center for Renewable Energy and Energy Conservation		14,422
Bedouin Women		2,153
Scholarships		7,500
Total net assets with donor restrictions	\$	978,859

The time-restricted amount above is the remaining cash under a \$2,000,000 contribution received in November 2017, restricted by the donor to be used where needed most for years 2018 - 2021.

10. Retirement Plan

FAI sponsors 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. FAI does not contribute to the plan.

11. Concentrations of Credit and Business Risk

The financial instruments that potentially subject FAI to concentrations of credit risk consist principally of cash and cash equivalents, contributions receivable and investments.

FAI maintains its cash balances in several financial institutions. The balance at each institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. From time to time, the FAI's cash balances may exceed this limit. Cash balances in excess of \$250,000 are generally uninsured.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and that such changes could materially affect investment balances and activity included in the financial statements.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2020



At December 31, 2020, 100% of contributions receivable were due from three contributors. Management has performed an analysis of those receivables and does not believe that significant credit risk exists.

12. Lease Commitment

FAI leases its office facility under a lease agreement dated May 2019, with monthly payments of approximately \$4,100 through April 2023. Lease expense, including FAI's share of common area expenses, was \$51,433 for the year ended December 31, 2020, and is included in occupancy costs in the statement of functional expenses.

Total future minimum lease payments are as follows for years ending December 31:

2021	\$ 49,051
2022	50,677
2023	<u>17,073</u>
Total	<u>\$ 116,801</u>