

**ELEM – YOUTH IN DISTRESS (REG. ASSOC.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2008**

**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, 2008 and 2007 and the related statements of consolidated operations for the years ended December 31, 2008 and 2007. 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, 2008 and 2007 and the results of its operations for the years ended December 31, 2008 and 2007, in conformity with generally accepted accounting principles.

  
**Erlichman Cinman & Co.**  
**Certified Public Accountants (Israel)**

Tel-Aviv, Israel,  
August 19, 2009

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

	<u>Note</u>	<u>31 December</u>	
		<u>2008</u>	<u>2007</u>
		<u>NIS</u>	<u>NIS</u>
<b><u>Current assets</u></b>			
Cash and cash equivalents	3	2,241,857	1,314,455
Accounts receivable	4	3,700,549	3,149,851
Credit cards companies		126,792	252,792
Inventories		200,071	139,564
		<u>6,269,269</u>	<u>4,856,662</u>
<b><u>Long term deposits</u></b>			
	5	<u>1,520,800</u>	<u>2,708,903</u>
<b><u>Fixed assets</u></b>			
	6	<u>1,496,077</u>	<u>1,430,221</u>
		<b><u>9,286,146</u></b>	<b><u>8,995,786</u></b>
<b><u>Current liabilities</u></b>			
Banks – overdraft		470,805	1,775,939
Outstanding Checks		1,267,577	1,225,175
Earmarked contributions, not yet applied to activities		2,497,535	592,472
Accounts payable	7	3,026,960	2,761,328
Bank loan		100,000	100,000
Current maturities of loans		-	109,962
		<u>7,362,877</u>	<u>6,564,876</u>
<b><u>Employee severance pay liability, net</u></b>			
	8	<u>512,697</u>	<u>562,352</u>
<b><u>Surplus, net</u></b>			
<b><u>Unrestricted assets, net:</u></b>			
Non-carmarked by the Association's institutions		(2,959,157)	(2,173,996)
Used for fixed and other assets		1,496,077	1,430,221
		<u>(1,463,080)</u>	<u>(743,775)</u>
Net assets with temporary restrictions	9	1,352,852	928,000
Net assets with permanent restrictions	10	1,520,800	1,684,333
		<u>1,410,572</u>	<u>1,868,558</u>
		<b><u>9,286,146</u></b>	<b><u>8,995,786</u></b>

**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>2008</u>	<u>2007</u>
	<u>NIS</u>	<u>NIS</u>
<b><u>Activity turnover</u></b>		
Non – earmarked donations	5,172,920	5,776,990
Earmarked donations – from foundations	9,879,792	9,431,817
From non-profit organizations	214,223	205,860
Government institutions	3,159,815	2,939,339
From local authorities	2,732,793	2,287,330
From local authorities – projects	1,025,309	773,603
From other public organizations	720,323	527,290
Income from branches	781,277	656,830
Income from projects	2,174,467	1,335,302
From Elem-USA	1,993,955	2,344,404
Business activities for projects training	6,004,475	5,274,230
	<u>33,859,349</u>	<u>31,552,995</u>
<b><u>Cost of activities</u></b> - Note 11	<u>29,834,132</u>	<u>26,036,468</u>
Net income from activities	..... 4,025,217	..... 5,516,527
<b><u>General expenses</u></b>		
Administrative and General - Note 12	3,966,523	3,636,208
Increase (Decrease) in severance pay liability	14,399	(14,824)
Fundraising expenses net - Note 13	1,132,064	872,606
	<u>5,112,986</u>	<u>4,493,990</u>
<b><u>Net gain (loss) before financial expenses</u></b>	(1,087,769)	1,022,537
Financial income (expenses) net	368,464	(58,617)
<b>Net gain (loss) for the year</b>	<u>(719,305)</u>	<u>963,920</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>	
<b>Balance at 1 January 2007</b>	(3,507,462)	1,799,767	1,040,000	1,850,000	1,182,305
<u>Additions (subtractions)</u> <u>during 2007:</u>					
Net income for the year	963,920	-	-	-	963,920
Exchange difference and interest from restricted receipt	-	-	(112,000)	(165,667)	(277,667)
Transfer of unrestricted Amounts, applied to the purchasing of fixed assets	(193,454)	193,454	-	-	-
Amounts transferred to cover depreciation expense	563,000	(563,000)	-	-	-
<b>Balance at 31 December 2007</b>	<b>(2,173,996)</b>	<b>1,430,221</b>	<b>928,000</b>	<b>1,684,333</b>	<b>1,868,558</b>
<u>Additions (subtractions)</u> <u>during 2008:</u>					
Net expenses for the year	(719,305)	-	-	-	(719,305)
Exchange difference and interest from restricted receipt	-	-	(147,935)	(163,533)	(311,468)
Restricted receipt	-	-	572,787	-	572,787
Transfer of unrestricted Amounts – applied to the purchasing of fixed assets	(433,119)	433,119	-	-	-
Amounts transferred to cover depreciation expense	367,263	(367,263)	-	-	-
<b>Balance at 31 December 2008</b>	<b>(2,959,157)</b>	<b>1,496,077</b>	<b>1,352,852</b>	<b>1,520,800</b>	<b>1,410,572</b>

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

	<u>For the year ended</u>	
	<u>31 December</u>	
	<u>2008</u>	<u>2007</u>
	<u>NIS</u>	<u>NIS</u>
<b><u>Cash flow from current activities</u></b>		
Surplus (Deficit) according to the Statement of operating activities	(719,305)	963,920
<b><u>Income and expenses not involving cash flow:</u></b>		
Depreciation	367,263	563,000
Increase (decrease) in the liability for employee severance pay	(49,655)	25,176
Other	-	40,532
<b><u>Changes in assets and liabilities items:</u></b>		
Decrease (increase) in accounts receivable	(485,205)	(473,974)
Increase (decrease) in current liabilities	798,001	(*) ( 66,984)
<b>Net cash derived from current activities (used for current activities)</b>	<b><u>(88,901)</u></b>	<b><u>1,051,670</u></b>
<b><u>Cash flow from investment activities</u></b>		
Purchase of fixed assets	(433,119)	(193,454)
<b>Net cash used for investment activities</b>	<b><u>(433,119)</u></b>	<b><u>(193,454)</u></b>
<b><u>Cash flow from financial activities</u></b>		
Permanently restricted receipt	527,787	-
Repayment of long term loan	-	(611,941)
Exchange differences on restricted receipts	(266,468)	(277,667)
<b>Net cash derived from financial activities (used for financial activities)</b>	<b><u>261,319</u></b>	<b><u>(889,608)</u></b>
<b>Decrease in cash and long term deposits</b>	<b>(260,701)</b>	<b>(31,392)</b>
<b>Balance of cash and long term deposits at the beginning of the year</b>	<b><u>4,023,358</u></b>	<b><u>4,054,750</u></b>
<b>Balance of cash and long term deposits at the end of the year</b>	<b><u>3,762,657</u></b>	<b><u>4,023,358</u></b>

(\*) Reclassified

**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:

	<u>%</u>
Computers	33
Furniture and Equipment	6-15
Leasehold improvements	10-16
Motor vehicles	15

**E. 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.

**F. 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**  
(Continuc)

**Note 3 - Cash and Cash Equivalents**

	<u>31 December</u>	
	<u>2008</u>	<u>2007</u>
	<u>NIS</u>	<u>NIS</u>
Short-term deposits in NIS (*)	1,500,981	470,000
Current account in NIS	158,185	38,547
Checks – receivable	582,691	805,908
	<u>2,241,857</u>	<u>1,314,455</u>

(\*) Of the above deposits an amount of NIS 420,000 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.

The remaining deposits are marked for purchasing a building, for a certain project, in Tel Aviv, which was purchased after the financial statement.

**Note 4 - Accounts Receivable**

	<u>31 December</u>	
	<u>2008</u>	<u>2007</u>
	<u>NIS</u>	<u>NIS</u>
Income receivable (*)	2,938,914	2,456,460
Advanced payment to vendors	442,809	279,764
Prepaid	44,944	25,290
Costumers	272,586	279,428
Others	1,296	108,909
	<u>3,700,549</u>	<u>3,149,851</u>

(\*) In addition, there is still an amount of NIS 300,000 to be received from government and public authorities that has not been collected prior to signing the financial statements.

**Note 5 - Long Term Deposits**

	<u>31 December</u>	
	<u>2008</u>	<u>2007</u>
	<u>NIS</u>	<u>NIS</u>
Foreign currency deposits	1,520,800	2,184,333
Deposits in NIS	-	524,570
	<u>1,520,800</u>	<u>2,708,903</u>

See also note 10 regarding the restriction of the use of the funds.

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

**Note 6 - Consolidated Fixed Assets**

	<u>Leasehold improvements</u> NIS	<u>Mobile aid units Vans</u> NIS	<u>Computers And other equipment</u> NIS	<u>TOTAL</u> NIS
<b>Cost</b>				
Cost at				
31 December 2007	960,265	1,807,881	745,347	3,513,493
Addition	31,794	258,240	143,085	433,119
Cost at				
31 December 2008	<u>992,059</u>	<u>2,066,121</u>	<u>888,432</u>	<u>3,946,612</u>
<b>Accumulated depreciation</b>				
Accumulated				
depreciation at				
31 December 2007	278,473	1,355,377	449,422	2,083,272
Depreciation expenses	145,173	149,399	72,691	367,263
Accumulated				
depreciation at				
31 December 2008	<u>423,646</u>	<u>1,504,776</u>	<u>522,113</u>	<u>2,450,535</u>
Cost, less accumulated				
depreciation at				
31 December 2008	<u>568,413</u>	<u>561,345</u>	<u>366,319</u>	<u>1,496,077</u>
Cost, less accumulated				
depreciation at				
31 December 2007	<u>681,792</u>	<u>452,504</u>	<u>295,925</u>	<u>1,430,221</u>

The organization decided not to renew the lease contract for the main offices in Neot Afeka that ended on 31 December 2008. It signed a lease contract for the main offices at a new location in Bnei Brak. This contract is for 2 years from 1 January 2009 with an option to extend for an additional year. Yearly rent is NIS 300,000 and it is linked to the dollar index (in the event that the dollar exchange rate will exceed NIS4 = \$1). Due to the above, the remaining NIS 24,000 for leasehold improvements was erased.

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

**Note 7 - Accounts payable**

	<u>31 December</u>	
	<u>2008</u>	<u>2007</u>
	<u>NIS</u>	<u>NIS</u>
Income Tax Authorities and National Insurance Institute	336,190	352,540
Employee institutions	294,509	227,376
VAT	28,670	43,720
Employees	1,225,594	1,116,869
Suppliers	1,031,889	885,879
Accrued expenses	89,231	134,943
Other	20,877	-
	<u>3,026,960</u>	<u>2,761,327</u>

**Note 8 - 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 9 - Assets with temporary restriction**

The amount of NIS 1,352,852 was designated by the donor for buying a building for a certain project.  
The association bought the building in 2009.

**Note 10 - Assets with permanent restriction**

The amount of NIS 1,520,800 (\$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 11 - Cost of Activities**

	<u>31 December</u>	
	<u>2008</u>	<u>2007</u>
	<u>NIS</u>	<u>NIS</u>
Information centers and community programs, Y Elem, "Yesh Lean", instruction and recruitment of volunteers	5,753,974	5,873,079
Street programs, instruction and recruitment of volunteers	3,996,299	2,974,795
Programs for extreme distress and unique projects – "Galgal", Shelter, Someone to Run With, Awake at Night and "Hetzeva"	2,619,243	1,918,176
Multi-Cultural projects – "Migdalar", New immigrant girls, Arabic youth, Instruction and recruitment of volunteers	3,266,051	3,371,110
Voluntary and community programs – Seeds of Change, Youth centers in Kfar Sava and Beer Sheva and Mediation	1,838,640	1,726,958
Occupational activity for professional training – Lilit project, Café Yael, Bigud, Kapit, Derech Hameloch and Atzmai Bashetach	1,388,356	1,031,353
Programs for Adolescent Girls - A Real Home and ADI Center	1,791,827	1,698,413
Guidance and management of knowledge	1,156,164	319,970
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	1,365,424	1,314,960
Business activity for professional training (see breakdown)	<u>6,658,154</u>	<u>5,807,654</u>
	<u>29,834,132</u>	<u>26,036,468</u>

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

**Note 11 - Cost of Activities (continue):**  
Breakdown of vocational training business activity

	<u>31 December</u>	
	<u>2008</u>	<u>2007</u>
	<u>NIS</u>	<u>NIS</u>
Inventory- beginning of year	99,564	37,700
Purchase	1,899,495	1,596,101
Inventory- end of the year	(160,071)	(99,564)
	<u>1,838,988</u>	<u>1,534,237</u>
-----		
Expenses:		
Salaries	3,138,434	2,765,170
Equipment	33,820	23,228
Deprecation	211,861	178,174
Maintenance	382,860	305,485
Rent	403,241	361,870
Municipality tax	179,480	140,716
Advertising	82,330	29,407
Electricity	183,823	169,771
Office supply	25,428	22,239
Security	75,637	79,994
Communication	17,234	13,356
Dishes	53,530	91,746
Lost debts	-	61,940
Insurance	31,488	30,321
	<u>4,819,166</u>	<u>4,273,417</u>
-----		
Total business activities	<u>6,658,154</u>	<u>5,807,654</u>

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

**Note 12 - Administrative and General Expenses**

	<b><u>31 December</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
	<b><u>NIS</u></b>	<b><u>NIS</u></b>
Salaries and social benefits	2,656,245	2,349,454
Office supplies and printing	75,117	94,838
Mail and communication	81,045	81,687
Rent	188,887	180,313
Electricity	40,318	38,205
Insurance	7,238	12,549
Transportation and parking	8,144	7,802
Auditing and professional fee	121,530	105,400
In-service Training	11,771	12,437
Office maintenance	143,180	136,845
Advertising and public relations	400,764	378,503
Municipal taxes and rates	22,992	61,244
External consultancy	-	2,052
Depreciation	48,843	19,652
Board meetings	17,481	11,106
Entertainment	7,315	3,255
Others	3,660	12,075
Car maintenance	122,989	114,562
Computers	9,004	14,229
	<b><u>3,966,523</u></b>	<b><u>3,636,208</u></b>

**Note 13 - Fundraising expenses**

Since the year 2004, Elem has been carrying out a project called "The Flag Lights of Hope". The project's goals are to raise the public's awareness of its activities, strengthen the connection with the youth in distress, recruit volunteers for new projects of the Elem association and encourage the public to contribute to Elem by lighting the bulbs of the flag.

The expenses of fundraising include a total of NIS 610,000 (in the previous year NIS 464,000) that were allocated to it from the Flag Light Project.

**ELEM – YOUTH IN DISTRESS (REG. ASSOC.)**  
**ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**schedule of consolidated subsidiaries**

		<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 17<sup>th</sup> 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.