

Financial Statements as at December 31, 2017

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Be-Atzmi (RA)

**Financial Statements
As At December 31, 2017**

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Ernst & Young Report to the Board of Directors of
 Be-Atzmi (RA)

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Accounting Regulations (Auditor's Mode of Performance) 1972. Such 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 involves 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 Board and Management of the Organization, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the Organization as at December 31, 2017 and 2016 and the results of its activities, changes in net assets and in cash flows for each of the years ended on those dates, in conformity with generally accepted accounting principles in Israel (GAAP).

Ernst & Young
 Ronit Chalkin
 Certified Public Accountant (CPA)
 June 21, 2018



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**Auditors' Report to the Board of Directors of
Be-Atzmi (RA)**

We have audited the accompanying balance sheets of Be-Atzmi (RA) (hereinafter – “the Organization”) as at December 31, 2017 and 2016, and the related statements of activities, statement of changes in net assets and statements of cash flows for each of the years ended on such dates. These financial statements are the responsibility of the Organization’s Board and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor’s Mode of Performance), 1973. Such 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 Board and Management of the Organization, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as at December 31, 2017 and 2016 and the results of its activities, changes in net assets and its cash flows for each of the years ended on such dates, in conformity with generally accepted accounting principles in Israel (Israeli GAAP).

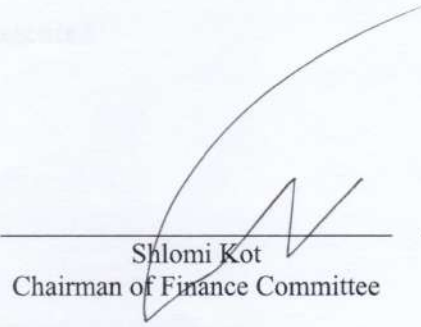
Somekh Chaikin
Certified Public Accountants (Isr.)

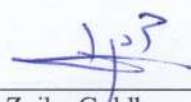
June 21, 2018

Balance Sheets as at December 31

	Note	2017 NIS	2016 NIS
Current assets			
Cash and cash equivalents		3,915,810	6,941,419
Marketable securities		9,456,962	9,114,037
Other receivables	3	2,274,698	2,504,576
Total current assets		15,647,470	18,560,032
Fixed and other assets, net	4	373,197	427,361
Total assets		16,020,667	18,987,393
Current liabilities			
Checks payable		37,972	124,443
Trade payables		1,300,892	1,512,229
Other payables	5	2,071,436	2,856,798
Total current liabilities		3,410,300	4,493,470
Long-term liabilities			
Liability for employee severance benefits, net	6	81,563	79,783
Total liabilities		3,491,863	4,573,253
Net assets not subject to restriction			
Designated		2,680,351	4,900,317
Undesignated		8,710,311	8,270,268
Applied to fixed assets		373,197	427,361
		11,763,859	13,597,946
Net assets subject to restriction			
Net assets subject to temporary restriction		764,945	816,194
Total net assets		12,528,804	14,414,140
Total liabilities and net assets		16,020,667	18,987,393


Giora Offer
Chairman of the Board


Shlomi Kot
Chairman of Finance Committee


Zvika Goldberg
CEO

Date of approval of the financial statements: June 21, 2018

The accompanying notes are an integral part of these financial statements.

Statements of Activities for the Year Ended December 31

	Note	2017 NIS	2016 NIS
Revenue from activities	7	22,731,338	* 27,858,882
Cost of activities	8	23,161,473	24,953,896
Net revenue (expenses) from activities		(430,135)	* 2,904,986
General and administrative expenses	9	1,723,467	1,562,245
Net income (expenses) before financing		(2,153,602)	* 1,342,741
Financing income, net		319,515	8,780
Net income (deficit) for the year		(1,834,087)	* 1,351,521

Additional information –

A. Composition of revenue from activities executed in the reporting year:

Revenue from activities – from external sources	22,731,338	27,858,882
Revenue from activities from internal sources designated by management	2,219,966	1,099,683
Total revenue from activities	24,951,304	28,958,565

B. Net revenue from activities executed in the reporting year:

Net income (deficit) for the year	(1,834,087)	1,351,521
Revenue from activities from internal sources designated by management	2,219,966	1,099,683
Total net revenues from activities executed	385,879	2,451,204

* Reclassified (see Note 7)

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets

	Net assets not subject to restriction			Net assets subject to temporary restriction	Total
	Not designated by management	Designated by management **	Applied to fixed assets		
	NIS	NIS	NIS		
Balance as at January 1, 2016	5,992,536	6,000,000	253,889	731,566	12,977,881
Excess income over expenses for the year	* 1,351,521	-	-	-	* 1,351,521
Donations	-	-	-	3,351,287	3,351,287
Amounts transferred for the purchase of fixed assets	(261,926)	-	261,926	-	-
Amounts transferred to cover depreciation expenses	88,454	-	(88,454)	-	-
Amounts released from restriction	-	-	-	(3,266,659)	(3,266,659)
Amounts designated by management in prior periods that their designation was cancelled	1,099,683	(1,099,683)	-	-	-
Balance as at December 31, 2016	8,270,268	4,900,317	427,361	816,194	14,414,140
Excess expenses over income for the year	(1,834,087)	-	-	-	(1,834,087)
Donations	-	-	-	3,216,694	3,216,694
Amounts transferred for the purchase of fixed assets	(87,274)	-	87,274	-	-
Amounts transferred to cover depreciation expenses	141,438	-	(141,438)	-	-
Amounts released from restriction	-	-	-	(3,267,943)	(3,267,943)
Amounts designated by management in prior periods that their designation was cancelled	2,219,966	(2,219,966)	-	-	-
Balance as at December 31, 2017	8,710,311	2,680,351	373,197	764,945	12,528,804

* Reclassified (see Note 7)

** In the minutes of the Board meeting from December 29, 2015, the Board approved using excess income of NIS 6 million over a three-year period. The amount is based on retained earnings less a safety cushion. NIS 3.3 million of the designated amount was used in 2016-2017.

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows for the Year Ended December 31

	<u>2017</u>	<u>2016</u>
	NIS	NIS
Cash flows from operating activities		
Excess income over expenses (expenses over income) for the year	(1,834,087)	* 1,351,521
Adjustments to reconcile net income to net cash from operating activities – Appendix A	<u>(710,074)</u>	<u>* 1,457,221</u>
Net cash from operating activities	<u>(2,544,161)</u>	<u>2,808,742</u>
Cash flows from investing activities		
Change in marketable securities, net	(342,925)	(28,276)
Purchase of fixed assets	<u>(87,274)</u>	<u>(261,926)</u>
Net cash used in investing activities	<u>(430,199)</u>	<u>(290,202)</u>
Cash flows from financing activities		
Increase (decrease) in donations subject to temporary restriction	<u>(51,249)</u>	<u>84,628</u>
Net cash from financing activities	<u>(51,249)</u>	<u>84,628</u>
Increase (decrease) in cash and cash equivalents	(3,025,609)	2,603,168
Cash and cash equivalents at the beginning of the year	<u>6,941,419</u>	<u>4,338,251</u>
Cash and cash equivalents at the end of the year	<u><u>3,915,810</u></u>	<u><u>6,941,419</u></u>

* Reclassified (see Note 7)

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows for the Year Ended December 31

Note 1 - General

Appendix A - Adjustments to reconcile net income to net cash from operating activities

Income and expenses not involving cash flows:

	2017 NIS	2016 NIS
Depreciation	141,438	88,454
<u>Changes in asset and liability items:</u>		
(Increase) decrease in other receivables	229,878	2,319,039
Increase (decrease) in trade payables	(211,337)	(757,010)
Increase (decrease) in checks payable	(86,471)	(327,776)
Increase (decrease) in other payables	(785,362)	93,511
Increase in severance pay	1,780	41,003
	<u>(710,074)</u>	<u>* 1,457,221</u>

Appendix B – Non-cash activity

In the minutes of the Board meeting from December 29, 2015, the Board approved using excess income of NIS 6 million over a three-year period. The amount is based on retained earnings less a safety cushion. NIS 3.3 million of the designated amount was used in 2016-2017.

* Reclassified (see Note 7)

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements as at December 31, 2017

Note 1 - General

- A. Be-Atzmi (hereinafter – the Organization) was founded and registered with the Registrar of Associations on July 4, 1995 in accordance with the Associations Law – 1980.
- B. The Organization was recognized by the Income Tax Authority as a public institution for purposes of donations according to Section 46 of the Income Tax Ordinance, effective as from January 1, 2013. The approval is in effect until December 31, 2018.
- C. The objectives of the Organization are as follows:
To give disadvantaged populations tools, knowledge, support and assistance in their transition from being supported and dependent people to being creative and active people who are involved in the society in general and in the work market in particular, by means of unique training and development models.

Note 2 - Significant Accounting Policies

- A. These financial statements have been prepared in accordance with Opinion 69 of the Institute of Certified Public Accountants in Israel and Accounting Standard No. 5 of the Israel Accounting Standards Board.

According to the guidance in the opinion, the net assets were classified as follows:

Net assets subject to temporary restriction

The use of the donations is subject to conditions of the donors. When the amounts are used for their designated purposes, they are released and presented in the statement of activities.

Accordingly, special grants that were received in the reporting period were recognized in the statement of activities concurrently with the costs for which they were designated. The amounts recognized as revenue in the reporting period are classified as “amounts released from net assets subject to restriction” in the statement of activities.

Net assets not subject to restriction

The portion of net assets that its use is not subject to any restriction on the part of the donors. Amounts were separated from these net assets and transferred to cover purchases of fixed assets and amounts designated by management.

- B. The financial statements have been prepared according to generally accepted accounting principles on the basis of historical cost.

Notes to the Financial Statements as at December 31, 2017

Note 2 - Significant Accounting Policies (cont'd)**C. Services received for no consideration**

Various services were received for no consideration such as: accounting services, legal services, general meeting membership and CEO services, and services from various volunteers including students and instructors.

These services are not reflected in the financial statements.

D. Non-cash donations

Non-cash donations given or received are not reflected in the financial statements, other than donations of a marketing campaign, photos at a fundraising event, donations of rent and donations of leased cars.

E. Revenue recognition

Revenues from services are recognized proportionately over the period of the agreement or upon the performance of the service if it is certain that the economic benefits attributed to the performance of the service will be received.

Accrued income from donations and allocations are recognized as revenue if they were pledged in the reporting period and actually received before the date of preparing the financial statements or if there is an irrevocable commitment of the donor that relates to the reporting period, the donor's donation commitment is not contingent upon any future event and it is legally enforceable.

F. Cash and cash equivalents

Cash and cash equivalents include short-term bank deposits with an original maturity not exceeding three months.

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 reported amounts of assets and liabilities, the disclosure relating to contingent assets and liabilities, and also the amounts of revenues and expenses in the reporting period. Actual results may differ from these estimates.

H. Fixed assets

- (1) Fixed assets are presented at cost.
- (2) Improvements and enhancements are added to the cost of the assets whereas maintenance and repairs are charged to expense as incurred.

Notes to the Financial Statements as at December 31, 2017

Note 2 - Significant Accounting Policies (cont'd)

H. Fixed assets (cont'd)

- (3) Depreciation is calculated by the straight line method on the basis of the estimated useful lives of the assets.

Annual depreciation rates are as follows:

Office furniture and equipment	6-10
Computers and software	33

Leasehold improvements are amortized over the shorter of the lease period or the useful life of the asset.

Note 3 - Other Receivables

A. Composition

	December 31 2017	December 31 2016
	NIS	NIS
Customers	2,141,410	2,164,312
Donations receivable (Note 7.B)	74,421	274,614
Prepaid expenses	33,867	30,650
Deposit	25,000	35,000
	<u>2,274,698</u>	<u>2,504,576</u>

B. Major customers

The Organization's revenue from two projects with a major customer amounted to NIS 18,006 thousand and NIS 18,600 thousand in 2017 and 2016, respectively, which constitutes 79% and 67%, respectively, of the Organization's total revenue.

2017: Project A – 54%, Project B – 25%

2016: Project A – 44%, Project B – 23%

Notes to the Financial Statements as at December 31, 2017

Note 4 - Fixed and Other Assets, Net

	Computers and software NIS	Office furniture and equipment NIS	Leasehold improvements NIS	Total NIS
Cost				
Balance as at January 1, 2016	736,088	53,312	169,383	958,783
Additions	130,798	10,480	120,648	261,926
Balance as at December 31, 2016	866,886	63,792	290,031	1,220,709
Additions	77,510	9,764	-	87,274
Balance as at December 31, 2017	944,396	73,556	290,031	1,307,983
Accumulated depreciation				
Balance as at January 1, 2016	634,137	27,253	43,504	704,894
Additions	64,399	4,787	19,268	88,454
Balance as at December 31, 2016	698,536	32,040	62,772	793,348
Additions	107,445	5,260	28,733	141,438
Balance as at December 31, 2017	805,981	37,300	91,505	934,786
Carrying amount as at December 31, 2017	138,415	36,256	198,526	373,197
Carrying amount as at December 31, 2016	168,350	31,752	227,259	427,361

Note 5 - Other Payables

	December 31 2017 NIS	December 31 2016 NIS
Liabilities to employees and other salary-related liabilities	1,822,350	2,040,607
Deferred income	-	68,374
Institutions	236,019	254,714
Prepayments of customers	-	469,098
Accrued expenses	13,067	24,005
	2,071,436	2,856,798

Notes to the Financial Statements as at December 31, 2017

Note 6 - Liability for Employee Severance Benefits, Net

The Organization's liability for employee severance benefits is calculated according to the Israeli law regarding severance pay.

As from March 2009 the payments to pension funds and insurance companies release the Organization from its obligation to the employees in accordance with Section 14 of the Severance Pay Law, on which all the Company's employees had signed off at that time. As from that date the amounts accumulated in the pension funds and insurance companies are not under the control or management of the Organization, and accordingly both these amounts and the severance pay liability are not presented in the balance sheet. The net liability for severance pay that is presented in the balance sheet represents the balance of the Organization's liability to employees whose employment began before March 2009, and the liability in their respect is not fully covered by deposits in insurance policies.

Note 7 - Revenue from Activities

	For the year ended December 31	
	2017	2016*
	NIS	NIS
A. Revenue:		
From projects	19,066,561	24,100,591
From grants and donations	396,834	491,632
Amounts released from restriction	3,267,943	* 3,266,659
	<u>22,731,338</u>	<u>* 27,858,882</u>

* Reclassified in respect of the elimination of an amount of NIS 1,099,683 that was included in revenue from activities in 2016 in respect of amounts designated by management in prior periods that their designation was cancelled in the reporting period.

B. The donations included in the revenue from activities include donations that as at balance sheet date have been pledged but not yet received.
The amount of those donations is as follows:

	December 31 2017	December 31 2016
	NIS	NIS
Donations receivable	<u>74,421</u>	<u>274,614</u>

Notes to the Financial Statements as at December 31, 2017

Note 8 - Cost of Activities

	For the year ended December 31	
	2017	2016
	NIS	NIS
Salaries and external consultants	16,834,681	17,633,448
Training and workshops	3,795,640	3,533,944
Professional training	1,132,599	1,153,875
Rent, office maintenance and communications	648,988	1,005,183
Marketing and advertising	191,206	443,826
Infrastructures	-	22,507
Events and gatherings	120,258	528,950
Other	438,101	632,163
	<u>23,161,473</u>	<u>24,953,896</u>

Note 9 - General and Administrative Expenses

	For the year ended December 31	
	2017	2016
	NIS	NIS
Salaries and external consultants	1,005,914	816,685
Salary-related and social expenses	305,070	349,154
Professional services	79,527	62,351
Office rent and maintenance	233,208	175,800
Subsistence, refreshments and travel	28,910	24,475
Car rent and maintenance	27,850	23,342
Depreciation	28,288	17,691
Other	14,700	92,747
	<u>1,723,467</u>	<u>1,562,245</u>