

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)

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אדל"כמן, סינמן ושות' רואי חשבון
ERLICHMAN, CINMAN & Co. C.P.A. (ISR.)

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, 2011 and 2010 and the related statements of consolidated operations for the years ended December 31, 2011 and 2010. 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, 2011 and 2010 and the results of its operations for the years ended December 31, 2011 and 2010, in conformity with generally accepted accounting principles.

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

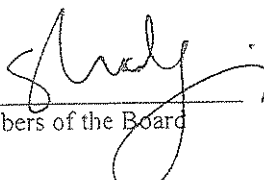
Tel-Aviv, Israel,
April 27, 2012

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

	<u>Note</u>	<u>31 December</u>	
		<u>2011</u>	<u>2010 *</u>
		<u>NIS</u>	<u>NIS</u>
<u>Current assets</u>			
Cash and cash equivalents	3	3,093,949	1,962,697
Accounts receivable	4	2,372,963	2,742,183
Inventories		4,000	8,000
		<u>5,454,667</u>	<u>4,712,880</u>
<u>Long term deposits</u>			
	8	<u>1,528,985</u>	<u>1,433,008</u>
<u>Fixed assets</u>			
	5	<u>2,334,696</u>	<u>2,445,340</u>
		<u>9,334,593</u>	<u>8,591,228</u>
Banks – overdraft		49,198	728,597
Outstanding Checks		272,235	210,676
Earmarked contributions, not yet applied to activities		2,379,698	1,136,701
Accounts payable	6	<u>2,629,995</u>	<u>2,758,536</u>
		<u>5,331,126</u>	<u>4,834,510</u>
<u>Employee severance pay liability, net</u>	7	<u>255,302</u>	<u>367,644</u>
<u>Surplus, net</u>			
<u>Unrestricted assets, net:</u>			
Non-earmarked by the Association's institutions		(115,516)	(489,274)
Used for fixed and other assets		2,334,696	2,445,340
		<u>2,219,180</u>	<u>1,956,066</u>
Net assets with permanent restrictions	8	<u>1,528,985</u>	<u>1,433,008</u>
		<u>3,748,165</u>	<u>3,389,074</u>
		<u>9,334,593</u>	<u>9,333,015</u>

* Reclassified

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>2011</u>	<u>2010 *</u>
	<u>NIS</u>	<u>NIS</u>
<u>Activity turnover</u>		
Non – earmarked donations	6,843,093	5,863,036
Earmarked donations – from foundations	9,335,233	9,801,876
From non-profit organizations	541,431	941,626
Government institutions	4,475,590	6,840,504
From local authorities	4,331,385	3,896,200
From other public organizations	607,066	1,478,803
Income from branches	687,777	854,036
Income from projects	837,975	1,005,102
From Elem-USA	2,798,598	2,403,750
Business activities for projects training	198,010	245,655
	<u>30,656,158</u>	<u>33,330,588</u>
<u>Cost of activities</u> - Note 9	<u>25,275,047</u>	<u>25,735,439</u>
Net income from activities	5,381,111	7,595,149
<u>General expenses</u>		
Administrative and General - Note 10	3,497,966	3,968,252
Fundraising expenses net - Note 11	1,511,019	1,190,911
	<u>5,008,985</u>	<u>5,159,163</u>
Net gain before financial expenses	372,126	2,435,986
Financial expenses net	<u>109,012</u>	<u>164,560</u>
Net gain for the year	<u>263,114</u>	<u>2,271,426</u>

* Restated

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>For</u> <u>Activities</u> <u>NIS</u>	<u>For Fixed</u> <u>Assets</u> <u>NIS</u>	<u>Restricted</u> <u>Permanently</u> <u>NIS</u>	<u>TOTAL</u> <u>NIS</u>
Balance at 1 January 2010	(3,035,788)	2,720,428	1,512,787	1,197,427
<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>(489,832)</u>	<u>2,445,340</u>	<u>1,433,008</u>	<u>3,389,074</u>
<u>Additions (subtractions)</u> <u>during 2011:</u>				
Net income for the year	263,114	-	-	263,114
Exchange difference and interest from restricted receipt	-	-	(95,977)	(95,977)
Transfer of unrestricted Amounts, applied to the purchasing of fixed assets	(193,245)	193,245	-	-
Amounts transferred to cover depreciation expense	303,889	(303,889)	-	-
Balance at 31 December 2011	<u>(115,516)</u>	<u>2,334,696</u>	<u>1,528,985</u>	<u>3,748,165</u>

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

	<u>For the year ended</u>	
	<u>31 December</u>	
	<u>2011</u>	<u>2010 *</u>
	<u>NIS</u>	<u>NIS</u>
<u>Cash flow from current activities</u>		
Surplus according to the Statement of operating activities	263,114	2,271,426
<u>Income and expenses not involving cash flow:</u>		
Depreciation	303,889	301,154
Increase in the liability for employee severance pay	(112,342)	(130)
<u>Changes in assets and liabilities items:</u>		
Decrease (increase) in accounts receivable	373,220	(193,285)
Increase (decrease) in current liabilities	1,176,015	(2,007,384)
Net cash derived from current	<u>2,003,896</u>	<u>371,781</u>
<u>Cash flow from investment activities</u>		
Purchase of fixed assets	(193,245)	(26,066)
Net cash used for investment activities	<u>(193,245)</u>	<u>(26,066)</u>
<u>Cash flow from financial activities</u>		
Short-term credit	(679,399)	387,847
Net cash used for financial activities	<u>(679,399)</u>	<u>387,847</u>
Increase in cash and cash equivalents	1,131,252	733,562
Balance of cash and cash equivalents at the beginning of the year	1,962,697	1,229,135
Balance of cash and cash equivalents at the end of the year	<u>3,093,949</u>	<u>1,962,697</u>

* 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.

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.

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.

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

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 until mid-April 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>2011</u>	<u>2010</u>
	<u>NIS</u>	<u>NIS</u>
Short-term deposits in NIS (*)	1,722,845	1,694,941
Current account in NIS	1,090,677	197,618
Checks – receivable	232,719	15,600
Credit company	47,708	54,538
	<u>3,093,949</u>	<u>1,962,697</u>

(*) Of the above deposits an amount of NIS 413,000 is pledged in favor of the bank as security for bank guarantees issued in favor of lease property owners.

Note 4 - Accounts Receivable

	<u>31 December</u>	
	<u>2010</u>	<u>2010 *</u>
	<u>NIS</u>	<u>NIS</u>
Income receivable (*)	2,268,440	2,587,696
Advanced payment to vendors	79,122	113,720
Prepaid	6,586	31,466
Costumers	12,950	8,901
Others	400	400
	<u>2,372,963</u>	<u>2,742,183</u>

* Restated

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

Note 5 - Consolidated Fixed Assets

	<u>Leasehold improvements</u> NIS	<u>Mobile aid units vans</u> NIS	<u>Computers and other equipment</u> NIS	<u>Building for a certain project (*)</u> NIS	<u>TOTAL</u> NIS
Cost					
Cost at					
31 December 2010	132,653	2,813,495	559,241	1,463,500	4,968,890
Addition and Disposals	<u>16,255</u>	<u>165,233</u>	<u>11,757</u>	<u>-</u>	<u>193,245</u>
Cost at					
31 December 2011	<u>1458,908</u>	<u>2,978,728</u>	<u>570,999</u>	<u>1,463,500</u>	<u>5,162,135</u>
Accumulated depreciation					
Accumulated depreciation at					
31 December 2010	55,215	1,976,836	462,229	29,270	2,523,541
Depreciation expenses and Disposals	<u>14,663</u>	<u>243,420</u>	<u>26,293</u>	<u>19,513</u>	<u>303,889</u>
Accumulated depreciation at					
31 December 2011	<u>69,878</u>	<u>2,220,256</u>	<u>488,522</u>	<u>48,783</u>	<u>2,827,439</u>
Cost, less accumulated depreciation at					
31 December 2011	<u>79,030</u>	<u>758,472</u>	<u>82,477</u>	<u>1,414,717</u>	<u>2,334,696</u>
Cost, less accumulated depreciation at					
31 December 2010	<u>77,438</u>	<u>836,667</u>	<u>97,013</u>	<u>1,434,230</u>	<u>2,445,340</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>2011</u>	<u>2010</u>
	<u>NIS</u>	<u>NIS</u>
Income Tax Authorities and National Insurance Institute	235,100	304,999
Employee institutions	327,103	329,449
Employees	1,201,638	1,200,554
Suppliers	629,022	744,101
Accrued expenses and other	237,132	179,433
	2,629,995	2,758,536

* Restated

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 1,528,985 (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>2011</u>	<u>2010 *</u>
	<u>NIS</u>	<u>NIS</u>
Information centers, counseling and community programs, Y Elem, "Yesh Lean", instruction and recruitment of volunteers	5,710,111	5,956,653
Street programs, instruction and recruitment of volunteers	4,271,800	3,999,306
Programs for extreme distress and unique projects – "Galgal", Shelter, Someone to Run With, Awake at Night	4,325,736	4,737,657
Multi-Cultural projects – "Migdalar", New immigrant girls, Arabic youth	3,075,347	3,054,688
Voluntary and community	464,905	477,784
Occupational activity for professional training – Lilit project, Café Yael, Bigud, Kapit, Derech Hamelech and Atzmai Bshetach	3,807,556	3,971,795
Guidance and management of knowledge	1,102,224	1,090,613
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	2,059,631	1,889,271
Business activity for professional training (see breakdown)	<u>457,737</u>	<u>557,672</u>
	<u>25,275,047</u>	<u>25,735,439</u>

* Reclassified

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>31 December</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS</u>	<u>NIS</u>
Inventory- beginning of year	8,000	8,000
Purchase	103,731	135,929
Inventory- end of the year	(4,000)	(8,000)
	<u>107,731</u>	<u>135,929</u>
Expenses:		
Salaries	234,113	347,215
Equipment	9,161	15,342
Deprecation	37,287	35,030
Maintenance	25,506	24,156
	<u>350,006</u>	<u>421,743</u>
Total business activities	<u>457,737</u>	<u>557,672</u>

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

Note 10 - Administrative and General Expenses

	<u>31 December</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS</u>	<u>NIS</u>
Salaries and social benefits	2,390,769	2,683,553
Office supplies and printing	82,647	96,565
Mail and communication	125,251	122,545
Rent	179,250	208,759
Electricity	29,663	27,159
Insurance	11,009	22,764
Transportation and parking	25,935	15,542
Auditing and professional fee	46,640	57,800
In-service Training	1,445	39,681
Office maintenance	135,857	160,127
Advertising and public relations	179,078	208,121
Municipal taxes and rates	40,048	44,081
Depreciation	3,669	13,432
Entertainment	8,009	11,245
Others	36,392	40,489
Car maintenance	202,304	216,389
	<u>3,497,966</u>	<u>3,968,252</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>
Vocational Initiatives for Youth Ltd.	100	100

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