

CARE International - West Bank and Gaza

Financial Statements

For the year ended June 30, 2015



Building a better
working world

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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, 2015, 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, 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 about 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.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CARE as at June 30, 2015 and the results of its activities and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Ernst & Young - Middle East

License # 206/2012

May 15, 2017
Ramallah - Palestine

Statement of Financial Position

As at June 30, 2015

	Notes	June 30, 2015 <u>U.S. \$</u>	June 30, 2014 <u>U.S. \$</u>
<u>Assets</u>			
Non-current assets			
Property and equipment	3	66,569	32,871
		<u>66,569</u>	<u>32,871</u>
Current assets			
Contributions receivable	4	7,530,850	13,915,780
Other current assets	5	412,590	2,415,801
Cash and cash equivalents	6	844,880	1,459,502
		<u>8,788,320</u>	<u>17,791,083</u>
Total assets		<u><u>8,854,889</u></u>	<u><u>17,823,954</u></u>
<u>Net assets and liabilities</u>			
Net assets			
Unrestricted net assets		(6,185)	(130,712)
Total net assets		<u>(6,185)</u>	<u>(130,712)</u>
Non-current liabilities			
Provision for employees' benefits	7	544,235	645,372
Deferred revenues	8	66,680	24,784
		<u>610,915</u>	<u>670,156</u>
Current liabilities			
Temporarily restricted contributions	9	7,758,534	16,438,911
Accounts payable and accruals	10	491,625	845,599
		<u>8,250,159</u>	<u>17,284,510</u>
Total liabilities		<u>8,861,074</u>	<u>17,954,666</u>
Total net assets and liabilities		<u><u>8,854,889</u></u>	<u><u>17,823,954</u></u>

The accompanying notes from 1 to 16 form part of these financial statements

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2015

	Notes	June 30, 2015 <u>U.S. \$</u>	June 30, 2014 <u>U.S. \$</u>
Revenues			
Temporarily restricted contributions released from restriction	9	9,387,241	7,253,945
Unrestricted contributions from Head Office		315,481	547,560
Deferred revenues recognized	8	29,604	29,371
Foreign currency exchange gains		212,930	-
Other revenues		<u>50,764</u>	<u>21,749</u>
Total revenues		<u>9,996,020</u>	<u>7,852,625</u>
Expenses			
Projects' expenses	11	9,387,241	7,253,945
Contribution receivables written off		73,076	641
Depreciation of property and equipment	3	37,802	41,462
General and administrative expenses	12	373,374	505,415
Foreign currency exchange losses		<u>-</u>	<u>547,435</u>
Total expenses		<u>9,871,493</u>	<u>8,348,898</u>
Increase (decrease) in net assets		124,527	(496,273)
Net assets, beginning of the year		<u>(130,712)</u>	<u>365,561</u>
Net assets, end of the year		<u><u>(6,185)</u></u>	<u><u>(130,712)</u></u>

The accompanying notes from 1 to 16 form part of these financial statements

Statement of Cash Flows

For the year ended June 30, 2015

	Notes	June 30, 2015 <u>U.S. \$</u>	June 30, 2014 <u>U.S. \$</u>
<u>Operating Activities</u>			
Increase (decrease) in net assets		124,527	(496,273)
Adjustments:			
Depreciation of property and equipment		37,802	41,462
Provision for employees' benefits		192,813	257,859
Deferred revenues recognized		(29,604)	(29,371)
Non-cash items		73,076	641
		<u>398,614</u>	<u>(225,682)</u>
Changes in working capital:			
Contributions receivable		6,160,374	(7,452,464)
Other current assets		2,003,211	147,061
Temporarily restricted contributions		(8,457,397)	8,981,852
Accounts payable and accruals		(353,974)	(316,866)
Payments of employees' benefits		(293,950)	(430,542)
		<u>(543,122)</u>	<u>703,359</u>
Net cash flows (used in) from operating activities			
<u>Investing Activities</u>			
Purchase of property and equipment		(71,500)	(5,940)
		<u>(71,500)</u>	<u>(5,940)</u>
Net cash flows used in investing activities			
		<u>(71,500)</u>	<u>(5,940)</u>
(Decrease) increase in cash and cash equivalents		(614,622)	697,419
Cash and cash equivalents, beginning of the year		<u>1,459,502</u>	<u>762,083</u>
Cash and cash equivalents, end of the year	6	<u><u>844,880</u></u>	<u><u>1,459,502</u></u>

The accompanying notes from 1 to 16 form part of these financial statements

Notes to the Financial Statements

June 30, 2015

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 advocates for global responsibility.

The financial statements have been approved for issuance by CARE management on May 15, 2017.

2.1 Basis of preparation:

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board.

The financial statements have been prepared on a historical cost basis.

The financial statements have been presented in United States Dollars, which is the functional currency of CARE.

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 and became mandatory as of June 30, 2014. The new standards and interpretations will have no significant impact on CARE's disclosures, financial position or performance.

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 might differ from these estimates.

The key estimates and assumptions involved in the financial statements are as follow:

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.

Donation revenues 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 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank balances and short term deposits with a maturity of three months or less.

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 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	<u>3</u>
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.

Provision

Provisions are recognized when CARE has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

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 currencies

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. Currency exchange gains or losses are recognized in the statement of activities and changes in net assets.

3. Property and equipment

	<u>Vehicles</u>	<u>Machinery and equipment</u>	<u>Total</u>
<u>June 30, 2015</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
<u>Cost:</u>			
Balance, beginning of the year	91,000	99,116	190,116
Additions	71,500	-	71,500
Balance, end of the year	<u>162,500</u>	<u>99,116</u>	<u>261,616</u>
<u>Accumulated depreciation:</u>			
Balance, beginning of the year	91,000	66,245	157,245
Depreciation charge for the year	11,813	25,989	37,802
Balance, end of the year	<u>102,813</u>	<u>92,234</u>	<u>195,047</u>
<u>Net carrying amount</u>			
As at June 30, 2015	<u>59,687</u>	<u>6,882</u>	<u>66,569</u>
As at June 30, 2014	<u>-</u>	<u>32,871</u>	<u>32,871</u>

4. Contributions receivable

Contributions receivable comprise of unconditional pledges as at June 30, 2015 from the following donors:

	Balance, beginning of the year	Additions during the year	Cash received	Cash received from Care Head Office	Written off	Foreign currency exchange differences	Balance, end of the year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
United States Agency for International Development (USAID)	5,476	-	-	(2,790)	(2,686)	-	-
European Commission's Directorate General for Humanitarian Aid	1,130,614	-	-	(611,288)	(85,529)	(173,173)	260,624
Federal Ministry for Economic Cooperation and Development	4,105,861	-	(442,501)	(500,203)	-	(704,033)	2,459,124
Canadian International Development Agency	4,278,730	-	-	(964,836)	-	(577,156)	2,736,738
Care International-UK	109,776	1,485,397	-	(1,326,121)	-	7,595	276,647
Australian Government	302,982	5,105	-	(323,184)	-	15,097	-
European Union	3,890,366	1,027,911	(199,535)	(2,273,334)	(136,341)	(729,417)	1,579,650
Care - USA	-	27,904	-	(27,285)	-	(619)	-
Swiss Agency for Development	70,622	506,693	(362,626)	-	-	(62,189)	152,500
Care - Germany	-	92,675	-	(86,578)	-	(6,097)	-
Care - Egypt	21,353	44,214	-	-	-	-	65,567
	<u>13,915,780</u>	<u>3,189,899</u>	<u>(1,004,662)</u>	<u>(6,115,619)</u>	<u>(224,556)</u>	<u>(2,229,992)</u>	<u>7,530,850</u>

5. Other current assets

	June 30, 2015	June 30, 2014
	<u>U.S. \$</u>	<u>U.S. \$</u>
Due from Care International - Head Office	245,393	1,177,725
Prepaid expenses	84,933	50,889
Accounts receivable	41,710	51,982
Advances to project implementing partners*	40,554	1,135,205
	<u>412,590</u>	<u>2,415,801</u>

* CARE provides cash advances to partners to complete each phase of the partnership projects. Once the work of each phase is completed, advances are recorded as project expenses.

6. Cash and cash equivalents

	June 30, 2015	June 30, 2014
	<u>U.S. \$</u>	<u>U.S. \$</u>
Cash in hand	3,177	4,368
Current accounts and short term deposits at banks*	841,703	1,455,134
	<u>844,880</u>	<u>1,459,502</u>

* Deposits at banks as at June 30, 2015 and 2014 are short term in nature. The average annual interest rates on such deposits in U.S. \$ is 0.025%.

7. Provision for employees' benefits

Following is a summary of the movement on the end of service indemnity provision and employees' saving fund during the year:

	Balance, beginning of the year	Additions during the year	Payments	Balance, end of the year
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
End of service indemnity	428,998	90,697	(221,067)	298,628
Employees' saving fund	216,374	102,116	(72,883)	245,607
	<u>645,372</u>	<u>192,813</u>	<u>(293,950)</u>	<u>544,235</u>

8. Deferred revenues

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

	June 30, 2015	June 30, 2014
	<u>U.S. \$</u>	<u>U.S. \$</u>
Balance, beginning of the year	24,784	54,155
Additions	71,500	-
Deferred revenues recognized	(29,604)	(29,371)
Balance, end of the year	<u>66,680</u>	<u>24,784</u>

9. Temporarily restricted contributions

The movement on temporarily restricted contributions for the year ended June 30, 2015 is as follow:

	Balance, beginning of the year	Additions during the year	Temporarily restricted contributions released from restrictions	Transferred to deferred revenues	Written off	Foreign currency exchange differences	Balance, end of the year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
United States Agency for International Development (USAID)	142,294	-	(142,294)	-	-	-	-
European Commission's Directorate General for Humanitarian Aid	502,181	-	(192,438)	-	(146,185)	19,522	183,080
Federal Ministry for Economic Cooperation and Development	4,416,897	-	(1,268,960)	(71,500)	-	(721,986)	2,354,451
Canadian International Development Agency	4,262,330	-	(1,547,841)	-	-	(498,537)	2,215,952
Care International - UK	127,765	1,485,397	(1,273,777)	-	-	24,090	363,475
Australian Government	1,573,666	5,105	(1,037,013)	-	-	(206,438)	335,320
European Union	5,282,228	1,027,911	(3,425,733)	-	(725)	(848,406)	2,035,275
Federal Ministry of Foreign Affairs-Luxemburg	55,095	-	-	-	-	(10,299)	44,796
Swiss Agency for Development	33,143	506,693	(304,534)	-	-	(10,358)	224,944
Care - Egypt	38,742	44,214	(81,715)	-	-	-	1,241
Care - USA	4,570	27,904	(24,985)	-	(4,570)	(2,919)	-
Care - Germany	-	92,675	(87,951)	-	-	(4,724)	-
	<u>16,438,911</u>	<u>3,189,899</u>	<u>(9,387,241)</u>	<u>(71,500)</u>	<u>(151,480)</u>	<u>(2,260,055)</u>	<u>7,758,534</u>

10. Accounts payable and accruals

	June 30, 2015	June 30, 2014
	<u>U.S. \$</u>	<u>U.S. \$</u>
Accounts payable	323,258	663,737
Accrued employees' vacations	115,581	138,201
Accrued expenses	<u>52,786</u>	<u>43,661</u>
	<u>491,625</u>	<u>845,599</u>

11. Projects' expenses

Following are the components of projects' expenses:

	United States	European	Federal	Australian	Canadian	Care	European	Swiss Agency	Care -	Care -	Care -	Total		
	Agency for	Commission's	Ministry for		International	International	International	Union	for	Germany	USA	Egypt	2015	2014
	International	Directorate	Economic		Development	- UK	- UK	Swiss Agency	Development	USA	USA	Egypt	U.S. \$	U.S. \$
Development	General for	Cooperation	Government	Agency	Agency	Agency	Agency	Agency	Agency	Agency	Agency	Agency	Agency	
(USAID)	Humanitarian	and	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
U.S. \$	Aid	Development	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
Salaries and related expenses	-	1,044	142,888	265,012	337,822	192,541	213,877	219,688	12,682	4,628	27,821	1,418,003	1,702,482	
Contractual services and joint projects	142,294	177,717	1,090,138	616,913	1,142,326	228,978	3,015,307	-	14,143	-	53,155	6,480,971	3,831,136	
Projects equipment	-	-	-	900	-	652,207	100,857	-	59,092	-	-	813,056	1,150,277	
Professional fees	-	-	13,620	59,470	5,097	111,099	31,220	17,705	124	12,509	-	250,844	147,453	
Rent	-	-	5,656	14,479	17,767	12,317	10,362	18,406	1,195	1,760	259	82,201	85,753	
Postage and telephone	-	10,938	3,320	19,378	9,933	7,423	8,427	19,457	238	1,286	399	80,799	72,918	
Maintenance	-	-	7,092	5,324	13,021	9,115	5,166	8,792	263	-	-	48,773	75,159	
Transportation	-	2,432	277	9,436	2,084	3,202	4,258	8,641	-	4,342	-	34,672	39,857	
Publications and printings	-	-	172	9,601	3,052	19,981	554	945	-	-	-	34,305	21,891	
Computers and equipment	-	-	402	961	4,458	24,510	802	1,325	-	-	-	32,458	16,088	
Vehicles' expenses	-	-	2,471	18,725	3,749	-	227	73	-	-	-	25,245	25,390	
Services and Insurance	-	-	2,196	7,536	2,820	4,068	3,875	2,186	-	110	-	22,791	15,751	
Stationery	-	-	376	6,096	2,419	1,352	4,511	1,673	-	-	-	16,427	9,515	
Training and workshops	-	-	-	1,600	-	1,953	7,306	1,200	-	-	-	12,059	19,579	
Lodging and accommodation	-	-	-	-	2,006	3,513	1,634	4,135	-	270	-	11,558	11,586	
Others	-	307	352	1,582	1,287	1,518	17,350	308	214	80	81	23,079	29,110	
Total	<u>142,294</u>	<u>192,438</u>	<u>1,268,960</u>	<u>1,037,013</u>	<u>1,547,841</u>	<u>1,273,777</u>	<u>3,425,733</u>	<u>304,534</u>	<u>87,951</u>	<u>24,985</u>	<u>81,715</u>	<u>9,387,241</u>	<u>7,253,945</u>	

12. General and administrative expenses

	June 30, 2015	June 30, 2014
	<u>U.S. \$</u>	<u>U.S. \$</u>
Salaries and related benefits	289,729	307,262
Professional fees	25,158	31,143
Rent	14,276	46,252
Transportation	11,417	12,620
Maintenance	9,946	12,079
Postal and telephone	8,073	17,626
Services and insurance	4,785	5,346
Publications and printings	2,230	1,639
Office supplies	2,062	14,819
Stationery	684	2,230
Other	5,014	54,399
	<u>373,374</u>	<u>505,415</u>

13. 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 some other current assets. Financial liabilities consist of accounts payable, some 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.

14. 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, 2015	June 30, 2014
	<u>U.S. \$</u>	<u>U.S. \$</u>
Due from Care International - Head Office	<u>6,274,250</u>	<u>1,881,295</u>

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

	June 30, 2015	June 30, 2014
	U.S. \$	U.S. \$
Unrestricted contributions from Head Office	<u>315,481</u>	<u>547,560</u>
<u>Key management personnel compensation:</u>		
Short term benefits	<u>323,450</u>	<u>453,690</u>
Long term benefits	<u>218,498</u>	<u>268,842</u>

15. 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.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or a contract, leading to a financial loss. CARE's exposure to credit risk is the financial assets which include cash and cash equivalents and other financial asset. This credit risk is due to the possibility of default by the other party which equals the carrying value of this financial assets.

Foreign currencies 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 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 below:

	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.S. \$	%	U.S. \$
June 30, 2015	20	(60,985)	20	66,224
June 30, 2014	20	(197,449)	20	(254,455)

16. Concentration of risk in geographic area

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