

FRIENDS OF THE ARAVA INSTITUTE, LTD.

Financial Statements

For the Period January 1, 2021 to June 30, 2021

(With Independent Auditors' Report Thereon)

FRIENDS OF THE ARAVA INSTITUTE, LTD.

FINANCIAL STATEMENTS

For the Period January 1, 2021 to June 30, 2021

	<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 June 30, 2021, and the related statements of activities, functional expenses and cash flows for the period January 1, 2021 to June 30, 2021, 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 June 30, 2021, and the changes in its net assets and its cash flows for the period January 1, 2021 to June 30, 2021 in accordance with accounting principles generally accepted in the United States of America.

Kahn, Litwin, Renya & Co., Ltd.

November 10, 2021

FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF FINANCIAL POSITION
June 30, 2021



Assets

Cash and cash equivalents	\$ 1,756,656
Contributions receivable	95,000
Prepaid and other assets	18,079
Investments	1,332,621
Security deposit	7,391
	7,391

Total Assets	\$ 3,209,747
	3,209,747

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 144,094
PPP loan payable	117,957
Deferred revenue	142,346
	142,346
Total liabilities	404,397
	404,397

Net Assets:

Without donor restrictions	1,667,661
With donor restrictions	1,137,689
	1,137,689
Total net assets	2,805,350
	2,805,350

Total Liabilities and Net Assets	\$ 3,209,747
	3,209,747

FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF ACTIVITIES
For the Period January 1, 2021 to June 30, 2021



	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	\$ 1,297,507	\$ 412,921	\$ 1,710,428
Other income	1,459	-	1,459
Investment income, net	2,000	-	2,000
PPP loan forgiveness	102,262	-	102,262
Special event, net of direct expenses of \$55,210	136,912	-	136,912
Net assets released from restrictions	254,091	(254,091)	-
Total support and revenue	1,794,231	158,830	1,953,061
Expenses:			
Program services	916,307	-	916,307
Management and general	132,730	-	132,730
Fundraising	15,757	-	15,757
Total expenses	1,064,794	-	1,064,794
Change in net assets	729,437	158,830	888,267
Net Assets, beginning of period	938,224	978,859	1,917,083
Net Assets, end of period	\$ 1,667,661	\$ 1,137,689	\$ 2,805,350

**FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF FUNCTIONAL EXPENSES
For the Period January 1, 2021 to June 30, 2021**



	Program		Management and General	Fundraising	Total
	Israel Ride	Other			
Grants and other assistance	\$ 5,747	\$ 529,402	\$ -	\$ -	\$ 535,149
Compensation and benefits	23,985	233,327	94,323	13,178	364,813
Consulting and professional fees	-	68,315	23,250	-	91,565
Supplies and office expense	6,783	17,515	4,578	615	29,491
Occupancy	1,362	15,921	6,805	1,263	25,351
Information technology	755	8,829	3,774	701	14,059
Advertising	-	3,157	-	-	3,157
Travel, conferences and meetings	-	1,209	-	-	1,209
Total expenses	\$ 38,632	\$ 877,675	\$ 132,730	\$ 15,757	\$ 1,064,794

FRIENDS OF THE ARAVA INSTITUTE, LTD.
STATEMENT OF CASH FLOWS
For the Period January 1, 2021 to June 30, 2021

Cash Flows from Operating Activities:	
Change in net assets	\$ 888,267
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized loss on investments	3,260
PPP loan forgiveness	(102,262)
Changes in operating assets and liabilities:	
Contributions receivable	30,000
Prepaid and other assets	(2,601)
Accounts payable and accrued expenses	41,628
Grants payable	(73,978)
Deferred revenue	(29,025)
Net cash provided by operating activities	<u>755,289</u>
Cash Flows from Investing Activities:	
Proceeds from sale of investments	500,000
Purchases of investments	(505,084)
Net cash used by investing activities	<u>(5,084)</u>
Cash Flows from Financing Activities:	
Proceeds from PPP loan payable	117,957
Net cash provided by financing activities	<u>117,957</u>
Net Increase in Cash and Cash Equivalents	868,162
Cash and Cash Equivalents, beginning of period	<u>888,494</u>
Cash and Cash Equivalents, end of period	<u>\$ 1,756,656</u>

Supplemental cash flow information, noncash financing activity:
A PPP loan payable of \$102,262 was forgiven during the period.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the Period January 1, 2021 to June 30, 2021

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 June 30, 2021, accounts payable and accrued expenses include \$23,973 due to AIES.

In 2021, FAI changed its fiscal year-end from December 31 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
For the Period January 1, 2021 to June 30, 2021**

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 June 30, 2021, 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
For the Period January 1, 2021 to June 30, 2021**

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.

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 June 30, 2021, computers and equipment have been fully depreciated.

Grants Payable and Grant Expense

Unconditional grants, if any, 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 Paycheck Protection Program loans (PPP Loan) and has elected to record this funding as loans payable. Loan forgiveness is recognized and included in change in net assets without donor restrictions 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
For the Period January 1, 2021 to June 30, 2021

Revenue and Support Recognition

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 and Special Event Revenue – 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, and special event revenue recognized when the special event gala takes place. The October 2021 annual Israel Ride was cancelled. Program registration fees and sponsorships received for a future period are deferred until the Israel Ride takes place. Program registration fees included in deferred revenue at June 30, 2021 and December 31, 2020 were \$140,346 and \$79,486, 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.

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.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the Period January 1, 2021 to June 30, 2021

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 June 30, 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 November 10, 2021, which is the date these financial statements were available to be issued.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the Period January 1, 2021 to June 30, 2021

3. 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	\$ 1,756,656
Contributions receivable	95,000
Investments	1,332,621
Financial assets, end of year	<u>3,184,277</u>
Less those unavailable for general expenditure within one year due to:	
Purpose restrictions	929,768
Contributions receivable due after one year	<u>10,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 2,244,509</u></u>

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.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the Period January 1, 2021 to June 30, 2021

4. 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	\$ 85,000
One to two years	<u>10,000</u>
Total	<u>\$ 95,000</u>

5. Investments

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

Level 1:	
Money market funds	<u>\$ 1,332,621</u>

6. 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 did not receive any distributions from the Trust during the period January 1, 2021 to June 30, 2021. 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 did not receive any distributions from the Fund during the period January 1, 2021 to June 30, 2021.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the Period January 1, 2021 to June 30, 2021

7. PPP Loan Payable

PPP Loan

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.

PPP2 Loan

On April 16, 2021, the FAI received additional loan proceeds of \$117,957 under the PPP. Proceeds from this second-draw PPP loan (PPP2 Loan) may only be used for payroll costs, mortgage interest, rent, utilities, worker protection costs related to COVID-19, uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations. The PPP2 Loan is set to mature on April 16, 2026 and bears interest at a rate of 1% per annum, payable monthly. Under the terms of the PPP, certain amounts of the PPP2 Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The commencement date for PPP2 Loan payments and a potential revised maturity date will be determined upon the ultimate notification of loan forgiveness from the SBA. FAI intends to use the entire PPP2 Loan proceeds in accordance with the loan terms and to apply for forgiveness. No assurance is provided that FAI will obtain forgiveness of the PPP2 Loan, in whole or in part.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the Period January 1, 2021 to June 30, 2021

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows at June 30, 2021:

Time-restricted	\$	957,921
Restricted for Specified Purpose:		
Center for Transboundary Water Management		69,666
Gaza Wastewater Treatment		7,960
Track II Forum		13,712
Shelter Garden		30,000
Capital Nature		5,000
Gulf Country Outreach		10,000
Center for Renewable Energy and Energy Conservation		24,330
Water Gen		11,600
Scholarships		7,500
Total net assets with donor restrictions	\$	1,137,689

The time-restricted amount above includes \$750,000 of the remaining cash under a \$2,000,000 contribution received in November 2017, restricted by the donor to be used where needed most for 2018 through December 2021. The remaining \$207,921 consists of contributions initially received for the 2021 Israel Ride to be used for the 2022 Israel Ride or as directed by the rider.

9. 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.

10. 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.

FRIENDS OF THE ARAVA INSTITUTE, LTD.
NOTES TO THE FINANCIAL STATEMENTS
For the Period January 1, 2021 to June 30, 2021

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.

At June 30, 2021, 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.

11. 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 \$25,351 for the period January 1, 2021 to June 30, 2021, and is included in occupancy costs in the statement of functional expenses.

Total future minimum lease payments are as follows for years ending June 30:

2022	\$ 49,864
2023	<u>42,683</u>
Total	<u><u>\$ 92,547</u></u>