

CARE International - West Bank and Gaza

Financial Statements

For the year ended June 30, 2014



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, 2014, 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

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, 2014 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

July 1, 2015
Ramallah - Palestine

Statement of Financial Position

As at June 30, 2014

		June 30, 2014	June 30, 2013
	<u>Notes</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
<u>Assets</u>			
Non-current assets			
Property and equipment	3	32,871	68,393
		<u>32,871</u>	<u>68,393</u>
Current assets			
Contributions receivable	4	13,915,780	7,167,527
Other current assets	5	2,392,656	1,836,147
Cash and cash equivalents	6	1,459,502	762,083
		<u>17,767,938</u>	<u>9,765,757</u>
Total assets		<u>17,800,809</u>	<u>9,834,150</u>
<u>Net assets and liabilities</u>			
Net assets			
Unrestricted net assets		(130,712)	365,561
Total net assets		<u>(130,712)</u>	<u>365,561</u>
Non-current liabilities			
Provision for employees' benefits	7	645,372	818,055
Deferred revenues	8	24,784	54,155
		<u>670,156</u>	<u>872,210</u>
Current liabilities			
Temporarily restricted contributions	9	16,438,911	7,457,059
Accounts payable and accruals	10	822,454	1,139,320
		<u>17,261,365</u>	<u>8,596,379</u>
Total liabilities		<u>17,931,521</u>	<u>9,468,589</u>
Total net assets and liabilities		<u>17,800,809</u>	<u>9,834,150</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, 2014

	Notes	June 30, 2014 <u>U.S. \$</u>	June 30, 2013 <u>U.S. \$</u>
Revenues			
Temporarily restricted contributions released from restriction	9	7,253,945	7,044,077
Unrestricted contributions from Head Office		547,560	344,611
Deferred revenues recognized	8	29,371	33,579
Foreign currency exchange gains		-	67,251
Other revenues		<u>21,749</u>	<u>106,843</u>
Total revenues		<u>7,852,625</u>	<u>7,596,361</u>
Expenses			
Projects' expenses	11	7,253,945	7,044,077
Depreciation of property and equipment	3	41,462	49,841
General and administrative expenses	12	506,056	255,028
Foreign currency exchange losses		<u>547,435</u>	<u>-</u>
Total expenses		<u>8,348,898</u>	<u>7,348,946</u>
(Decrease) increase in net assets		(496,273)	247,415
Net assets, beginning of the year		<u>365,561</u>	<u>118,146</u>
Net assets, end of the year		<u>(130,712)</u>	<u>365,561</u>

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

Statement of Cash Flows

For the year ended June 30, 2014

	Notes	June 30, 2014 <u>U.S. \$</u>	June 30, 2013 <u>U.S. \$</u>
<u>Operating Activities</u>			
(Decrease) increase in net assets		(496,273)	247,415
Adjustments:			
Depreciation of property and equipment		41,462	49,841
Provision for employees' benefits		257,859	344,017
Deferred revenues recognized		(29,371)	(33,579)
Non-cash items		641	218
		<u>(225,682)</u>	<u>607,912</u>
Changes in working capital:			
Contributions receivable		(7,452,464)	2,274,649
Other current assets		147,061	(1,332,951)
Temporarily restricted contributions		8,981,852	(1,540,475)
Accounts payable and accruals		(316,866)	701,578
Payments of employees' benefits		<u>(430,542)</u>	<u>(613,648)</u>
Net cash flows from operating activities		<u>703,359</u>	<u>97,065</u>
<u>Investing Activities</u>			
Purchase of property and equipment		<u>(5,940)</u>	<u>(45,000)</u>
Net cash flows used in investing activities		<u>(5,940)</u>	<u>(45,000)</u>
Increase in cash and cash equivalents		697,419	52,065
Cash and cash equivalents, beginning of the year		<u>762,083</u>	<u>710,018</u>
Cash and cash equivalents, end of the year	6	<u><u>1,459,502</u></u>	<u><u>762,083</u></u>

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

Notes to the Financial Statements

June 30, 2014

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 July 1, 2015.

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	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 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, 2014</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Cost			
Balance, beginning of the year	91,000	93,176	184,176
Additions	-	5,940	5,940
Balance, end of the year	<u>91,000</u>	<u>99,116</u>	<u>190,116</u>
Accumulated depreciation			
Balance, beginning of the year	67,581	48,202	115,783
Depreciation charge for the year	23,419	18,043	41,462
Balance, end of the year	<u>91,000</u>	<u>66,245</u>	<u>157,245</u>
Net carrying amount			
As at June 30, 2014	<u>-</u>	<u>32,871</u>	<u>32,871</u>
As at June 30, 2013	<u>23,419</u>	<u>44,974</u>	<u>68,393</u>

4. Contributions receivable

Contributions receivable comprise of unconditional pledges as at June 30, 2014 from the following donors:

	Balance, beginning of the year	Additions during the year	Cash received	Cash received from Care Head Office *	Write 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)	1,077,004	-	(1,071,528)	-	-	-	5,476
European Commission's Directorate General for Humanitarian Aid	2,684,668	499,337	(2,163,216)	-	-	109,825	1,130,614
Federal Ministry for Economic Cooperation and Development	522,893	4,102,549	(511,787)	-	-	(7,794)	4,105,861
Canadian International Development Agency	1,005,500	4,548,027	(656,840)	(660,000)	-	42,043	4,278,730
Care International-UK	-	149,472	-	(43,570)	-	3,874	109,776
Australian Government	453,788	1,987,518	(2,049,441)	-	-	(88,883)	302,982
European Union	1,423,033	4,116,499	(1,804,749)	-	-	155,583	3,890,366
Federal Ministry of Foreign Affairs- Luxemburg	641	-	-	-	(641)	-	-
Swiss Agency for Development	-	150,640	(80,000)	-	-	(18)	70,622
Care - Egypt	-	51,732	(30,379)	-	-	-	21,353
	<u>7,167,527</u>	<u>15,605,774</u>	<u>(8,367,940)</u>	<u>(703,570)</u>	<u>(641)</u>	<u>214,630</u>	<u>13,915,780</u>

* CARE International-Head Office received an amount of U.S. \$ 703,570 on behalf of CARE which will be transferred later.

5. Other current assets

	June 30, 2014	June 30, 2013
	<u>U.S. \$</u>	<u>U.S. \$</u>
Advances to project implementing partners*	1,135,205	1,591,766
Due from Care International - Head Office	1,177,725	-
Prepaid expenses	50,889	173,434
Accounts receivable	28,837	68,623
Employees' advances	-	2,324
	<u>2,392,656</u>	<u>1,836,147</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, 2014	June 30, 2013
	<u>U.S. \$</u>	<u>U.S. \$</u>
Cash on hand	4,368	4,658
Current accounts and short term deposits at banks*	1,455,134	757,425
	<u>1,459,502</u>	<u>762,083</u>

* Deposits at banks as at June 30, 2014 and 2013 are short term in nature. The average annual interest rates on such deposits in U.S. \$ is 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 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	485,669	109,519	(166,190)	428,998
Employees' saving fund	332,386	148,340	(264,352)	216,374
	<u>818,055</u>	<u>257,859</u>	<u>(430,542)</u>	<u>645,372</u>

8. Deferred revenues

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

	June 30, 2014	June 30, 2013
	<u>U.S. \$</u>	<u>U.S. \$</u>
Balance, beginning of the year	54,155	42,734
Additions	-	45,000
Deferred revenues recognized	(29,371)	(33,579)
Balance, end of the year	<u>24,784</u>	<u>54,155</u>

9. Temporarily restricted contributions

The movement on temporarily restricted contributions for the year ended June 30, 2014 is as follow:

	Balance, beginning of the year	Additions during the year	Temporarily restricted contributions released from restrictions	Foreign currency exchange differences	Balance, end of the year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
United States Agency for International Development (USAID)	851,400	-	(709,106)	-	142,294
European Commission's Directorate General for Humanitarian Aid	2,311,173	499,337	(2,672,269)	363,940	502,181
Federal Ministry for Economic Cooperation and Development	1,301,671	4,102,549	(1,076,859)	89,536	4,416,897
Canadian International Development Agency	-	4,548,027	(317,114)	31,417	4,262,330
Care International - UK	-	149,472	(24,419)	2,712	127,765
Australian Government	1,197,403	1,987,518	(1,467,350)	(143,905)	1,573,666
European Union	1,740,621	4,116,499	(857,564)	282,672	5,282,228
Federal Ministry of Foreign Affairs-Luxemburg	50,221	-	-	4,874	55,095
Swiss Agency for Development	-	150,640	(116,274)	(1,223)	33,143
Care - Egypt	-	51,732	(12,990)	-	38,742
Care International-USA	4,570	-	-	-	4,570
	<u>7,457,059</u>	<u>15,605,774</u>	<u>(7,253,945)</u>	<u>630,023</u>	<u>16,438,911</u>

10. Accounts payable and accruals

	June 30, 2014	June 30, 2013
	<u>U.S. \$</u>	<u>U.S. \$</u>
Accounts payable	663,737	796,482
Accrued employees' vacations	138,201	137,595
Accrued expenses	20,516	18,135
Due to Care International - Head Office	-	187,108
	<u>822,454</u>	<u>1,139,320</u>

11. Projects' expenses

Following are the components of projects' expenses:

	United States	European	Federal	Australian	Canadian	Care	European	Swiss	Care -	Total		
	Agency for	Commission's	Ministry for		International	International	International	Union	Agency for	Egypt	2014	2013
	International	Directorate	Economic		Government	Development	- UK		Development		U.S. \$	U.S. \$
	Development	General for	Cooperation		Agency							
	(USAID)	Humanitarian	and									
	U.S. \$	Aid	Development	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
Salaries and related expenses	7,144	563,423	131,548	295,788	261,404	8,986	327,631	94,702	11,856	1,702,482	2,067,175	
Contractual services and joint projects	651,408	758,406	885,701	1,019,866	25,274	-	490,481	-	-	3,831,136	2,316,625	
Projects equipment	-	1,150,103	-	-	-	-	-	174	-	1,150,277	1,712,655	
Head office administrative expenses	-	-	-	-	-	-	-	-	-	-	148,912	
Professional fees	26,828	34,607	4,526	55,675	1,671	15,004	8,039	984	119	147,453	126,283	
Training and workshops	60	2,286	8	14,602	-	-	1,953	670	-	19,579	20,752	
Maintenance	1,206	24,544	9,374	27,609	6,317	16	2,839	2,930	324	75,159	119,050	
Computers and equipment	89	9,944	248	2,749	364	-	193	2,501	-	16,088	4,955	
Stationery	327	4,530	961	2,418	536	2	388	339	14	9,515	26,510	
Transportation	11,556	11,045	2,497	6,179	1,552	5	5,227	1,767	29	39,857	46,111	
Publications and printings	95	14,797	706	5,767	124	-	191	182	29	21,891	8,801	
Vehicles' expenses	343	22,315	713	-	356	-	101	1,562	-	25,390	60,221	
Lodging and accommodation	88	359	1,259	6,128	1,411	3	2,221	117	-	11,586	15,306	
Rent	1,217	33,682	17,624	11,518	8,505	237	8,090	4,679	201	85,753	184,593	
Services and Insurance	5,916	3,155	3,817	1,127	943	-	594	199	-	15,751	15,839	
Postage and telephone	2,236	30,881	11,449	9,312	6,209	137	7,360	5,001	333	72,918	120,292	
Others	593	8,192	6,428	8,612	2,448	29	2,256	467	85	29,110	49,997	
Total	709,106	2,672,269	1,076,859	1,467,350	317,114	24,419	857,564	116,274	12,990	7,253,945	7,044,077	

12. General and administrative expenses

	June 30, 2014	June 30, 2013
	U.S. \$	U.S. \$
Salaries and related benefits	307,262	120,474
Contractual services and joint projects	51,067	-
Rent	46,252	9,995
Professional fees	31,143	49,380
Postal and telephone	17,626	8,999
Office supplies	14,819	13,654
Transportation	12,620	40,220
Maintenance	12,079	43
Services and insurance	5,346	421
Stationery	2,230	3,056
Publications and printings	1,639	4,737
Training and workshops	1,533	519
Vehicles' expenses	944	342
Bank charges	723	2,842
Projects expenses	132	-
Donations written off	641	218
Hospitality	-	128
	<u>506,056</u>	<u>255,028</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 other some 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, 2014	June 30, 2013
	U.S. \$	U.S. \$
Due from Head Office	<u>1,177,725</u>	<u>-</u>
Due to Head Office	<u>-</u>	<u>187,108</u>

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

	June 30, 2014	June 30, 2013
	<u>U.S. \$</u>	<u>U.S. \$</u>
Unrestricted contributions from Head Office	<u>547,560</u>	<u>344,611</u>
Key management personnel compensation:		
Short term benefits	<u>453,690</u>	<u>628,263</u>
Long term benefits	<u>268,842</u>	<u>128,582</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.

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>%</u>	<u>U.S. \$</u>	<u>%</u>	<u>U.S. \$</u>
June 30, 2014	20	(197,449)	20	(254,455)
June 30, 2013	20	(154,490)	20	(207,958)

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.