

CARE International West Bank and Gaza
Financial Statements
For the Year ended June 30, 2012

Independent Auditors' Report to the management of CARE International West Bank and Gaza

We have audited the accompanying financial statements of CARE International - West Bank and Gaza (CARE), which comprise the statement of financial position as at June 30, 2012, and the statement of activities and change in net assets, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Qualification

As depicted in Note (2) to the accompanying financial statements, these financial statements are the first to be issued in accordance with International Financial Reporting Standards which also require the inclusion of comparative information. However, no comparative information was presented in the accompanying financial statements as management believes it is impracticable to do so.



Opinion

In our opinion, except for the effect of the matter discussed in the basis of qualification paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of CARE as at June 30, 2012 and the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young - Middle East

A handwritten signature in blue ink that reads 'Ernst + Young'.

July 8, 2013
Ramallah - Palestine

CARE International West Bank and Gaza

Statement of Financial Position

At June 30, 2012

	<u>Notes</u>	<u>June 30, 2012 U.S. \$</u>
<u>ASSETS</u>		
Non - Current Assets		
Property and equipment	3	<u>73,234</u>
		<u>73,234</u>
Current Assets		
Contributions receivable	4	9,442,394
Other current assets	5	503,196
Cash and cash equivalents	6	<u>710,018</u>
		<u>10,655,608</u>
Total Assets		<u>10,728,842</u>
NET ASSETS AND LIABILITIES		
Net assets		
Unrestricted net assets		<u>118,146</u>
Total net assets		<u>118,146</u>
Non - Current Liabilities		
Provision for employees' benefits	7	1,087,686
Deferred revenues	8	<u>42,734</u>
		<u>1,130,420</u>
Current Liabilities		
Temporarily restricted contributions	9	9,042,534
Accounts payable and accruals	11	<u>437,742</u>
		<u>9,480,276</u>
Total Liabilities		<u>10,610,696</u>
Total Net Assets and Liabilities		<u>10,728,842</u>

The accompanying notes from 1 to 17 form part of these financial statements

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2012

	<u>Notes</u>	<u>June 30, 2012</u> U.S. \$
<u>Revenues</u>		
Temporary restricted contributions released from restrictions	9	9,311,620
Unrestricted contributions from Head Office		319,944
Deferred revenues recognized	8	23,460
Other revenues	10	<u>22,233</u>
Total revenues		<u>9,677,257</u>
<u>Expenses</u>		
Projects' expenses	12	9,311,260
General and administrative expenses	13	361,659
Currency exchange loss		<u>211,849</u>
Total expenses		<u>9,884,768</u>
Decrease in net assets		(207,511)
Net assets, beginning of year		<u>325,657</u>
Net assets, end of year		<u>118,146</u>

The accompanying notes from 1 to 17 form part of these financial statements

CARE International West Bank and Gaza

Statement of Cash Flows

For the year ended June 30, 2012

	<u>June 30,</u> <u>2012</u>
<u>Notes</u>	<u>U.S. \$</u>
<u>Operating activities</u>	
Decrease in net assets	(207,511)
Adjustments for:	
Depreciation	38,711
Provision for employees' indemnity	321,785
Deferred revenues recognized	(23,460)
Non-cash items	<u>301,303</u>
	430,828
Working capital changes:	
Contributions receivable	4,357,031
Other current assets	(503,196)
Restricted deposits	(588,084)
Temporarily restricted contributions	(4,257,137)
Accounts payable and accruals	437,742
Payments of employees' indemnity	<u>(407,782)</u>
Net cash used in operating activities	<u>(530,598)</u>
<u>Investing activities</u>	
Purchases of property and equipment	<u>(47,300)</u>
Net cash used in investing activities	<u>(47,300)</u>
Decrease in cash and cash equivalents	(577,898)
Cash and cash equivalents, beginning of year	<u>699,832</u>
Cash and cash equivalents, end of year	<u>6</u> <u>121,934</u>

The accompanying notes from 1 to 17 form part of these financial statements

Notes to the Financial Statements

June 30, 2012

1. General

CARE International (CARE) is a leading relief and development non-governmental organization fighting global poverty. CARE helps tackle underlying causes of poverty so that people can become self-sufficient.

CARE has been an active participant in relief and development in the occupied Palestinian territories since 1948 and was registered in the Ministry of Interior on September 21, 2000 under registration number QR-008-F.

For over 60 years, CARE has worked to promote dignity, social justice and equity within marginalized segments of Palestinian society by using CARE's global resources and experiences to support the aspirations of local communities in order to facilitate lasting and empowering change.

CARE's mission is to serve individuals and families in the poorest communities in the world. Drawing strength from CARE's global diversity, resources and experience, CARE promotes innovative solutions and are advocates for global responsibility.

The financial statements have been approved for issuance by CARE Management July 8, 2013.

2.1 Basis of preparation:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by international accounting standards board.

The Financial statements have been prepared under the historical cost convention.

The financial statements have been presented in United States Dollars (U.S. \$), which is the functional currency of CARE.

The financial statements are the first to be issued in accordance with International Financial Reporting Standards which also require the inclusion of comparative information. However, no comparative information was presented in the accompanying financial statements as it is impracticable to do so.

2.2 Significant Accounting Policies

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Furthermore, several standards and interpretations have been issued but are not yet mandatory. CARE's management believes that the new standards and interpretations will have no significant impact on disclosures, financial position or performance when applied at a future date.

2.3 Summary of significant accounting policies

Estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires CARE's management to exercise its judgment in the process of applying the accounting policies. CARE's management continually evaluates its estimates, assumptions and judgments based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Useful lives of tangible assets

CARE's management reassesses the useful lives of tangible assets, and makes adjustments if applicable, at each financial year end.

Donation revenues

Donor's unconditional pledges are those pledges where donor does not specify prerequisites that have to be carried out by the recipient before obtaining the fund.

Donations revenue from unconditional pledges are recognized as follows:

- Unconditional pledges that are not restricted by donor for a specific purpose or time are recognized as revenue when the pledge is obtained;
- Unconditional pledges that are temporarily restricted by donor for a specific purpose or time are recognized as revenue when such purpose or time is satisfied.

Deferred revenues

Donations related to property and equipment are stated at fair value, recorded as deferred revenues and recognized as revenue on a systematic basis over the useful life of the asset.

Expenses recognition

Expenses are recognized when incurred based on the accrual basis of accounting.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of activities and changes in net assets. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value less any impairment loss previously recognized in the statement of activities and changes in net assets;
- For assets carried at cost, impairment is the difference between carrying value and present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Fair value of financial instruments

The fair value of financial assets and financial liabilities recorded in the statement of financial position approximate their carrying amounts largely due to the short-term maturities of these instruments. Where the fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, bank balances and short term deposits with an original maturity of three months or less, net of restricted cash balances.

Contributions receivable

Contributions receivable are stated at the original amount of the unconditional pledge less amounts received and any uncollectible pledges. An estimate for the uncollectible amount is made when the collection of full unconditional pledge is no longer probable.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the statement of activities and changes in net assets as incurred. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

	Useful life (Years)
Vehicles	3
Machinery and equipment	3

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of activities and changes in net assets when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Income taxes

CARE is a not-for-profit organization; accordingly, it is not subject to income tax.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received whether billed by the supplier or not.

Foreign currency

Transactions denominated in other currencies are translated to U.S. \$ using the exchange rate in effect at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are recognized in the statement of activities and changes in net assets.

3. Property and equipment

	Vehicles	Machinery and equipment	Total
<u>June 30, 2012</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Cost			
Balance, beginning of year	60,500	31,376	91,876
Additions	30,500	16,800	47,300
Balance, end of year	<u>91,000</u>	<u>48,176</u>	<u>139,176</u>
Depreciation			
Balance, beginning of year	18,667	8,564	27,231
Depreciation charge for year	25,250	13,461	38,711
Balance, end of year	<u>43,917</u>	<u>22,025</u>	<u>65,942</u>
Net carrying amount			
At June 30, 2012	<u><u>47,083</u></u>	<u><u>26,151</u></u>	<u><u>73,234</u></u>

4. Contributions receivable

Contributions receivable comprise of unconditional pledges to give as at June 30, 2012 from the following donors:

	Balance, beginning of year	Additions during the year	Cash received	Write Off	Currency exchange difference	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
United States Agency for International Development (USAID)	1,733,797	2,650,000	(2,300,685)	(3,179)	-	2,079,933
European Commission's Directorate General for Humanitarian Aid	5,452,111	2,472,710	(3,158,685)	(219,432)	(666,924)	3,879,780
Federal Ministry for Economic Cooperation and Development	359,654	713,000	(836,787)	(2,594)	(108,893)	124,380
Canadian International Development Agency	3,876,033	-	(1,781,628)	(114,295)	119,274	2,099,384
Care International UK	118,104	-	(114,180)	-	(3,706)	218
Australian Government	2,259,726	4,555	(1,006,533)	-	951	1,258,699
Ospery foundation	-	27,300	(27,300)	-	-	-
	<u>13,799,425</u>	<u>5,867,565</u>	<u>(9,225,798)</u>	<u>(339,500)</u>	<u>(659,298)</u>	<u>9,442,394</u>

5. Other current assets

	June 30, 2012
	<u>U.S. \$</u>
Due from Care International - Head Office	291,304
Advances to other partners in the implementation of projects	128,626
Prepaid expenses	61,477
Accounts receivable	18,871
Employees' advances	1,633
Others	1,285
	<u>503,196</u>

6. Cash and cash equivalents

	June 30, 2012
	<u>U.S. \$</u>
Cash in Hand	4,364
Current accounts at banks	117,570
Term deposits at banks*	588,084
	<u>710,018</u>
Cash restricted for employees' benefits*	<u>(588,084)</u>
	<u>121,934</u>

* Deposits at banks as at June 30, 2012 are short term in nature. The average annual interest rates during the year on such deposits in U.S. \$ amounted to 0.07%.

7. Provision for employees' benefits

Following is a summary of the movement on the provision for employees' benefits during the year:

	Balance, beginning of year	Additions during the year	Payments	Balance, end of year
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
End of service benefits	546,098	135,581	(169,495)	512,184
Employees' saving fund	627,585	186,204	(238,287)	575,502
	<u>1,173,683</u>	<u>321,785</u>	<u>(407,782)</u>	<u>1,087,686</u>

8. Deferred revenues

The movement on deferred revenues during the year was as follows:

	June 30, 2012
	<u>U.S. \$</u>
Balance, beginning of year	49,394
Additions (Note 9)	16,800
Deferred revenues recognized	(23,460)
Balance, end of year	<u>42,734</u>

9. Temporarily restricted contributions

This item comprises of temporarily restricted contributions subject to specific purpose or time restriction. These amounts represent the excess of donations pledged over the expenditures made out to satisfy the purposes stipulated by the donors. Movement on temporarily restricted contributions for the year ended June 30, 2012 is as follows:

	Balance, beginning of year	Additions during the year	Temporarily restricted contributions released from restrictions	Deferred revenues	Write Off	Currency exchange differences	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
United States Agency for International Development (USAID)	759,475	2,650,000	(1,323,207)	-	(3,179)	-	2,083,089
European Commission's Directorate General for Humanitarian Aid	5,967,421	2,472,710	(4,121,075)	-	(219,432)	(633,333)	3,466,291
Federal Ministry for Economic Cooperation and Development	338,445	713,000	(868,850)	-	(2,594)	(87,272)	92,729
Canadian International Development Agency	2,820,542	-	(1,725,161)	-	(114,295)	65,282	1,046,368
Care International UK	118,105	-	(114,398)	-	-	(3,707)	-
Care International USA	26,430	-	(16,753)	-	-	-	9,677
Australian Government	3,269,253	4,555	(1,114,876)	(16,800)	-	202,248	2,344,380
Ospery foundation	-	27,300	(27,300)	-	-	-	-
	<u>13,299,671</u>	<u>5,867,565</u>	<u>(9,311,620)</u>	<u>(16,800)</u>	<u>(339,500)</u>	<u>(456,782)</u>	<u>9,042,534</u>

10. Other revenues

	June 30, 2012
	<u>U.S. \$</u>
Interest revenue	11,095
Others	<u>11,138</u>
	<u>22,233</u>

11. Accounts payable and accruals

	June 30, 2012
	<u>U.S. \$</u>
Accounts payable	245,393
Accrued employees' vacations	180,362
Accrued expenses	<u>11,987</u>
	<u>437,742</u>

12. Projects' expenses

Following are the components of projects' expenses:

	United States Agency for International Development (USAID)	European Commission's Directorate General for Humanitarian Aid	Federal Ministry for Economic Cooperation and Development	Australian Government	Canadian International Development Agency	Care International USA	Care International UK	Ospery foundation	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Salaries & related expenses	314,904	951,676	260,125	270,836	358,081	-	31,395	2,932	2,189,949
Contractual services	418,256	671,066	40,775	148,424	76,917	16,753	81,635	24,368	1,478,194
Building materials	-	-	-	170,532	-	-	-	-	170,532
Agricultural activities	99,415	1,790,635	393,944	71,467	1,154,865	-	-	-	3,510,326
Projects equipment	-	-	-	329,983	-	-	-	-	329,983
Medical equipment	-	286,829	-	-	-	-	-	-	286,829
Professional fees	25,343	38,724	26,421	9,035	8,706	-	-	-	108,229
Training and workshops	4,185	56,523	21,928	19,646	23,372	-	-	-	125,654
Maintenance	3,007	11,681	4,982	3,722	3,995	-	-	-	27,387
Computers and equipments	245,665	4,480	57,069	18,331	10,884	-	-	-	336,429
Stationery	4,944	15,091	1,294	6,211	4,404	-	-	-	31,944
Transportation	10,046	34,362	4,076	8,383	9,167	-	86	-	66,120
Publications and printings	814	8,537	1,885	5,877	8,119	-	-	-	25,232
Hospitality	3,039	5,179	1,165	4,614	1,789	-	-	-	15,786
Vehicles expenses	7,060	66,887	24,544	3,774	25,975	-	345	-	128,585
Rent	15,810	95,325	14,787	20,897	19,777	-	-	-	166,596
Services and Insurance	4,232	18,684	4,953	6,626	7,056	-	-	-	41,551
Postage and telephone	11,764	53,284	8,889	13,994	10,336	-	708	-	98,975
Joint projects*	153,965	-	-	-	-	-	-	-	153,965
Depreciation	-	7,209	1,467	1,635	-	-	-	-	10,311
Miscellaneous	758	4,903	546	889	1,718	-	229	-	9,043
Total	1,323,207	4,121,075	868,850	1,114,876	1,725,161	16,753	114,398	27,300	9,311,620

* This amount represents CARE's share in projects that have been implemented with other partners.

13. General and administrative expenses

	June 30, 2012
	<u>U.S. \$</u>
Salaries and related benefits	167,443
Transportation	76,282
Hospitality	29,303
Depreciation	28,400
Rent	18,009
Office supplies	14,238
Postal and telephone	7,607
Stationery	5,608
Vehicles expenses	4,048
Maintenance	4,045
Training and workshops	2,844
Professional fees	2,103
Services and insurance	1,587
Publications and printings	142
	<u>361,659</u>

14. Fair values of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of cash and cash equivalents, contributions receivable and other some current assets. Financial liabilities consist of some accounts payable and accruals and temporarily restricted contributions.

The fair values of financial instruments are not materially different from their carrying values at the statement of financial position date.

15. Related Party Transactions

This item represents transactions with Head Office and key management personnel, following are the balances and transactions with related parties:

The statement of financial position includes the following balance with related parties:

	June 30, 2012
	<u>U.S. \$</u>
Due from Head Office	<u>291,304</u>

The Statement of activities and change in net assets includes the following transactions with related parties:

	June 30, 2012
	<u>U.S. \$</u>
Unrestricted contributions from Head Office	<u>319,944</u>
<u>Key management personnel compensation:</u>	
Short-term benefits	<u>506,953</u>
Post employment benefits	<u>174,303</u>

16. Risk Management

Interest rate risk

CARE is exposed to interest rate risk on its interest bearing short-term deposits at banks (Note 6).

Liquidity risk

CARE limits its liquidity risk by maintaining adequate cash balances and funds from multiple donors to meet its current obligations and to finance its activities. Most of CARE's financial liabilities are due within a period of less than three months from the date of the financial statements.

Foreign currency risk

The table below indicates the sensitivity of the statement of activities and changes in net assets, the analysis calculates the effect of a reasonably possible movement of the U.S. Dollar currency rate against New Israeli Shekels (ILS), European Monetary Unit (EURO), and other foreign currencies with all other variables held constant. The effect of decrease in foreign currency exchange rate is expected to be equal and opposite to the effect of the increase shown:

	Increase in ILS rate to U.S. \$	Effect on statement of activities and changes in net assets for the year	Increase in EURO rate to U.S. \$	Effect on statement of activities and changes in net assets for the year	Increase in other foreign currencies rate to U.S. \$	Effect on statement of activities and changes in net assets for the year
	<u>%</u>	<u>U.S. \$</u>	<u>%</u>	<u>U.S. \$</u>	<u>%</u>	<u>U.S. \$</u>
June 30, 2012	10+	38,749	10+	44,415	10+	(7,068)

17. Concentration of Risk in Geographic Area

CARE is carrying out all of its activities in Palestine. The political and economical destabilization in the area increases the risk of carrying out business and could adversely affect CARE's performance.