

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)

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ELEM – YOUTH IN DISTRESS (REG. ASSOC.)

Independent Auditor's Report

We have audited the accompanying consolidated balance sheets of ELEM – Youth in Distress. (Not-for-profit Organization) as of December 31, 2010 and 2009 and the related statements of consolidated operations for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the management of the Organization. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards, including those prescribed by the Auditors' (Mode of Performance) Regulations (Israel), 1973. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management of the Organization, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of the organization as of December 31, 2010 and 2009 and the results of its operations for the years ended December 31, 2010 and 2009, in conformity with generally accepted accounting principles.

Erlichman Cinman & Co.
Certified Public Accountants (Israel)

Tel-Aviv, Israel,
April 27, 2011

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
CONSOLIDATED BALANCE SHEET

	Note	<u>31 December</u>	
		<u>2010</u>	<u>2009</u>
		<u>NIS</u>	<u>NIS</u>
<u>Current assets</u>			
Cash and cash equivalents	3	1,962,697	1,229,135
Accounts receivable	4	3,483,970	2,548,898
Inventories		8,000	8,000
		<u>5,454,667</u>	<u>3,786,033</u>
<u>Long term deposits</u>			
	8	1,433,008	1,512,787
<u>Fixed assets</u>			
	5	2,445,340	2,720,428
		<u>9,333,015</u>	<u>8,019,248</u>
Banks – overdraft		728,597	340,750
Outstanding Checks		952,463	707,026
Earmarked contributions, not yet applied to activities		1,136,701	2,774,518
Accounts payable	6	2,758,536	2,631,753
		<u>5,576,297</u>	<u>6,454,047</u>
<u>Employee severance pay liability, net</u>			
	7	367,644	367,774
<u>Surplus, net</u>			
<u>Unrestricted assets, net:</u>			
Non-earmarked by the Association's institutions		(1,108,937)	(3,035,788)
Used for fixed and other assets		3,065,003	2,720,428
		<u>1,956,066</u>	<u>315,640</u>
Net assets with permanent restrictions	8	1,433,008	1,512,787
		<u>3,389,074</u>	<u>1,197,427</u>
		<u>9,333,015</u>	<u>8,019,248</u>

The accompanying notes are an integral part of the financial statements

Members of the Board

Members of the Board

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
CONSOLIDATED STATEMENT OF OPERATING ACTIVITIES

	<u>For the year ended</u>	
	<u>31 December</u>	
	<u>2010</u>	<u>2009</u>
	<u>NIS</u>	<u>NIS</u>
<u>Activity turnover</u>		
Non – earmarked donations	6,038,036	5,157,850
Earmarked donations – from foundations	9,826,980	10,576,735
From non-profit organizations	151,522	357,830
Government institutions	6,840,504	3,498,962
From local authorities	2,200,126	2,603,716
From local authorities – projects	1,696,074	1,044,812
From other public organizations	1,478,803	804,088
Income from branches	854,036	1,062,488
Income from projects	1,595,102	3,083,857
From Elem-USA	2,403,750	2,067,470
Business activities for projects training	245,655	408,890
	<u>33,330,588</u>	<u>30,666,698</u>
<u>Cost of activities</u> - Note 9	25,735,439	24,866,938
Net income from activities	<u>7,595,149</u>	<u>5,799,760</u>
<u>General expenses</u>		
Administrative and General - Note 10	3,968,252	3,988,772
Decrease in severance pay liability	-	(90,977)
Fundraising expenses net - Note 11	1,190,911	1,217,045
	<u>5,159,163</u>	<u>5,114,840</u>
Net gain before financial expenses	2,435,986	684,920
Financial expenses net	<u>164,560</u>	<u>7,966</u>
Net gain (loss) after financial income (expenses)	2,271,426	676,954
Capital gain	-	470,766
Net gain for the year	<u>2,271,426</u>	<u>1,147,720</u>

The accompanying notes are an integral part of the financial statements

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
STATEMENT OF CHANGES IN ASSETS, NET

	<u>Unrestricted</u>		<u>Restricted</u>		<u>TOTAL</u> <u>NIS</u>
	<u>For</u> <u>Activities</u> <u>NIS</u>	<u>For Fixed</u> <u>Assets</u> <u>NIS</u>	<u>Temporary</u> <u>NIS</u>	<u>Permanently</u> <u>NIS</u>	
Balance at 1 January 2009	(2,959,157)	1,496,077	1,352,852	1,520,800	1,410,572
<u>Additions (subtractions)</u> <u>during 2009:</u>					
Net income for the year	1,147,720	-	-	-	1,147,720
Exchange difference and interest from restricted receipt	-	-	-	(8,013)	(8,013)
Restricted receipt	-	-	572,787	-	572,787
Payments from assets with temporary restrictions	-	-	(1,352,852)	-	(1,352,852)
Transfer of unrestricted Amounts, applied to the purchasing of fixed assets	(987,534)	987,534	-	-	-
Amounts transferred to cover depreciation expense	(236,817)	236,817	-	-	-
Balance at 31 December 2009	<u>(3,035,788)</u>	<u>2,720,428</u>	<u>-</u>	<u>1,512,787</u>	<u>1,197,427</u>
<u>Additions (subtractions)</u> <u>during 2010:</u>					
Net income for the year	2,271,426	-	-	-	2,271,426
Exchange difference and interest from restricted receipt	-	-	-	(79,779)	(79,779)
Transfer of unrestricted Amounts, applied to the purchasing of fixed assets	(34,744)	34,744	-	-	-
Amounts transferred to cover depreciation expense	(309,831)	309,831	-	-	-
Balance at 31 December 2010	<u>(1,108,937)</u>	<u>3,065,003</u>	<u>-</u>	<u>1,433,008</u>	<u>3,389,074</u>

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
CONSOLIDATED STATEMENT OF CASH FLOW

	<u>For the year ended</u>	
	<u>31 December</u>	
	<u>2010</u>	<u>2009</u>
	<u>NIS</u>	<u>NIS</u>
<u>Cash flow from current activities</u>		
Surplus according to the Statement of operating activities	2,271,426	1,147,720
<u>Income and expenses not involving cash flow:</u>		
Depreciation	301,154	287,515
Increase in the liability for employee severance pay	(130)	(144,923)
Capital gain	-	(470,766)
<u>Changes in assets and liabilities items:</u>		
Decrease (increase) in accounts receivable	(855,293)	1,470,514
Decrease in current liabilities	(877,750)	(908,830)
Net cash derived from current	839,407	1,381,230
<u>Cash flow from investment activities</u>		
Purchase of fixed assets	(26,066)	(2,210,874)
Gain from selling of fixed assets	-	1,169,774
Net cash used for investment activities	(26,066)	(1,041,100)
<u>Cash flow from financial activities</u>		
Permanently restricted receipt	(79,779)	-
Exchange differences on restricted receipts	-	(1,352,852)
Net cash used for financial activities	(79,779)	(1,352,852)
Increase (decrease) in cash and cash equivalents	733,562	(1,012,722)
Balance of cash and cash equivalents at the beginning of the year	1,229,135	2,241,857
Balance of cash and cash equivalents at the end of the year	1,962,697	1,229,135

The accompanying notes are an integral part of the financial statements

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General

- A. The main objectives of Elem -Youth in Distress are to support and develop different types of treatment and education frameworks for youth in distress and arouse public awareness to the problems of youth in distress.
- B. Many of ELEM's professional programs are operated in cooperation with other services and agencies (Youth Protection Authority, Shahal NPO, Einav NPO, Amal Schools, etc.).
The financial activities recorded in the Financial Statements reflect ELEM's activities and not the overall activities of all the programs and partners.
- C. The Association was founded at the initiative of "Elem USA", an association registered in the United State with the object of providing assistance to youth in distress situations in Israel. Since the foundation of the Association, "Elem USA" has been involved in its activities and has provided financial assistance to the Association. Several members of "Elem USA" also serve as members of the Board of Management of the Association in Israel.
In each year, "Elem USA" allocates amounts, out of the funds raised by it in the United State, to finance the operations of the Association in Israel. "Elem USA" agreed in 2004 to transfer to the Association an amount of 360 thousand US\$, in addition to the regular annual allocation. This amount was transferred partly in 2004 and partly in 2005, and was recorded as income in those years. "Elem USA" informed the Association that the amounts of the regular allocations to be made in the years 2005 to 2009, inclusive, would be reduced in each of the above years by an amount equal to 20% of the said additional amount.

Note 2 - Significant accounting policies

The following significant accounting policies were applied on a consistent basis in preparing the Financial Statements:

- A. The financial statements are presented in accordance with Opinion No. 69 of the Institute of Certified Public Accountants in Israel.
- B. **Cash and cash equivalents**
Cash equivalents refer to highly liquid investments, including, among others, short-term bank deposits with due dates not exceeding three months from the date of deposit.

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continue)

Note 2 - Significant accounting policies (continue)

C. Short-term investments

Stated at market value on Balance, Sheet date, in accordance with the provisions of the Opinion of the Institute of Certified Public Accountants in Israel. The change in value of the investments is carried to Financial Income.

D. Fixed Assets

These assets are stated at cost, less accumulated depreciation. Depreciation is computed by the straight-line method on the basis of the estimated useful life of the assets, at the following annual rates:

	%
Computers	33
Furniture and Equipment	6-15
Leasehold improvements	10-16
Motor vehicles	15

E. Recognition of revenue and expenses

Revenue is presented on the basis of the collection during the current year, in addition to amounts that belong to the current year which Elem collected at the first quarterly of the following year.

The expenses are presented on accrued basis.

F. Foreign currency

Amount in foreign currency are presented according to the representative exchange rate at balance sheet date.

Exchange differences on restricted amounts are reflected in the statement of changes in assets net.

G. Consolidated financial statements

The consolidated financial statements include the financial statements of Elem and those of its wholly owned and controlled subsidiaries.

Intercompany balances and transactions have been eliminated on consolidation.

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continue)

Note 3 - Cash and Cash Equivalents

	<u>31 December</u>	
	<u>2010</u>	<u>2009</u>
	<u>NIS</u>	<u>NIS</u>
Short-term deposits in NIS (*)	1,694,941	894,955
Current account in NIS	197,618	193,688
Checks – receivable	15,600	140,492
	<u>1,962,697</u>	<u>1,229,135</u>

(*) Of the above deposits an amount of NIS 480,000 is pledged in favor of the bank as security for bank guarantees issued in favor of lease property owners and an amount of NIS 120,000 serves as collateral for credit.

Note 4 - Accounts Receivable

	<u>31 December</u>	
	<u>2010</u>	<u>2009</u>
	<u>NIS</u>	<u>NIS</u>
Income receivable (*)	2,587,696	2,360,517
Advanced payment to vendors	855,507	116,025
Prepaid	31,466	10,805
Costumers	8,901	60,978
Others	400	573
	<u>3,483,970</u>	<u>2,548,898</u>

(*) In addition, there is income receivable of 1,000 thousand shekels for the year 2009 (620 thousand shekels for the year 2008) from government offices and local authorities, that wasn't collected until the end of the first quarter of the following year.

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continue)

Note 5 - Consolidated Fixed Assets

<u>Cost</u>	<u>Leasehold improvements NIS</u>	<u>Mobile aid units vans NIS</u>	<u>Computers and other equipment NIS</u>	<u>Building for a certain project (*) NIS</u>	<u>TOTAL NIS</u>
Cost at 31 December 2009	132,653	2,813,495	524,497	1,463,500	4,934,146
Addition and Disposals	-	-	34,744	-	34,744
Cost at 31 December 2010	<u>132,653</u>	<u>2,813,495</u>	<u>559,241</u>	<u>1,463,500</u>	<u>4,968,890</u>
<u>Accumulated depreciation</u>					
Accumulated depreciation at 31 December 2009	41,950	1,734,980	427,031	9,757	2,213,718
Depreciation expenses and Disposals	<u>13,265</u>	<u>241,856</u>	<u>35,197</u>	<u>19,513</u>	<u>309,831</u>
Accumulated depreciation at 31 December 2010	<u>55,215</u>	<u>1,976,828</u>	<u>462,228</u>	<u>29,270</u>	<u>2,523,541</u>
Cost, less accumulated depreciation at 31 December 2010	<u><u>77,438</u></u>	<u><u>836,667</u></u>	<u><u>97,013</u></u>	<u><u>1,434,230</u></u>	<u><u>2,445,340</u></u>
Cost, less accumulated depreciation at 31 December 2009	<u>90,703</u>	<u>1,078,515</u>	<u>97,467</u>	<u>1,453,743</u>	<u>2,720,428</u>

(*) The building was purchased at beginning of 2009 and the activity of the certain project began at July 2009.

The building is situated at 8 Tiberias street, Tel Aviv, block 7091, plot 159/1-4.

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continue)

Note 6 - Accounts payable

	<u>31 December</u>	
	<u>2010</u>	<u>2009</u>
	<u>NIS</u>	<u>NIS</u>
Income Tax Authorities and National Insurance Institute	304,999	318,162
Employee institutions	329,449	288,644
Employees	1,200,554	1,177,993
Suppliers	744,101	656,346
Accrued expenses	38,422	10,000
Other	141,011	180,608
	<u>2,758,536</u>	<u>2,631,753</u>

Note 7 - Liability for termination of employer-employee relationship, net

- A. ELEM's liabilities for retirement and severance pay to its employees are computed on the basis of their most recent salary and the length of their employment. Part of these liabilities are covered by regular deposits, in the name of the employee, with provident funds or insurance companies. These amounts are not reflected in the Financial Statements since they are not under ELEM's control.
- B. The balances in the severance pay funds include accrued profits. Withdrawals from the funds are contingent upon compliance with Israeli laws applicable to severance pay.

Note 8 - Assets with permanent restriction

The amount of NIS 1,433,008 (About \$400,000) was transferred from Elem USA for use as collateral for current loans from the bank.

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continue)

Note 9 - Cost of Activities

	<u>31 December</u>	
	<u>2010</u>	<u>2009</u> *
	<u>NIS</u>	<u>NIS</u>
Information centers and community programs, Y Elem, "Yesh Lean", instruction and recruitment of volunteers	5,963,136	5,514,972
Street programs, instruction and recruitment of volunteers	4,005,783	4,035,868
Programs for extreme distress and unique projects – "Galgal", Shelter, Someone to Run With, Awake at Night and "Hetzeva"	3,302,213	3,357,363
Multi-Cultural projects – "Migdalar", New immigrant girls, Arabic youth, Instruction and recruitment of volunteers	3,061,165	3,295,340
Voluntary and community programs – Seeds of Change, Youth centers in Kfar Sava and Beer Sheva and Mediation	693,547	591,636
Occupational activity for professional training – Lilit project, Café Yael, Bigud, Kapit, Derech Hamelech and Atzmai Bashetach	3,736,595	3,067,158
Programs for Adolescent Girls - A Real Home and ADI Center	1,435,444	1,787,067
Guidance and management of knowledge	1,090,613	828,144
Inter-organizational initiatives and partnerships - The center for the prevention and treatment of sexual violence among children and youth in Tel Aviv, Afula and Tamra	1,889,271	1,554,659
Business activity for professional training (see breakdown)	<u>557,672</u>	<u>973,645</u>
	<u>25,735,439</u>	<u>24,866,938</u>

* Restated

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continue)

Note 9 - Cost of Activities (continue):
Breakdown of vocational training business activity

	<u>3 1 D e c e m b e r</u>	
	<u>2 0 1 0</u>	<u>2 0 0 9</u>
	<u>NIS</u>	<u>NIS</u>
Inventory- beginning of year	8,000	160,071
Purchase	135,929	143,930
Inventory- end of the year	(8,000)	(8,000)
	135,929	296,001
Expenses:		
Salaries	347,215	534,098
Equipment	15,342	43,548
Deprecation	35,030	26,353
Maintenance	24,156	69,328
Municipality tax	-	2,494
Other	-	1,823
	421,743	677,644
Total business activities	557,672	973,645

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continue)

Note 10 - Administrative and General Expenses

	<u>31 December</u>	
	<u>2010</u>	<u>2009</u>
	<u>NIS</u>	<u>NIS</u>
Salaries and social benefits	2,683,553	2,502,075
Office supplies and printing	96,565	99,360
Mail and communication	122,545	92,743
Rent	208,759	254,289
Electricity	27,159	29,282
Insurance	22,764	15,360
Transportation and parking	15,542	15,111
Auditing and professional fee	57,800	65,597
In-service Training	39,681	9,296
Office maintenance	160,127	143,415
Advertising and public relations	208,121	403,833
Municipal taxes and rates	44,081	37,299
Depreciation	13,432	21,202
Entertainment	11,245	4,875
Moving expenses to the new office	-	108,022
Others	40,489	20,327
Car maintenance	216,389	166,686
	<u>3,968,252</u>	<u>3,988,772</u>

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)
ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continue)

Note 11 - Fundraising expenses

Since the year 2004, Elem has been carrying out a yearly project (Campaign) called "The Flag Lights of Hope". The project's main goals are:

1. To raise the public's awareness of its activities.
2. Expose the activity of Elem association to its target audience.
3. Recruit volunteers for new projects of the Elem association.
4. Encourage the public to contribute to Elem by lighting the bulbs of the flag.

Therefore, 50 percent of the project cost was categorized as a part of Elem's activities expenses, and 50 percent of the project cost was categorized as fundraising expenses.

schedule of consolidated subsidiarie

		<u>Share in</u> <u>Equity</u> <u>%</u>	<u>Share in</u> <u>Control</u> <u>%</u>
Lilit Restaurants Ltd.	a	100	100
Vocational Initiatives for Youth Ltd.	b	100	100

a.

1. The company was incorporated in 1999 and it owns Lilit Restaurant in Tel- Aviv, which is used as a vehicle for training youth at risk in the field of restaurants and catering.
2. On the 17th of September 2008 the organization and Lilit Restaurant Ltd. signed an agreement with a group of investors (hereinafter: "the investors") transferring the restaurant's activities to the investors on 1 January 2009 together with its furniture, equipment, facilities, stock, knowledge and reputation as of the date of transfer.

In return to the above transfer the investors undertook to fully pay off all the company's obligations as of the transfer date (with a deduction of the remaining cash and remaining moneys owed that could be collected), including an undertaking to pay dismissal compensation to the employees who agreed to continue to be employed by the investors.

In accordance with the stated above, on January 1 2009 Lilit restaurant Ltd has transferred its operations to the investors.

Furthermore, the investors undertook to continue the program of employing youth in distress and providing them with a practical profession. Elem undertook to provide the investors with a social worker to take care of the youth employed in the restaurant and to participate in salaries of the youth in 2009 and 2010 in the total amount of NIS 120,000 each year plus VAT.

b.

The company was incorporated in 2006 and it conducts several enterprises for vocational training of youth at risk.