

# GVANIM

## FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007

IN THOUSANDS OF ISRAELI SHEKELS

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## **REPORT OF INDEPENDENT AUDITORS**

To the Members of the Association of

### **Gvanim - Association for Education and Community Involvement**

We have audited the association balance sheets of **Gvanim Association for Education and Community Involvement** ( from then on - the Association) as of December 31, 2007 and 2006 and the related statements of activities, and statement of changes in net assets and Statements of Cash flow for the years ended on the same date. These financial statements are the responsibility of the Association's managing committee; our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards including standards set by the Israel auditing board (1973). Those standards require 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, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As declared in note 2, the financial statements referred to above, are presented in nominal value and not in "reported sums", as required by the pronouncements number 12 of the Israel Accounting Standard Board.

In our opinion, apart from the above mentioned, the financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2007 and 2006 and the results of their activities, the statement of changes in net assets and the cash flows for the years ended, 2007 and 2006.

Tel Aviv, Israël  
September 24, 2008

**Kost Porer Gabbay and Kassirer**  
Certified Public Accountant, Israel

**GVANIM – Association for Education and Community Involvement**  
**STATEMENT OF FINANCIAL POSITION**

Thousands Israel Shekel

		December 31,	
	Note	2007	2006
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash on hand and in banks		3,941	976
Receivables and other accounts receivable	3	5,407	4,187
<b>Total current assets</b>		<b><u>12,348</u></b>	<b><u>5,163</u></b>
<b>PROPERTY AND EQUIPMENT, NET</b>	4	<b><u>9,491</u></b>	<b><u>9,050</u></b>
<b>Total assets</b>		<b><u>21,839</u></b>	<b><u>14,213</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Short term loans (bank)		-	100
Trade payables	5	4,121	2,549
Other accounts payable	6	1,375	1,160
		<b><u>5,496</u></b>	<b><u>3,809</u></b>
<b>LONG-TERM LIABILITIES:</b>			
Accrued severance pay	7	<b><u>597</u></b>	<b><u>527</u></b>
<b>NET ASSETS:</b>			
Unrestricted assets used for current activities		(1,106)	(1,107)
Unrestricted assets used for fixed assets		9,491	9,050
Temporary Restricted net assets	8	7,261	1,934
<b>Total</b>		<b><u>15,746</u></b>	<b><u>9,877</u></b>
<b>Total liabilities and net assets</b>		<b><u>21,839</u></b>	<b><u>14,213</u></b>

September 24, 2008  
Endorsment Date

Naomy Tsion  
Head of the Board of  
Directors

Ronit Hameyn  
Member of the  
Board of Directors

**The accompanying notes are an integral part of the financial statements.**

**STATEMENTS OF ACTIVITIES**

Thousands Israeli Shekels

	Year ended December 31,		
	notes	2007	2006
Government Ministries and Public Institution's participation		12,239	11,213
Donations		15,209	9,877
Activities income		2,150	1,619
		<u>29,598</u>	<u>22,709</u>
<b>Cost of activities.</b>	9	<b><u>27,224 (*)</u></b>	<b><u>20,240</u></b>
		<b>2,374</b>	<b>2,105</b>
<b>General and administrative expenses</b>	10	<b><u>1,821 (*)</u></b>	<b><u>2,220</u></b>
		<b><u>553</u></b>	<b><u>249</u></b>
<b>Financial expenses (net)</b>		<b><u>11</u></b>	<b>18</b>
<b>Net surplus for the current year</b>		<b><u>542</u></b>	<b><u>231</u></b>

**(\*) 2006 Reclassified.**

**The accompanying notes are an integral part of the financial statements.**

**STATEMENTS OF CHANGES NET ASSETS OF THE ASSOCIATION**

Thousands Israeli Shekels

	Unrestricted		Temporarily Restricted Assets	<u>Total</u>
	For activities use	Fixed assets acquisition use		
<b>Balance as of January 1, 2006</b>	<b><u>(409)</u></b>	<b><u>8,121</u></b>	<b><u>930</u></b>	<b><u>8,642</u></b>
<b>Changes in the current year 2006.</b>				
<b>Addition:</b>				
Net surplus	231			231
Temporarily Restricted sums received:			1,934	1,934
<b>Substraction:</b>				
Allocations released from restriction			(930)	(930)
Unrestricted funds used to purchase fixed assets.	(1,620)	1,620	-	
Sums used for depreciation	691	(691)		
<b>Balance as of December 31, 2006</b>	<b><u>(1,107)</u></b>	<b><u>9,050</u></b>	<b><u>1,934</u></b>	<b><u>9,877</u></b>
<b>Changes in the current year 2007:</b>			-	
<b>Addition:</b>				
Net surplus	542			542
Temporarily Restricted sums received:			7,261	7,261
<b>Substraction:</b>				
Allocations be released from restriction			(1,934)	(1,934)
Unrestricted funds used to purchase fixed assets.	(1,140)	1,140	-	
Sums used for depreciation	699	(699)		
<b>Balance as of December 31, 2007</b>	<b><u>(1,006)</u></b>	<b><u>9,491</u></b>	<b><u>7,261</u></b>	<b><u>15,746</u></b>

**The accompanying notes are an integral part of the financial statements.**

## STATEMENTS OF CASH FLOWS

Thousands Israeli Shekels

	Year ended December 31,	
	2007	2006
<b><u>Cash flows from current activities:</u></b>		
<b>Net annual surplus</b>	<b><u>542</u></b>	<b>231</b>
<b>Total adjustments</b> to reconcile net annual surplus to net cash provided by unrestricted activities (a)	<b>(1,664)</b>	<b>345</b>
<b>Net cash provided by (used in) operating activities</b>	<b><u>(1,122)</u></b>	<b><u>576</u></b>
<b><u>Cash flows from investing activities:</u></b>		
Purchase of property and equipment (net of depreciation)	<b>(1,140)</b>	<b>(1,620)</b>
<b><u>Cash flows from financing activities:</u></b>		
Short-term bank credit, net	<b>(100)</b>	<b>50</b>
Temporarily restricted donations.	<b>5,327</b>	<b>1,004</b>
<b>Net cash provided by financing activities</b>	<b><u>5,227</u></b>	<b><u>1,054</u></b>
<b>Increase in cash and cash equivalents</b>	<b><u>2,965</u></b>	<b><u>10</u></b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>976</b>	<b>966</b>
<b><u>Cash and cash equivalents at the end of the year</u></b>	<b><u>3,941</u></b>	<b><u>976</u></b>
<b>(a) Adjustments to reconcile net annual surplus to net cash provided by current activities:</b>		
<b>Adjustments provided by (used in) operating activities</b>		
Depreciation and amortization	699	691
Accrued severance pay, net	70	<b>(142)</b>
<b>Changes in Assets and Liabilities:</b>		
Decrease in other accounts receivable	<b>(4,220)</b>	473
Decrease in trades payable	1572	273
Decrease in accounts payable	215	<b>(950)</b>
<b>Total Adjustments</b>	<b><u>(1,664)</u></b>	<b><u>345</u></b>

**The accompanying notes are an integral part of the financial statements.**

**NOTES TO FINANCIAL STATEMENTS**

Thousands Israeli Shekels

**NOTE 1: - GENERAL:**

The Gvanim Association for Education and Community Involvement is an association registered according to the Israeli association Law 1980. It was founded on the 9<sup>th</sup> of May 1994.

Among others its aims are education in the community, formal and informal education in the town of Sderot and in the south region, operating plans for the promotion of handicapped sectors of the population and projects and frameworks for new immigrants and day care centers for regular and special children.

The association's income is exempt from income tax as a public non-profit organization (NPO) in accordance with paragraph 9 (2) of the tax law. The association is a "Public Institution" in accordance with par. 46 of the tax rules in Israel, according to which donations to the association earn the donator a tax exemption of 35% of the sum donated, with some reservations.

The association has a certificate of proper management from the register of associations until the end of 2008.

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES**

**Accounting principles:**

The current year reports of the association are prepared in accordance with this pronouncement No 69 Institute of Certified Public Accountants in Israel on the subject of "Accounting standards and policy in financial reports of non profit organizations"(NPO), including changes made by the pronouncement No. 5 of the Israel Accounting Standard Board. The term "net assets" represents the difference between assets and liabilities. The financial accounts have been prepared in accordance with generally accepted accounting principles. And in consistence with the preceding year as follows:

**a. Currency basis:** The financial statements are prepared in nominal values, in accordance with the convention of the historic method and not in "reported sums", in accordance with the pronouncements of the Israel Accounting Standard Board No. 12. Reported are nominal sums of reports which were adjusted to the cost of living index until December 2003, after which the additions and subtractions where made in nominal basis.

**b. Cash Equivalent:** Include highly liquid short term investments in short term bank deposits, which does not exceed 3 months and are not attached.

**c. Fixed assets:**

Property and equipment are stated at cost, net from accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the assets as follows:

	%
Buildings and Reconditioning	4
Office furniture and Equipment	7-15
Computers and Equipment	33

**d. Income:** Incomes are recorded according to the accrued basis method. Donations are recorded on the cash basis method unless there is a legally bounded pledge. Non-monetary donations are recorded according to their estimated fair value upon reception.

**e. Expenses:** Expenses are recorded according to the accrued basis method.

**NOTES TO FINANCIAL STATEMENTS**

Thousands Israeli Shekels

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES** (cont)

f. **Exchange rates and link basis:** Sums linked to the cost of living index ("C.O.L.") are adjusted according to the index of the month including the balance sheet date. Sums linked to foreign currency are adjusted to the exchange rate of the balance sheet date.

COL details and US\$ exchange rates were as follows:

Date	US\$ Exchange rate	C.O.L. index
31/12/2007	3.846	106.4
31/12/2006	4.225	109.9
31/12/2005	4.603	103.0
<b>Rate change for the year ended at date:</b>	<b>%</b>	<b>%</b>
<b>31/12/2007</b>	<b>9.0</b>	<b>3.4</b>
<b>31/12/2006</b>	<b>(8.2)</b>	<b>(0.1)</b>

2002 Mean Index = 100

g. **Use of estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported of assets and liabilities, on conditional assets and contingent liabilities presented in the financial statements and accompanying notes. Actual results could differ from those estimates.

**NOTE 3: - Other accounts receivable** **31 December**

<u>Thousands NIS</u>	<u>2007</u>	<u>2006</u>
Municipal authorities	1,174	651
Customers	995	467
Cheks receivable	200	75
Institutions	3,324	1,684
Advances to suppliers	110	250
Income receivable & Prepaid expenses	2,604	1,060
<b>Total</b>	<b>8,407</b>	<b>4,187</b>

**NOTE 4 : - Property and equipment: a.** **31 December**

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value 2007</u>	<u>2006</u>
Building & Reconditioning	9,392	1,727	7,665	7,485
Office furniture and Equipment	2,902	1,339	1,563	1,398
Computers and Equipment	895	632	263	167
<b>Total</b>	<b>13,189</b>	<b>3,698</b>	<b>9,491</b>	<b>9,050</b>

**NOTES TO FINANCIAL STATEMENTS**

Thousands Israeli Shekels

**b. Additional details:**

1. The buildings stand on municipal land, whose use had been donated free of charge to the association for as long as they are used for their original purposes. It is the association's intention to keep these buildings destination accordingly.
2. The main reconditioning have been done on buildings owned by Amigoor or the municipality, which are rented for an unlimited period, as long as they serve the original purpose for which they have been rented. The association depreciate the reconditioning according to their estimated use.

**NOTE 5. Trades Payable:**

**31 December**

	<b>THOUSANDS NIS</b>	
	<b>2007</b>	<b>2006</b>
Cheks payable	2,001	977
Trades Payable (goods & services)	2,120	1,572
	<b><u>4,121</u></b>	<b><u>2,549</u></b>

**NOTE 6. Other Accounts Payable:**

**31 December**

	<b>Thousands NIS</b>	
	<b>2007</b>	<b>2006</b>
Employees and payroll accruals	1,375	1,132
Accrued expenses		28
<b>Total</b>	<b><u>1,375</u></b>	<b><u>1,160</u></b>

**NOTE 7. Liability: Accrued severance pay:**

- a. The association's liability for severance pay is covered by current payments to Insurance companies. The liability is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. The association records as liability the difference between its funded or not funded severance liabilities.
- b. The sums accrued in the Insurance companies are not part of the association's assets and therefore not included in the balance sheet.

- c. The liabilities and the value of deposits are as follows:

**31 December**

**2007      2006**

**Thousands of NIS**

Liability for severance pay	853	761
Value of the deposits	256	234
<b>Net Liability</b>	<b>597</b>	<b>527</b>

**NOTE 8 : - Temporary Restricted net assets:**

As for 31 December 2007 a sum of 7.3 millions of IS is designated for projects that the association operate. They deal with shelters reconditioning, prevention of violence and addiction, involvement in youth activities and mental help.

**NOTES TO FINANCIAL STATEMENTS**

Thousands Israeli Shekels

**NOTE 9: - Cost of activities:**

	<b>Year ended December 31,</b>	
	<b><u>2007</u></b>	<b>(*) <u>2006</u></b>
Wages and related expenses	13,581	11,946
Activities and others	7,604	5,178
Rent & Renovation.	2,698	718
Depreciation	688	680
Equipment & Materials	847	583
Transport & Meals	1,026	683
Others	780	452
<b><u>Total</u></b>	<b><u>27,224</u></b>	<b><u>20,240</u></b>

(\*) Reclassified

**NOTE 10. Activities, General and administrative:**

	<b>Year ended December 31,</b>	
	<b><u>2007</u></b>	<b>(*) <u>2006</u></b>
Wages and related expenses	1,241	1,290
Rent & maintenance	109	219
Equipment depreciation	11	11
Office maintenance, expenses & communication	249	172
Others (**)	211	528
<b><u>Total</u></b>	<b><u>1,821</u></b>	<b><u>2,220</u></b>

(\*) Reclassified.

(\*\*) Including 56 thousands NIS (In 2006, 400 thousands NIS) under suspicion of having been illegally removed from the association. The association is using all means at its disposal to facilitate the recovery of the funds.

**NOTE 11 : - Transactions with related parties:**

**a. Balance sheet:**

	<b>31 December</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Accounts payable (suppliers of goods and services)	<b><u>187</u></b>	<b><u>99</u></b>

**b. Expenses:**

	<b>Year ended December 31,</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Internet and computer services	53	39
Transport	25	8
Training	33	2
Others	62	81
<b><u>Total Transactions with related parties</u></b>	<b><u>173</u></b>	<b><u>130</u></b>
<b><u>Land acquisition</u></b>	<b><u>225</u></b>	<b><u>-</u></b>