

D. HELDENBERG & CO.

CERTIFIED PUBLIC ACCOUNTANTS

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Translation from the Hebrew. The binding version is the original Hebrew version.

Dolev Homes for Youth at Risk (registered not for profit institution)

Financial Statements as of December 31, 2013

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Auditor's Report to the directors of the institution
Dolev Homes for Youth at Risk (registered not for profit institution)

We have audited the attached reports of financial position of Dolev Homes for Youth at Risk (registered not for profit institution) as of December 31, 2013, and 2012, the statement of results of operations, the statements of changes in net assets of the institution, and statements of cash flow that ended on those dates. These financial statements are the responsibility of the institution board. Our responsibility is to formulate and opinion on these financial statements on the basis of our audit.

We have conducted our audit according to generally accepted auditing standards, which include standards that have been fixed as the standards of auditors (in the way that auditors work), 5773 - 1973. According to these standards it was sought from us to conduct the audit performed in order to obtain reasonable assurance that the represented financial statements are not essentially in error. The audit includes tests of evidence supporting the amounts and information in the financial statements. The audit also includes an examination of the application of accounting rules and meaningful estimations that were made by the institution board, and likewise appropriate evaluations that are depicted in these financial statements as a whole. We hold that our audit supplies a proper basis for our opinion.

According to our opinion the financial statements mentioned above properly reflect according to generally accepted accounting principles, in all essential aspects, the financial position of the institution as of December 31, 2013 and 2012, as well as its results of operations, changes in net assets, and cash flow for each of the years that ended on those dates consistent with generally accepted accounting principles in Israel.

November 13, 2014

D. Heldenberg & Co., Certified Public Accountants

Dolev Homes for Youth at Risk (registered not for profit institution)

Statements of Financial Position

		<u>As of December 31</u>	
		<u>2013</u>	<u>2012</u>
	<u>Notes</u>	<u>New Shekels</u>	<u>New Shekels</u>
Current Assets			
Cash & Cash equivalents		637,477	371,760
Open Credit & Accounts Receivable	3	752,040	1,288,078
Other Receivables & Debit Balances		<u>424,532</u>	<u>347,328</u>
		1,814,049	2,007,166
		-----	-----
Fixed Assets (Net)	4	<u>8,628,019</u>	<u>9,153,672</u>
		-----	-----
		<u>10,442,068</u>	<u>11,160,838</u>
Current Liabilities			
Short Term Bank Credit	6	252,558	224,701
Outstanding Checks		566,998	802,251
Other Liabilities & credit balances	5	<u>876,488</u>	<u>1,249,660</u>
		1,696,044	2,276,612
		-----	-----
Long Term Liabilities			
Long term debt	6	538,776	846,582
Provision for retirement compensation	7	<u>516,436</u>	<u>590,075</u>
		1,055,212	1,436,657
		-----	-----
Net Assets			
Unrestricted Net Assets (Deficit)			
Net Assets used for Permanent Acquisitions		8,628,019	9,153,671
Operating Deficit		<u>(937,207)</u>	<u>(1,706,102)</u>
		7,690,812	7,447,569
		-----	-----
		<u>10,442,068</u>	<u>11,160,838</u>

The attached notes are an integral part of the financial statements

Zev Chafaytz
Not for Profit Institution Chairman

Aryeh Adler
Committee member

13 November 2014
Date of approval
of the financial statements

Dolev Homes for Youth at Risk (registered not for profit institution)

Statements of the Results of Operations

		<u>For the Year Ending December 31</u>	
		<u>2013</u>	<u>2012</u>
	<u>Notes</u>	<u>New Shekels</u>	<u>New Shekels</u>
Income	8	18,353,101	18,665,386
		-----	-----
Cost of Operations	9	15,492,364	16,506,297
General & Administrative Expenses	10	2,567,681	2,211,851
Financial Expenses (net)		<u>65,095</u>	<u>109,987</u>
		18,125,140	18,828,135
		-----	-----
Annual Income (Expense) Surplus		227,961	(162,749)
Other Income (net)	11	12,258	38,168
Capital Increase		<u>3,024</u>	<u>-</u>
Total Surplus (Deficit) for the Reporting Year		<u>243,243</u>	<u>(124,581)</u>

The accompanying notes are an integral part of the financial statements

Dolev Homes for Youth at Risk (registered not for profit institution)

Statement of Changes in Net Assets

	<u>For those on which there are No Restrictions</u>		
	<u>Current Assets</u> <u>New Shekels</u>	<u>Fixed Assets</u> <u>New Shekels</u>	<u>Total</u> <u>New Shekels</u>
Balance as of January 1, 2012	(1,875,904)	9,448,054	7,572,150
	-----	-----	-----
Additions Made During the Year			
Deficit for the Reporting Year	(124,581)	-	(124,581)
Depreciation Expense	681,683	(681,683)	-
Amounts Released from Restrictions	<u>387,300</u>	<u>(387,300)</u>	<u>-</u>
	169,802	(294,383)	(124,581)
	-----	-----	-----
Balance as of December 31, 2012	(1,706,102)	9,153,671	7,447,569
Additions Made During the Year			
Income for the Reporting Year	243,243	-	243,243
Depreciation Expense	686,780	(686,780)	-
Amounts Released from Restrictions	<u>(161,128)</u>	<u>161,128</u>	<u>-</u>
	768,895	525,652	243,243
	-----	-----	-----
Balance as of December 31, 2013	<u>(937,207)</u>	<u>8,628,019</u>	<u>7,690,812</u>

The accompanying notes are an integral part of the financial statements

Dolev Homes for Youth at Risk (registered not for profit institution)

Statements of Cash Flow

	<u>For the Year Ending December 31</u>	
	<u>2013</u>	<u>2012</u>
	<u>New Shekels</u>	<u>New Shekels</u>
Cash Flow from Current Operations		
Surplus of Income (expenses) for the Reporting Year	243,243	(124,581)
Adjustments Required for the Presentation of Current cash flow from operations – Appendix A		
Income and Expenses Not Related to Cash Flow	683,756	681,683
Changes in Assets and Liabilities	<u>(149,591)</u>	<u>160,234</u>
	<u>534,165</u>	<u>841,917</u>
	-----	-----
Net Cash Flow used from current operations	<u>777,408</u>	<u>717,336</u>
	-----	-----
Cash flow from Investment Activities		
Acquisition of Fixed Assets	(212,103)	(387,301)
Proceeds from Sale of Fixed Assets	<u>54,000</u>	<u>-</u>
Net Cash Flow from Investment Operations	<u>(158,103)</u>	<u>387,301</u>
	-----	-----
Cash Flow from Financial Operations		
Net Short Term Bank Credit	27,857	(62,800)
Collection of Long term Loan	-	1,327,674
Payment of Long term Loans and Liabilities	<u>(381,445)</u>	<u>(1,479,602)</u>
Net Cash Flow Generated by Financial Operations	<u>(353,588)</u>	<u>(214,728)</u>
	-----	-----
Increase in Cash and Cash Equivalents	265,717	115,307
Balance of Cash and Cash Equivalents at the beginning of the Year	<u>371,760</u>	<u>256,453</u>
Balance of Cash and Cash Equivalents at the end of the Year	<u>637,477</u>	<u>371,760</u>

The accompanying notes are an integral part of the financial statements

Dolev Homes for Youth at Risk (registered not for profit institution)

Statements of Cash Flow

	<u>For the Year Ending December 31</u>	
	<u>2013</u>	<u>2012</u>
	<u>New Shekels</u>	<u>New Shekels</u>
Income and Expenses Not Related to Cash Flow		
Depreciation and Amortization	686,780	681,683
Capital Increase	<u>(3,024)</u>	<u>-</u>
	<u>683,756</u>	<u>681,683</u>
	-----	-----
Changes in Assets and Liabilities		
Decrease (Increase) in Accounts Receivable	536,038	(447,237)
Decrease in Payables and Credit Balances	-	362,573
Increase (Decrease) in Accounts Payable and Outstanding checks	(235,253)	437,847
Decrease in Other Receivables and Debit Balances	<u>(450,376)</u>	<u>(192,949)</u>
	<u>(149,591)</u>	<u>160,234</u>
	-----	-----
	<u>534,165</u>	<u>841,217</u>
	=====	=====

The accompanying notes are an integral part of the financial statements

Dolev Homes for Youth at Risk (registered not for profit institution)

Notes to the Financial Statements

Note 1 – General

- A. The institution was established in 1988 and not for the purpose of profit. Its identity number is 580113710
- B. The institution operates girls' youth homes with residential facilities in the settlement of "Dolav", which is under the Benyamin directorate, as part of youth service centers of the city Ashdod

Note 2 – Significant Accounting Policies

The financial statements are prepared in accordance to Israeli generally accepted accounting principles (Israeli GAAP). The essential accounting policies applied in their preparation are as follows:

A. Basis for the presentation of the financial statements

The financial statements from the start of the organization are prepared on the basis of historical cost (Original cost).

B. Cash and Cash Equivalents

Includes short term deposits whose term is less than three months

C. Fixed Assets

The organization follows Accounting Standard # 27, which fixes the accounting treatment of fixed assets. This standard provides instruction regarding the recognition of a long term acquisition as an asset, such as the measurement of initial costs, subsequent costs after initial recognition, as well as depreciation and amortization. In light of what has been said fixed assets are presented based on cost less accumulated depreciation. Depreciation is calculated according to the straight line method. Annual rates of depreciation are considered sufficient to cover the loss in value of the asset over its period of its estimated use, and are consistent with the allowable deductions set by the tax authority regulations.

D. Decline in the Value of Assets

The organization follows Accounting Standard # 15, which fixes the accounting treatment of a decline in the value of assets. The organization examines on balance sheet date if there has been a significant event or changes in circumstances which would result in a possible decline in value specifically in fixed assets whether it is in book value or actual value. In the event the reply is positive, the difference is reflected on the statement of profit and loss.

Residual Value of Fixed Assets:

When the organization uses an asset in current operations, its value is fixed by the higher of the net realizable price of an asset or the depreciated cost on the books of the organization.

When an asset is a rental property which provides rental income to the organization, it is evaluated according to the present value of the expected cash flow over its expected lifetime, thereby increasing it to the price that would be realized in the future.

Dolev Homes for Youth at Risk (registered not for profit institution)

Notes to the Financial Statements

Note 2 – Significant Accounting Policies (continued)

E. Adoption of International Financial Reporting Standards (IFRS)

In July 2006 the "Israeli Accounting Standards Board" (hereinafter, the Standards Board) issued the Accounting Standard # 29 "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter, "the standard"). According to the standard, as of January 1, 2008, the presentations by all entities are subject to the Securities Law 5728 – 1968, and are obligated to report according to the standards of this law, and have their financial statements be in accord with the standards of the IFRS.

In July 2010 the Board issued Accounting Standard # 32, which required the adoption of the standard by small and medium sized entities including private companies, non-profit organizations, charitable institutions, etc., effective from the beginning of the year 2015. Until the time of this adoption the organization continued to prepare its financial statements according to the accounting standards accepted in Israel.

E. Use of Estimates

Preparation of the financial statements is in accordance with generally accepted accounting standards. Management is required to make estimates and assumptions that affect the amounts that assets and liabilities are represented in the financial statements, such as disclosure of contingent assets and liabilities as of the date of the financial statements and of the amounts of income and expenses during the reporting period. The actual results may differ from these estimates.

F. Foreign Exchange and Linkage

- (1) The official currency of the organization is the new shekel. Assets and liabilities in or linked to foreign currency are included in the financial statements according to the exchange rate published by the Bank of Israel on balance sheet date.
- (2) Assets and liabilities linked to the consumer price index are reckoned according to the index published during the month that ended on balance sheet date.
- (3) Following are the details of the consumer price index (*) and the exchange rate of the United States dollar:

	<u>Consumer Price Index (*)</u>	<u>U. S. Dollar</u>
December 31, 2013	107.62	3.47
December 31, 2012	105.70	3.73
The rate of change in percent:		
For the year that ended December 31, 2013	1.82	(6.94)
For the year that ended December 31, 2012	1.63	(2.36)

(*) The index for the month in which the period ended.

Dolev Homes for Youth at Risk (registered not for profit institution)

Notes to the Financial Statements

Note 3 - Open Credit and Income Receivable

	<u>As of December 31</u>	
	<u>2013</u>	<u>2012</u>
	<u>New Shekels</u>	<u>New Shekels</u>
Open Credit	32,569	169,518
Income Receivable	719,471	1,118,560
	<u>752,040</u>	<u>1,288,078</u>

Note 4 – Fixed Assets, net

A. Composition:

	<u>As of December 31</u>						<u>2012</u>
	<u>2013</u>						
	<u>Building</u>	<u>Equipment and Parts</u>	<u>Kitchen</u>	<u>Horse Stables</u>	<u>Vehicles</u>	<u>Total</u>	
<u>N. I. S.</u>	<u>N. I. S.</u>	<u>N. I. S.</u>	<u>N. I. S.</u>	<u>N. I. S.</u>	<u>N. I. S.</u>	<u>N. I. S.</u>	
Cost							
Balance beginning of year	12,300,392	1,710,559	115,121	59,855	582,427	14,768,354	14,381,054
Additions during the year	10,116	192,547	9,440	-	-	212,103	387,300
Disposals during the year	-	-	-	-	(60,000)	(60,000)	-
Balance end of year	<u>12,310,508</u>	<u>1,903,106</u>	<u>124,561</u>	<u>59,855</u>	<u>522,427</u>	<u>14,920,457</u>	<u>14,768,354</u>
Accumulated Depreciation							
Balance beginning of year	4,045,034	971,350	92,810	31,632	473,856	5,614,682	4,932,999
Additions during the year	504,384	147,784	3,460	5,986	25,166	686,780	681,683
Disposals during the year	-	-	-	-	(9,024)	(9,024)	-
Balance end of year	<u>4,549,418</u>	<u>1,119,134</u>	<u>96,270</u>	<u>37,618</u>	<u>489,998</u>	<u>6,292,438</u>	<u>5,614,682</u>
Depreciation expense	<u>7,761,090</u>	<u>783,972</u>	<u>28,291</u>	<u>22,237</u>	<u>35,429</u>	<u>8,628,019</u>	<u>9,153,672</u>

C. Depreciation

rates	<u>0% - 4%</u>	<u>7% - 33%</u>	<u>10% - 25%</u>	<u>10%</u>	<u>15%</u>
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Dolev Homes for Youth at Risk (registered not for profit institution)

Notes to the Financial Statements

Note 5 – Various Liabilities and Credit Balances

	<u>As of December 31</u>	
	<u>2013</u>	<u>2012</u>
	<u>New Shekels</u>	<u>New Shekels</u>
Institutes and Workers	871,560	1,216,439
Taxing Authorities – Income Tax	<u>4,928</u>	<u>33,221</u>
	<u>876,488</u>	<u>1,249,660</u>

Note 6 – Long Term Loans

A. Vehicle:

	<u>Interest</u> <u>Rate</u>	<u>As of December 31</u>	
		<u>2013</u>	<u>2012</u>
		<u>New Shekels</u>	<u>New Shekels</u>
Bank Loan	P + 3.5%	673,327	980,788
Loan from "Amana"	4%	52,097	78,685
Loans (*)	-	<u>65,910</u>	<u>11,810</u>
		791,334	1,071,283
Less current maturities		<u>252,588</u>	<u>224,701</u>
		<u>538,776</u>	<u>846,582</u>

(*) Loans from "Loan fund for improvements in public institutions for educational services of youth and children" payable within five years without interest

B. Maturities by Year

<u>Year</u>		
2013	-	224,701
2014	252,558	261,871
2015	232,823	268,897
2016	216,642	566,087
2017 and later	<u>102,493</u>	-
	<u>791,334</u>	<u>1,071,283</u>

Dolev Homes for Youth at Risk (registered not for profit institution)

Notes to the Financial Statements

Note 7 - Provision for severance pay (net)

- A. According to labor laws and labor agreements in effect, the firm is obligated to pay severance pay to workers that were dismissed or retired under specific circumstances. The amount of obligation is in accordance with labor laws and labor agreements in effect and in accordance with the components of the compensation of the worker when the severance pay is to be received.
- B. The firm's obligation to pay severance pay is covered by regular deposits to employees' insurance policies and by funds deposited into a central severance bank account.
- C. The firm is obligated to pay the workers the proceeds in the insurance policy if they were dismissed and were entitled to severance pay, along with the difference between the amount of the severance pay calculated according to the labor laws and the amount accumulated on their behalf for severance in the said insurance policies. The liability for these employees is shown on the financial statements on a net basis, because the money deposited is not under the control or the management of the firm.
- D. Amount of the total obligation for employee terminations – The employer reflects the balance of the net liability for severance pay that is not covered by insurance policies as mentioned in (C) above, and likewise the gross amount (the full obligation opposite the monetary amounts deposited) in regards to additional liabilities covered via the central severance fund.
- E. The firm's liability to pay employee vacation days is not material, due to the company's policy to strictly require the current utilization of vacation days by employees. In light of what has been said no accrual is made on the books for vacation pay.

Note 8 - Income

	<u>For the Year ending December 31</u>	
	<u>2013</u>	<u>2012</u>
	<u>New Shekels</u>	<u>New Shekels</u>
Allotment from the Labor and Social Affairs Ministry for dormitory operations	8,476,328	9,083,802
Education Ministry – Compensation of Teaching staff (*)	5,394,203	5,541,429
Allotment from the Ashdod Municipality	2,746,169	2,240,174
Donations	747,169	655,967
Participation in Dormitory Expenses and Sundries	919,793	947,980
Allotment from the Binyamin Regional Council	<u>69,439</u>	<u>196,034</u>
	<u>18,353,101</u>	<u>18,665,386</u>

- (*) Starting with the month of September, responsibility for the teaching staff of the institution was transferred to the Education Ministry. Salaries and related benefits are paid directly to the employees according to the accounting of the ministry.

Dolev Homes for Youth at Risk (registered not for profit institution)

Notes to the Financial Statements

Note 9 – Operating Expenses

	<u>For the Year Ending December 31</u>				
	<u>2013</u>			<u>2012</u>	
	<u>Dolev (1)</u>	<u>Ashdod (2)</u>	<u>Ashkelon (3)</u>	<u>Total</u>	<u>Total</u>
	<u>N. I. S.</u>	<u>N. I. S.</u>	<u>N. I. S.</u>	<u>N. I. S.</u>	<u>N. I. S.</u>
Salaries and Benefits	6,578,675	2,085,912	-	8,664,287	9,583,164
Maintenance	2,264,333	731,423	30,000	3,025,756	3,039,506
Food	986,642	-	-	986,642	818,116
Travel and Transportation	802,836	-	-	802,836	762,786
Cultural Activities	571,350	-	-	571,350	858,111
Health services, Counseling Scholarships	419,404	-	-	419,404	365,508
Teaching Aids	338,809	-	-	338,809	403,321
Depreciation	<u>683,280</u>	<u>-</u>	<u>-</u>	<u>683,280</u>	<u>675,785</u>
	<u>12,645,329</u>	<u>2,817,035</u>	<u>30,000</u>	<u>15,492,364</u>	<u>16,506,297</u>

(1) Internal operations for girls in the community of Dolev under the auspices of the Binyamin Regional Council.

(2) Day care for children residing in the city of Ashdod.

(3) One-time payment for day care for children that had moved to the city of Ashkelon.

Note 10 – General and Administrative Expenses

	<u>For the Year ending December 31</u>	
	<u>2013</u>	<u>2012</u>
	<u>New Shekels</u>	<u>New Shekels</u>
Salaries and fringe benefits	1,887,675	1,405,458
Office and communication	304,876	360,026
Automobile maintenance	141,829	183,386
Professional services	132,568	137,808
Insurance	47,941	41,156
Public Relations	30,764	56,196
Gifts and honors	<u>22,028</u>	<u>27,821</u>
	<u>2,567,681</u>	<u>2,211,851</u>

Dolev Homes for Youth at Risk (registered not for profit institution)

Notes to the Financial Statements

Note 11 – Other Income, net

A. The institution has a kitchen which serves the girls residing in the dormitories. It is essentially for their nourishment but also to train them for practical work that is related to cooking and baking in the framework of educational activities. In addition the institution maintains a dude ranch that is designated for the use of the girls in the dormitories during their stay.

When there is free time, the institution operates a catering service to all in need like a business operation and likewise there is there is transportation service for outside the institution. For these operations the institution is as a registered business with the tax authority Department of Value Added Tax, and it reports on these activities separately. These business activities are done in essence to train the girls for practical work as cooks and waitresses and also to reduce the expenses of maintaining the dude ranch, mentioned above, for the benefit of the girls within the framework of the institution.

B. Vehicles

	<u>For the Year Ending December 31</u>			
	<u>2013</u>			<u>2012</u>
	<u>Catering</u>	<u>Dude Ranch</u>	<u>Total</u>	<u>Total</u>
	<u>N. I. S.</u>	<u>N. I. S.</u>	<u>N. I. S.</u>	<u>N. I. S.</u>
Income	<u>566,629</u>	<u>94,526</u>	<u>661,155</u>	<u>645,345</u>
Expenses				
Food Purchases	216,228	33,600	250,460	357,707
Beverages	338,575	52,067	390,642	230,849
Depreciation – relevant portion	<u>1,700</u>	<u>1,800</u>	<u>3,500</u>	<u>5,898</u>
	<u>556,503</u>	<u>87,467</u>	<u>644,602</u>	<u>594,454</u>
Profit from Business Operations	10,126	7,059	16,553	50,891
Income Tax	12 <u>2,531</u>	<u>1,764</u>	<u>4,295</u>	<u>12,723</u>
After Tax Business Income	<u>7,595</u>	<u>5,295</u>	<u>12,258</u>	<u>38,168</u>

Note 12 – Taxes on Income

The institution is registered as a non-profit organization and its income is in accordance with article 9(2) of the ordinance that income of a public institution is exempt for tax (except for business operations as mentioned in note 11 above).

The institute is approved as valid public institution in regards to charitable contributions under section 46 of the income tax ordinance.