

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

ELEM – YOUTH IN DISTRESS (REG. ASSOC.)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	3
Balance Sheet, at 31 December 2009	4
Operating Activities, for the year ended 31 December 2009	5
Statement of Changes in Assets, for the year ended 31 December 2009	6
Statement of Cash Flows, for the year ended 31 December 2009	7
Notes to the Financial Statements	8-16

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, 2009 and 2008 and the related statements of consolidated operations for the years ended December 31, 2009 and 2008. 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, 2009 and 2008 and the results of its operations for the years ended December 31, 2009 and 2008, in conformity with generally accepted accounting principles.

Erlichman Cinman & Co.
Certified Public Accountants (Israel)

Tel-Aviv, Israel,
April 7, 2010

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

	Note	<u>31 December</u>	
		<u>2009</u>	<u>2008</u>
		<u>NIS</u>	<u>NIS</u>
<u>Current assets</u>			
Cash and cash equivalents	3	1,369,135	2,241,857
Accounts receivable	4	2,388,898	3,700,549
Credit cards companies		-	126,792
Inventories		8,000	200,071
		<u>3,766,033</u>	<u>6,269,269</u>
<u>Long term deposits</u>			
	9	<u>1,512,787</u>	<u>1,520,800</u>
<u>Fixed assets</u>			
	5	<u>2,720,428</u>	<u>1,496,077</u>
		<u>7,999,248</u>	<u>9,286,146</u>
<u>Current liabilities</u>			
Banks – overdraft		340,750	470,805
Outstanding Checks		707,026	1,267,577
Earmarked contributions, not yet applied to activities		2,107,518	2,497,535
Accounts payable	6	2,631,753	3,026,960
Bank loan		-	100,000
		<u>5,787,047</u>	<u>7,362,877</u>
<u>Employee severance pay liability, net</u>			
	7	<u>367,774</u>	<u>512,697</u>
<u>Surplus, net</u>			
<u>Unrestricted assets, net:</u>			
Non-earmarked by the Association's institutions		(2,388,788)	(2,959,157)
Used for fixed and other assets		2,720,428	1,496,077
		<u>331,640</u>	<u>(1,463,080)</u>
Net assets with temporary restrictions	8	-	1,352,852
Net assets with permanent restrictions	9	1,512,787	1,520,800
		<u>1,844,427</u>	<u>1,410,572</u>
		<u>7,999,248</u>	<u>9,286,146</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>2009</u>	<u>2008</u>
	<u>NIS</u>	<u>NIS</u>
<u>Activity turnover</u>		
Non – earmarked donations	5,157,850	5,172,920
Earmarked donations – from foundations	11,243,735	9,879,792
From non-profit organizations	357,830	214,223
Government institutions	3,498,962	3,159,815
From local authorities	2,603,716	2,732,793
From local authorities – projects	1,044,812	1,025,309
From other public organizations	804,088	720,323
Income from branches	1,062,488	781,277
Income from projects	3,083,857	2,174,467
From Elem-USA	2,067,470	1,993,955
Business activities for projects training	408,890	6,004,475
	<u>31,333,698</u>	<u>33,859,349</u>
<u>Cost of activities</u> - Note 11	<u>24,866,938</u>	<u>29,834,132</u>
Net income from activities 6,466,760 4,025,217
<u>General expenses</u>		
Administrative and General - Note 12	3,988,772	3,966,523
Increase (Decrease) in severance pay liability	(90,977)	14,399
Fundraising expenses net - Note 13	1,217,045	1,132,064
	<u>5,114,840</u>	<u>5,112,986</u>
Net gain (loss) before financial income (expenses)	1,351,920	(1,087,769)
Financial income (expenses) net	<u>(7,966)</u>	<u>368,464</u>
Net gain (loss) after financial income (expenses)	1,343,954	(719,305)
Capital gain	<u>450,766</u>	<u>-</u>
Net gain (loss) for the year	<u>1,794,720</u>	<u>(719,305)</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 2008	(2,173,996)	1,430,221	928,000	1,684,333	1,868,558
<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)	-	-	-
Balance at 31 December 2008	(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	1,794,720	-	-	-	1,794,720
Exchange difference and interest from restricted receipt	-	-	-	(8,013)	(8,013)
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	(2,388,788)	2,720,428	-	1,512,787	1,844,427

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

	<u>For the year ended</u>	
	<u>31 December</u>	
	<u>2009</u>	<u>2008</u>
	<u>NIS</u>	<u>NIS</u>
<u>Cash flow from current activities</u>		
Surplus (Deficit) according to the Statement of operating activities	1,794,720	(719,305)
<u>Income and expenses not involving cash flow:</u>		
Depreciation	287,515	367,263
Increase (decrease) in the liability for employee severance pay	(144,923)	(49,655)
Capital gain	(450,766)	-
<u>Changes in assets and liabilities items:</u>		
Decrease (increase) in accounts receivable	1,630,514	(485,205)
Increase (decrease) in current liabilities	(1,575,830)	798,001
Net cash derived from current activities (used for current activities)	<u>1,541,230</u>	<u>(88,901)</u>
<u>Cash flow from investment activities</u>		
Purchase of fixed assets	(2,210,874)	(433,119)
Gain from selling of fixed assets	1,149,774	-
From long term investments	-	1,188,103
Net cash used for investment activities	<u>(1,061,100)</u>	<u>754,984</u>
<u>Cash flow from financial activities</u>		
Permanently restricted receipt	-	527,787
Exchange differences on restricted receipts	(1,352,852)	(266,468)
Net cash derived from financial activities (used for financial activities)	<u>(1,352,852)</u>	<u>261,319</u>
Increase (decrease) in cash and cash equivalents	(872,722)	972,402
Balance of cash and cash equivalents at the beginning of the year	<u>2,241,857</u>	<u>1,314,455</u>
Balance of cash and cash equivalents at the end of the year	<u>1,369,135</u>	<u>2,241,857</u>

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
(Continue)

Note 3 - Cash and Cash Equivalents

	<u>31 December</u>	
	<u>2009</u>	<u>2008</u>
	<u>NIS</u>	<u>NIS</u>
Short-term deposits in NIS (*)	894,955	1,500,981
Current account in NIS	193,688	158,185
Checks – receivable	280,492	582,691
	<u>1,369,135</u>	<u>2,241,857</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.

Note 4 - Accounts Receivable

	<u>31 December</u>	
	<u>2009</u>	<u>2008</u>
	<u>NIS</u>	<u>NIS</u>
Income receivable	2,200,517	2,938,914
Advanced payment to vendors	116,025	442,809
Prepaid	10,805	44,944
Costumers	60,978	272,586
Others	573	1,296
	<u>2,388,898</u>	<u>3,700,549</u>

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
<u>Cost</u>					
Cost at					
31 December 2008	992,059	2,066,121	888,432	-	3,946,612
Addition and					
Disposals	(842,428)	747,374	(380,912)	1,463,500	987,534
Cost at					
31 December 2009	<u>149,631</u>	<u>2,813,495</u>	<u>507,520</u>	<u>1,463,500</u>	<u>4,934,146</u>
<u>Accumulated depreciation</u>					
Accumulated					
depreciation at					
31 December 2008	423,646	1,504,776	522,113	-	2,450,535
Depreciation					
expenses and	(381,696)	230,204	(95,082)	9,757	(236,817)
Disposals					
Accumulated					
depreciation at					
31 December 2009	<u>41,950</u>	<u>1,734,980</u>	<u>427,031</u>	<u>9,757</u>	<u>2,213,718</u>
Cost, less					
accumulated					
depreciation at					
31 December 2009	<u>107,681</u>	<u>1,078,515</u>	<u>80,489</u>	<u>1,453,743</u>	<u>2,720,428</u>
Cost, less					
accumulated					
depreciation at	<u>568,413</u>	<u>561,345</u>	<u>366,319</u>	<u>-</u>	<u>1,496,077</u>
31 December 2008					

(*) 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>2009</u>	<u>2008</u>
	<u>NIS</u>	<u>NIS</u>
Income Tax Authorities and National Insurance Institute	318,162	336,190
Employee institutions	288,644	294,509
VAT	-	28,670
Employees	1,177,993	1,225,594
Suppliers	656,346	1,031,889
Accrued expenses	10,000	89,231
Other	180,608	20,877
	<u>2,631,753</u>	<u>3,026,960</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 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 9 - 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.

Note 10 - Business activities for projects training

At the 1st of January 2009 Elem transferred the activity of Lilit to a group of entrepreneurs. Due to this fact, the activity at the year 2009 was declined compared to the year 2008 by 5,506 thousand shekels.

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

Note 11 - Cost of Activities

	<u>31 December</u>	
	<u>2009</u>	<u>2008</u>
	<u>NIS</u>	<u>NIS</u>
Information centers and community programs, Y Elem, "Yesh Lean", instruction and recruitment of volunteers	5,514,972	5,753,974
Street programs, instruction and recruitment of volunteers	4,035,868	3,996,299
Programs for extreme distress and unique projects – "Galgal", Shelter, Someone to Run With, Awake at Night and "Hetzeva"	3,357,363	2,619,243
Multi-Cultural projects – "Migdalar", New immigrant girls, Arabic youth, Instruction and recruitment of volunteers	3,295,340	3,266,051
Voluntary and community programs – Seeds of Change, Youth centers in Kfar Sava and Beer Sheva and Mediation	1,878,200	1,838,640
Occupational activity for professional training – Lilit project, Café Yael, Bigud, Kapit, Derech Hamelech and Atzmai Bshetach	1,641,680	1,388,356
Programs for Adolescent Girls - A Real Home and ADI Center	1,787,067	1,791,827
Guidance and management of knowledge	828,144	1,156,164
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	1,554,659	1,365,424
Business activity for professional training (see breakdown)	<u>973,645</u>	<u>6,658,154</u>
	<u>24,866,938</u>	<u>29,834,132</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>2009</u>	<u>2008</u>
	<u>NIS</u>	<u>NIS</u>
Inventory- beginning of year	160,071	99,564
Purchase	143,930	1,899,495
Inventory- end of the year	(8,000)	(160,071)
	<u>296,001</u>	<u>1,838,988</u>

Expenses:		
Salaries	534,098	3,138,434
Equipment	43,548	33,820
Deprecation	26,353	211,861
Maintenance	69,328	382,860
Rent	-	403,241
Municipality tax	2,494	179,480
Advertising	-	82,330
Electricity	-	183,823
Office supply	-	25,428
Security	-	75,637
Communication	-	17,234
Dishes	-	53,530
Lost debts	-	-
Insurance	-	31,488
Other	1,823	-
	<u>677,644</u>	<u>4,819,166</u>

Total business activities	<u>973,645</u>	<u>6,658,154</u>

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

Note 12 - Administrative and General Expenses

	<u>31 December</u>	
	<u>2009</u>	<u>2008</u>
	<u>NIS</u>	<u>NIS</u>
Salaries and social benefits	2,502,075	2,656,245
Office supplies and printing	99,360	75,117
Mail and communication	92,743	81,045
Rent	254,289	188,887
Electricity	29,282	40,318
Insurance	15,360	7,238
Transportation and parking	15,111	8,144
Auditing and professional fee	65,597	121,530
In-service Training	9,296	11,771
Office maintenance	143,415	143,180
Advertising and public relations	403,833	400,764
Municipal taxes and rates	37,299	22,992
Depreciation	21,202	48,843
Board meetings	16,399	17,481
Entertainment	4,875	7,315
Others	111,950	3,660
Car maintenance	166,686	122,989
Computers	-	9,004
	<u>3,988,772</u>	<u>3,966,523</u>

Note 13 - 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, 49 percent of the project cost was categorized as a part of Elem's activities expenses, and 51 percent of the project cost was categorized as fundraising expenses.

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 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.