

LATET - ISRAELI HUMANITARIAN AID, R.A.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

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AUDITORS' REPORT

To the Members of

LATET - ISRAELI HUMANITARIAN AID, R.A.

We have audited the accompanying balance sheets of Latet - Israeli Humanitarian Aid, R.A. ("the Association") as of December 31, 2017 and 2016, and the related statements of activities, changes in net assets and cash flows for each of the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 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 Association's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We did not audit revenues from services for 2017 and 2016 totaling approximately NIS 7,434 thousand and NIS 8,190 thousand, respectively.

In our opinion, except for the abovementioned, these financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2017 and 2016, and the results of its operations, changes in its net assets and cash flows for each of the years then ended, in conformity with generally accepted accounting principles in Israel (Israeli GAAP).

Tel-Aviv, Israel
June 25, 2018

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

BALANCE SHEETS

	Note	December 31,	
		2017	2016
		NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		13	13
Accounts receivable	3	4,699	6,248
Inventories		2,138	1,229
		<u>6,850</u>	<u>7,490</u>
DESIGNATED CASH	4	<u>12,702</u>	<u>13,093</u>
FIXED ASSETS:			
Cost	5	5,658	5,088
Less - accumulated depreciation		3,487	2,649
		<u>2,171</u>	<u>2,439</u>
		<u>21,723</u>	<u>23,022</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Trade and notes payable	6	3,326	4,649
Other accounts payable	7	2,024	2,732
		<u>5,350</u>	<u>7,381</u>
LONG-TERM LIABILITIES:			
Accrued severance pay, net	8	<u>113</u>	<u>99</u>
NET ASSETS:			
Unrestricted net assets:			
Designated by the Association's Management Committee		8,254	7,317
Undesignated by the Association's Management Committee	2k	5,825	5,776
Used in fixed assets		2,171	2,439
Temporarily restricted net assets		<u>10</u>	<u>10</u>
		<u>16,260</u>	<u>15,542</u>
		<u>21,723</u>	<u>23,022</u>

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

June 25, 2018
Date of approval of the
financial statements

Gilles Darmon
Management Committee
Chair

David Baruch
Management Committee
Member

STATEMENTS OF ACTIVITIES

	Note	Year ended December 31,	
		2017	2016
		NIS in thousands	
Operating turnover:			
Cash donations	9a	30,247	29,984
Cash-equivalent donations	9a	79,495	67,443
Total operating turnover		109,742	97,427
Cost of operations:			
Cost of products donated in cash		10,927	9,955
Cost of products donated in cash equivalents	9b	71,192	59,766
Total cost of donated products		82,119	69,721
Cost of services donated in cash equivalents	9c	7,434	8,190
Total cost of donated products and services donated in cash equivalents		89,553	77,911
Wages		6,013	5,377
Transport and conveyance		1,077	619
Project operating expenses		3,801	3,700
Logistic centers		1,221	908
Other expenses	10	2,066	2,596
Total operating costs		14,178	13,200
Total cost of operations	11	103,731	91,111
Net operating income		6,011	6,316
General and administrative expenses	12	5,351	5,556
Income from ordinary operations		660	760
Financial expenses, net		(107)	(10)
Other income, net		3	10
Net surplus		556	760

Additional information (unaudited):

The Association estimates that during 2017, some 16,009 volunteers took part in the various projects hosted by the Association with an aggregate scope of about 401 thousand hours. The value of the services (included in the Association's operating turnover and in cost of operations in cash equivalents) approximates NIS 6,276 thousand in respect of some 8,308 non-youth volunteers with an aggregate scope of about 220 thousand volunteer hours. See Note 9a(3).

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

STATEMENTS OF CHANGES IN NET ASSETS

	Unrestricted net assets				Total
	Undesignated by the Association's Management Committee *)	Designated by the Association's Management Committee	Used in fixed assets	Temporarily restricted net assets	
	NIS in thousands				
Balance as of January 1, 2016	5,548	7,562	1,662	10	14,782
Additions during the year:					
Net surplus	760	-	-	-	760
Amounts designated by the Management Committee	245	(245)	-	-	-
Disposals during the year:					
Transfer of unrestricted amounts:					
Used in fixed assets	(1,379)	-	1,379	-	-
Amounts transferred to cover depreciation expenses	602	-	(602)	-	-
Balance as of December 31, 2016	5,776	7,317	2,439	10	15,542
Additions during the year:					
Donations received	-	-	22	-	22
Net surplus	556	-	-	-	556
Amounts designated by the Management Committee	(797)	937	-	-	140
Disposals during the year:					
Transfer of unrestricted amounts:					
Used in fixed assets	(548)	-	548	-	-
Amounts transferred to cover depreciation expenses	838	-	(838)	-	-
Balance as of December 31, 2017	5,825	8,254	2,171	10	16,260

*) See Note 2k.

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

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2017	2016
	NIS in thousands	
<u>Cash flows from operating activities:</u>		
Net surplus	556	760
Adjustments to reconcile net surplus to net cash provided by operating activities (a)	(539)	(373)
Net cash provided by operating activities	17	387
<u>Cash flows from investing activities:</u>		
Purchase of fixed assets	(548)	(1,379)
Decrease in designated cash, net	530	997
Net cash used in investing activities	(18)	(382)
Increase (decrease) in cash and cash equivalents	(1)	5
Cash and cash equivalents at beginning of year	13	8
Cash and cash equivalents at end of year	12	13
 (a) <u>Adjustments to reconcile net surplus to net cash provided by operating activities:</u>		
Income and expenses not involving cash flows:		
Depreciation expenses	839	602
Increase (decrease) in accrued severance pay, net	14	(13)
Changes in asset and liability items:		
Decrease (increase) in accounts receivable	1,548	(2,832)
Decrease (increase) in inventories	(909)	1,264
Increase (decrease) in trade and notes payable	(1,324)	614
Decrease in other accounts payable	(707)	(8)
	(539)	(373)
 (b) <u>Significant non-cash activity:</u>		
Receipt of fixed assets for no consideration	22	-

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. Latet - Israeli Humanitarian Aid, R.A. ("the Association") is a non-profit organization.
- b. The Association was founded to offer humanitarian aid. The Association commenced its operation on February 11, 1997.
- c. Definitions:

In these financial statements:

Related party - As defined in Accounting Standard No. 5 of the Israel Accounting Standards Board.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements on a consistent basis are as follows:

- a. Reporting basis of the financial statements:

The financial statements have been prepared in nominal amounts based on the historical cost convention since the effect of the changes in the general purchasing power of the Israeli currency on the financial statements prior to December 31, 2003 (the date of transition to nominal financial reporting in accordance with Accounting Standard No. 12 of the Israel Accounting Standards Board) is immaterial.

- b. Net assets:

The Association's accounting policies are prescribed by the financial reporting principles set forth in Accounting Standard 5 of the Israel Accounting Standards Board and in Opinion 69 of the Institute of Certified Public Accountants in Israel regarding accounting and financial reporting principles for non-profit organizations.

Unrestricted net assets:

The Association's component of net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations

The Association's unrestricted net assets are presented in three subcategories as follows:

1. Net assets undesignated by the Association's Management Committee.
2. Net assets designated by the Association's Management Committee.
3. Net assets used in fixed assets.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Cash equivalents:

The Association considers all highly liquid investments, including unrestricted short-term bank deposits purchased with original maturities of three months or less, to be cash equivalents.

d. Designated cash:

Designated cash is considered cash which is earmarked for the Association's activities.

e. Inventories of food and disposable products:

Inventories of donated food and disposable products are included based on the donors' pricelists.

f. Fixed assets:

Fixed assets are measured at cost less accumulated depreciation.

Depreciation is calculated on a straight-line basis at annual rates which management deems are commensurate with the useful life of the assets as follows:

	<u>%</u>
Computers and related equipment	33
Office furniture and equipment	6 - 15
Motor vehicles	15
Leasehold improvements	10

g. Accrued severance pay:

The plans are normally financed by contributions to insurance companies and classified as defined benefit plans or as defined contribution plans.

The Association has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Association pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services and no additional contribution is required in the financial statements.

NOTES TO FINANCIAL STATEMENTS**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

h. Revenue recognition:

Revenues and expenses are included on an accrual basis, other than revenues from donations (in cash and other) which are included based on actual receipts. Revenues in cash equivalents are carried according to the Association's current records of the quantitative data of disposable assets and services received by the Association from donations and offered by it as aid and the Association's current costs. The financial statements include the value of goods received by the Association in cash equivalents as donations based on the donors' pricelists and references. The value of donated services is estimated by the Association based on its evaluation of the service's market value.

i. Expenses in cash equivalents:

Expenses in cash equivalents are carried based on pricelists and references regarding the value of the donated goods. Expenses in respect of donated services are carried by the Association concurrently with the revenue according to management's evaluation of the service's market value.

j. Use of estimates for the preparation of financial statements:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions that affect the adoption of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. The basis of the estimates and assumptions is reviewed regularly. The changes in accounting estimates are reported in the period of the change in estimate. See also h and i above.

k. Net assets undesignated by the Association's Management Committee:

The balance of net assets undesignated by the Association's Management Committee totaling NIS 5,825 thousand and NIS 5,776 thousand in 2017 and 2016, respectively, represents donations designated by the Association to the various projects and to its operating activities and not designated by the donors.

NOTE 3:- ACCOUNTS RECEIVABLE

	December 31,	
	2017	2016
	NIS in thousands	
Credit cards	349	290
Prepaid expenses and advances to suppliers	1,254	981
Accrued income	3,040	4,620
Notes receivable	56	357
	<u>4,699</u>	<u>6,248</u>

NOTES TO FINANCIAL STATEMENTS**NOTE 4: BALANCES OF DESIGNATED CASH**

In the context of the Association's activities, donations were received and allocated to the following projects:

<u>NIS in thousands</u>	<u>Project</u>
999	"Give with Love"
4,328	"Nutritional Security"
179	"Foreign Aid"
162	"Latet Youth"
1,209	"Aid for Life"
5,825	Donations to be used freely by the Association in the various programs (not designated by the donors).

The designated funds are deposited in current bank accounts in NIS and in foreign currency and in short-term deposits. As of December 31, 2017, the deposits earn average annual interest of about 0.1%.

The designated cash will be used by the Association for its operating activities in 2018 and thereafter.

NOTE 5:- FIXED ASSETS

	<u>Computers and related equipment</u>	<u>Office furniture and equipment</u>	<u>Motor vehicles</u>	<u>Leasehold improvements</u>	<u>Total</u>
	<u>NIS in thousands</u>				
Cost:					
Balance at January 1, 2017	379	303	2,613	1,793	5,088
Purchased fixed assets	17	43	506	4	570
Balance at December 31, 2017	396	346	3,119	1,797	5,658
Accumulated depreciation:					
Balance at January 1, 2017	246	112	1,615	676	2,649
Additions during the year	54	54	315	415	838
Balance at December 31, 2017	300	166	1,930	1,091	3,487
Depreciated cost at December 31, 2017	96	180	1,189	706	2,171
Depreciated cost at December 31, 2016	131	191	999	1,118	2,439

NOTES TO FINANCIAL STATEMENTS**NOTE 6:- TRADE AND NOTES PAYABLE**

	December 31,	
	2017	2016
	NIS in thousands	
Trade payables	786	845
Notes payable	2,540	3,804
	<u>3,326</u>	<u>4,649</u>

NOTE 7:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2017	2016
	NIS in thousands	
Employees and payroll accruals	1,140	1,030
Deferred revenues	79	822
Government authorities	188	181
Accrued expenses	612	694
Other	5	5
	<u>2,024</u>	<u>2,732</u>

NOTE 8:- ACCRUED SEVERANCE PAY, NET

a. Composition:

	December 31,	
	2017	2016
	NIS in thousands	
Accrued severance pay	466	455
Less - amounts funded	<u>(353)</u>	<u>(356)</u>
	<u>113</u>	<u>99</u>

b. The Association's liabilities for severance pay are computed on the basis of the employees' last salary as of the reporting date and in accordance with the Severance Pay Law and are fully covered by regular contributions to insurance companies in respect of managers' insurance policies and provident funds as well as by the accrual that is presented in the balance sheet.

NOTES TO FINANCIAL STATEMENTS

NOTE 8:- ACCRUED SEVERANCE PAY, NET (Cont.)

- c. The amounts accumulated in managers' insurance policies and provident funds on behalf of the employees and the respective liabilities are not included in the balance sheet since they are not under the control or management of the Association.
- d. The amounts contributed to severance pay funds include profits accrued through the reporting date. The amounts contributed can be withdrawn only after compliance with the obligations under the Severance Pay Law or labor agreements.

NOTE 9:- DONATIONS

- a. Revenues from donations:

	December 31,	
	2017	2016
	NIS in thousands	
Donations in cash (1)	26,227	25,199
Government (2)	4,020	4,785
Services received gratis (3)	1,158	1,288
Services provided by volunteers (4)	6,276	6,902
Donated food and disposable products (5)	72,061	59,253
	<u>109,742</u>	<u>97,427</u>

(1) Includes donations from companies, foundations and the public. Donations from companies and foundations in 2017 and 2016 totaled approximately NIS 15.05 million and NIS 14.7 million, respectively. Public donations in 2017 and 2016 totaled approximately NIS 11.1 million and NIS 10.7 million, respectively.

(2) Government: Ministry of Education and Ministry of Welfare.

(3) Services received gratis from various companies consisting, among others, of communication, graphics and advertising, audit, logistic assistance etc.

(4) In 2017, some 16,009 volunteers took part in the various projects hosted by the Association with an aggregate scope of about 401 thousand hours. Revenues from donations in cash equivalents consisted of about 220 thousand volunteer hours by 8,308 non-youth volunteers based on a minimum wage of approximately NIS 28.49 per hour (a total of approximately NIS 6,276 thousand). This information is unaudited.

In 2016, some 16,192 volunteers took part in the various projects hosted by the Association with an aggregate scope of about 383 thousand hours. Revenues from donations in cash equivalents consisted of about 266 thousand volunteer hours by 8,017 non-youth volunteers based on a minimum wage of approximately NIS 25.94 per hour (a total of approximately NIS 6,902 thousand). This information is unaudited.

NOTES TO FINANCIAL STATEMENTS

NOTE 9:- DONATIONS (Cont.)

- (5) Donated food and other disposable products and equipment were used in the various programs. The products and equipment were donated by businesses and the public. As per management's estimate, donations from companies in 2017 and 2016 totaled approximately NIS 67.5 million and NIS 54.1 million, respectively and public donations in 2017 and 2016 amounted to approximately NIS 4.5 million and NIS 5.1 million, respectively.

The Association's revenues from donations of disposable assets are recognized in the financial statements based on the current quantitative records kept by the Association. The monetary value is determined based on pricelists and references regarding the value of the donations.

b. Cost of donated products:

The cost of products donated in cash equivalents includes the provision of aid packages of food and disposable products to needy populations and therefore the expenses in respect of these donations are identical to the Association's revenues therefrom in cash equivalents, see also paragraph a above. The closing balance of inventories of cash donations as of December 31, 2017 and 2016 is NIS 700 thousand and NIS 660 thousand, respectively. The closing balance of inventories donated in cash equivalents as of December 31, 2017 and 2016 is NIS 1,438 thousand and NIS 569 thousand, respectively.

The total cost of donated products in 2017 and 2016 based on market prices in leading retail chains amounted to approximately NIS 104.57 million and NIS 86.88 million, respectively. This information is unaudited.

c. Cost of services donated in cash equivalents:

The cost of services donated in cash equivalents includes cost of services received by the Association as donations. Therefore, the expenses in respect of these donations are identical to the Association's revenues therefrom in cash equivalents, see also a above.

	Year ended	
	December 31,	
	2017	2016
	NIS in thousands	
Value of volunteer hours (see a(3))	6,276	6,902
Production of "Give with Love" and "Give for Passover" food drives	514	589
Operation of "Latet Youth" program	520	520
Logistic aid	22	21
Rent	-	56
Audit fees	102	102
	<u>7,434</u>	<u>8,190</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 10:- OTHER EXPENSES

	Year ended	
	December 31,	
	2017	2016
	NIS in thousands	
Office and printing expenses	180	179
IT expenses	297	323
Vehicle maintenance and equipment	432	396
Depreciation	771	521
Office maintenance	312	333
Give a Future - micro-business development venture *)	74	844
	<u>2,066</u>	<u>2,596</u>

- *) In 2016, the Association founded Give a Future - a micro-business development venture (R.A. no. 580602258, " Give a Future" or "the organization") whose entire activities and employees formerly worked on the program within the Association and were assigned to the organization from the Association.

The Association supports the organization's activities in its inception period.

For the purpose of the organization's operating activities, the Association granted the organization a loan of approximately NIS 844 thousand in 2016 which, according to the agreement, was converted into a donation in the 2016 financial statements once a proper administration approval was issued by the Registrar of Associations and obtained in 2017.

NOTE 11:- COST OF OPERATIONS

Following is a breakdown of the Association's cost of operations according to projects:

	Year ended	
	December 31,	
	2017	2016
	NIS in thousands	
Nutritional Security	93,911	80,967
Aid for Life	6,412	5,915
Latet Youth	3,334	3,385
Give a Future *)	74	844
	<u>103,731</u>	<u>91,111</u>

- *) See Note 10 above.

NOTES TO FINANCIAL STATEMENTS

NOTE 12:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2017	2016
	NIS in thousands	
Wages and related expenses	4,574	4,362
Office maintenance and rent	142	152
Vehicle maintenance and travel expenses	126	149
Professional services	114	116
Office expenses	70	118
Depreciation	68	81
Marketing events	202	508
Other	55	70
	5,351	5,556

NOTE 13:- TRANSACTIONS WITH RELATED PARTIES

Benefits to related parties:

	Year ended December 31,	
	2017	2016
	NIS in thousands	
Wages and related expenses to related party employed by the Association	480	465
Cost of vehicle maintenance of related party employed by the Association	58	60
Number of people to whom the wages and benefits relate	1	1
Fees to related party not employed by the Association	6	6
Number of people to whom the wages and benefits relate	1	1

NOTE 14:- TAXES ON INCOME

The Association operates as a non-profit organization and accordingly it is tax exempt pursuant to Article 9(2) to the Income Tax Ordinance. Payroll tax imposed pursuant to the Value Added Tax Law is included in payroll expenses.

The Association has obtained the Income Tax Commission's approval according to which it is a recognized institution for donation purposes pursuant to Article 46 to the Income Tax Ordinance.
