

**Economic and Social Development
Center of Palestine**

**Financial Statements
and
Independent Auditor's Report
31 December 2011**

Economic and Social Development Center of Palestine

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors / Director of
Economic and Social Development Center of Palestine "ESDC"
Ramallah,**

We have audited the accompanying financial statements of the **Economic and Social Development Center of Palestine "ESDC" (Not for Profit Entity)**, which comprise of the statement of financial position as at 31 December 2011, the statement of activities, statement of changes in net assets, and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the United States statement on Financial Accounting Standards No. 116 and 117 applicable to not for profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 Center'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 Center'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 financial statements give a true and fair view of the financial position of the **Economic and Social Development Center of Palestine “ESDC”** as of 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the united states statement on Financial Accounting Standards No. 116 and 117 applicable to not for profit organization.



Deloitte & Touche (M.E.) \ Saba & Co.

Ramallah

March 23, 2012

Economic and Social Development Center of Palestine
Statement of Financial Position
As of December 31, 2011

		December 31,	
		2011	2010
	Note	U.S. \$	U.S. \$
Assets			
Cash on hand and deposits with banks	3	345,993	347,945
Grants receivable	5	143,132	69,227
Loans receivables	6	76,353	86,753
Other receivables	7	30,761	12,382
Investment in New Farm Company	4	36,828	48,728
Total Current Assets		633,067	565,035
Office furniture and equipment, net	8	105,370	99,128
Total Assets		738,437	664,163
Liabilities and Net Assets			
Liabilities:			
Payables and accruals	9	22,581	1,492
Due to loan revolving fund	11	200,798	200,798
Provision for employees' indemnity	10	57,716	41,005
Total Liabilities		281,095	243,295
Net Assets:			
Unrestricted fund		115,025	106,265
Temporary restricted fund	14	236,947	215,475
Investment in Office furniture and equipment		105,370	99,128
Total Net Assets (Statement - C)		457,342	420,868
Total Liabilities and Net Assets		738,437	664,163

The Accompanying Notes Constitute an Integral Part of These Statements

Economic and Social Development Center of Palestine
Statement of Activities
Year Ended December 31, 2011

	Note	Total			
		Unrestricted U.S. \$	Temporary Restricted U.S. \$	Year Ended December 31,	
				2011 U.S. \$	2010 U.S. \$
Grants and Revenues :					
Restricted Grants	12(a), 15	-	1,357,789	1,357,789	1,254,131
Unrestricted Grants - "Service Contract "	12(b)	146,799	-	146,799	67,279
Local Community Contribution		24,362		24,362	23,766
Interest Income and Other Revenues	13	60,745	-	60,745	35,834
Total Grants and Revenues		231,906	1,357,789	1,589,695	1,381,010
Cost of Service Contract	12(c)	(77,063)	-	(77,063)	(37,141)
Net assets released from restrictions	15	1,336,317	(1,336,317)	-	-
		1,491,160	21,472	1,512,632	1,343,869
Projects Expenses :					
Institutional Development And Capacity Building:					
SCC- Capacity Building		316,867	-	316,867	252,910
ACTED - DCI-NSAPVD/2010/212-157		67,589	-	67,589	16,042
Care International - Tatweer Project		55,491	-	55,491	58,103
Total Institutional Development And Capacity Building:		439,947	-	439,947	327,055
Sectoral And Development Projects:					
SCC- Humanitarian Assistance to Palestinian Farmers- HAP 4		-	-	-	163,121
SCC- Humanitarian Assistance to Palestinian Farmers- HAP 5		192,234	-	192,234	152,411
SCC- Fast Track Intervention to Support Food Security in Gaza		-	-	-	437,477
UNDP- Participating Natural Resources Development Programme (PNRMP)- IFAD 3		106,134	-	106,134	1,247
Oxfam - EDP - PATIA 48		-	-	-	22,810
Oxfam - Food Security - PATIA 67		-	-	-	19,792
Oxfam - ECHO - PATIA 80		6,581	-	6,581	63,720
Oxfam - PATIA 82-EDP		49,792	-	49,792	-
Oxfam - Tallas Viva PTIA 91		6,410	-	6,410	-
Oxfam - Olive Oil SDC PTIA-95		412	-	412	-
OCHA - Tuta Absoluta		144,539	-	144,539	-
Norwegian People Aid- (FLES)		263,082	-	263,082	-
ACF Convinue		11,719	-	11,719	-
ACF ECHFA Drought		73,028	-	73,028	-
Oxfam - Tallas Viva 1 Old		38,568	-	38,568	-
UNDP- Integrated Rural Development Project in Southern Districts of the West Bank (IRDPS)		28,233	-	28,233	26,322
Total Sectoral And Development Projects		920,732	-	920,732	886,900
Total Projects Expenses	Statement - E	1,360,679	-	1,360,679	1,213,955
Administrative and general		64,647	-	64,647	63,672
Total Projects and Administrative Expenses		1,425,326	-	1,425,326	1,277,627
Depreciation Expense		28,228	-	28,228	26,305
Loss (Gain) on Currency Fluctuation		(18)	-	(18)	13,991
Loss (Gain) from investment in New Farm Company	4	11,900	-	11,900	-
Total Expenses		1,465,436	-	1,465,436	1,317,923
Increase (Decrease) in Net Assets During the Year		25,724	21,472	47,196	25,946

The Accompanying Notes Constitute an Integral Part of These Statements

Statement - C

Economic and Social Development Center of Palestine
Statement of Change in Net Assets
Year Ended December 31, 2011

	Unrestricted	Temporary	Investment in	Total
	Fund	Restricted	Office Furniture and Equipment	U.S. \$
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance as of 31, December 2009				
Increase (Decrease) in Net Assets During the year	133,507	162,287	90,000	385,794
Interfund Transfer-Investment in Office Furniture and Equipment	(27,242)	53,188	-	25,946
Balance as of 31, December 2010				
Increase (Decrease) in Net Assets During the year	106,265	215,475	99,128	420,868
Interfund Transfer-Investment in Office Furniture and Equipment - Net Of Depreciation	25,724	21,472	-	47,196
Prior Year Adjustments	(6,242)	-	6,242	-
	(10,722)	-	-	(10,722)
Balance as of 31, December 2011	115,025	236,947	105,370	457,342

The Accompanying Notes Constitute an Integral Part of These Statements

Economic and Social Development Center of Palestine
Statement of Cash Flows
Year Ended December 31, 2011

	<u>2011</u> <u>U.S. \$</u>	<u>2010</u> <u>U.S. \$</u>
Cash Flows from Operating activities:		
Grants received from contributors	1,455,045	1,363,625
Interest Income and Other Revenues	60,745	59,600
Cash paid to employees and suppliers	(1,493,685)	(1,352,222)
Cash Flows Used in Operating Activities	<u>22,105</u>	<u>71,003</u>
Cash Flows from Investing Activities:		
Procurement of fixed assets	(40,022)	(27,967)
Gain from Sale of Office Furniture and Equipment	15,965	-
Cash Flows Used in Investing Activities	<u>(24,057)</u>	<u>(27,967)</u>
Increase (Decrease) in Cash and Deposits with Banks During the Year	<u>(1,952)</u>	<u>43,036</u>
Cash on hand and deposits with banks at beginning of year	347,945	304,909
Cash on Hand and Deposits with Banks at End of Year	<u><u>345,993</u></u>	<u><u>347,945</u></u>
Adjustments to Reconcile Change in Net Assets		
to Net Cash Provided by Operating Activities:		
Change in net assets	36,474	35,074
Prior Year Adjustments	10,722	-
Depreciation	28,228	26,306
Investment loss in New Farm Company	11,900	-
Provision for employees' indemnities	(16,324)	9,561
Decrease (Increase) in grants receivable	(73,905)	18,449
Decrease (Increase) in accounts receivable and other assets	3,921	(29,304)
Increase (decrease) in payables and accruals	21,089	10,917
Cash Used in Operating Activities	<u><u>22,105</u></u>	<u><u>71,003</u></u>

The Accompanying Notes Constitute an Integral Part of These Statements

Economic and Social Development Center (ESDC)
Supplementary Information
Functional Expenditure
Year Ended December 31, 2011

	Institutional Development And Capacity Building:		Sectoral And Development Projects:		Management and Administrative Expenses		Total 2011 U.S. \$
	U.S. \$		U.S. \$		U.S. \$		
Salaries, Wages and Related Costs		242,309		209,090		451,399	456,000
Professional Expenses		56,423		17,374		73,797	87,786
Rent and Occupancy		7,359		5,946		13,305	18,561
Travel Expenses		22,390		27,116		49,506	64,020
Vehicle Rental		-		16,056		16,056	16,056
Cleaning Expenses		651		1,257		1,908	2,949
Hospitality		10,286		2,756		13,042	13,042
Advertisement		929		4,080		5,009	5,916
Maintenance		3,412		2,243		5,655	6,367
Postal, Telephone and Fax		3,274		8,081		11,355	15,177
Office Supplies		4,651		3,573		8,224	8,224
Printings		15,849		908		16,757	17,754
Subscription		121		80		201	336
Accommodation		5,517		411		5,928	5,928
Utilities		1,251		983		2,234	3,472
Vehicles Cost		4,717		-		4,717	11,419
Translation		677		-		677	1,210
Bank Charges		39		21		60	602
Halls Rental Expenses		7,751		600		8,351	8,351
Cisterns		-		18,000		18,000	18,000
Provision of vegetable basket (PVB)		-		19,970		19,970	19,970
Building retaining walls		-		34,735		34,735	34,735
Trainer Fees Expense		11,530		5,906		17,436	17,436
Animal sheds		-		62,600		62,600	62,600
green house repair		-		117,092		117,092	117,092
Rehabilitation of Damaged Field		-		151,204		151,204	151,204
Input Materials Expenses		35,639		200,692		236,331	236,331
Other Program Expenses		2,890		6,591		9,481	9,481
Other Costs		2,282		3,367		5,649	15,307
Total Expenditure		439,947		920,732		1,360,679	1,425,326

Economic and Social Development Center of Palestine

Notes to Financial Statements 31 December 2011

1. Organization:

Economic and Social Development Center of Palestine (ESDC) is a legal independent Palestinian NGO, established at the beginning of 2003, under registration number RA/2267/B. ESDC's aims to be among the most effective and efficient NGOs that contribute to building a democratic self-reliant Palestinian civil society, and to improving livelihoods of Palestinian local communities.

ESDC objectives are to effect positive change in the socio-economic and humanistic attributes of the Palestinian society in all sectors including youth and women through encouraging and supporting productive, self-reliant and rewarding cooperative projects. Its message is to gear self-help community based groups, including cooperatives, to become self-reliant. The ESDC believes in the values of solidarity, equality, self-responsibility, democracy and social justice.

ESDC staff continuously assesses and update rural communities' needs and try to fulfill them through coping with the strategies of different donor organizations. The core funds of ESDC, however, are derived from the long-term partnership program with the Swedish Cooperative Centre (SCC), primarily through the funding of the Swedish International Development Agency (Sida).

The ESDC's projects and activities are centered around two integrated and interrelated programs:

- The Cross-sectoral capacity building, democratization and institutional development program.
- The Sector Specific Technical and Economic Development Program; which aims at strengthening the technical knowledge and skills of targeted cooperatives leaders and self help groups while empowering them economically. The programs are carried out by the targeted groups throughout the Palestinian rural communities.

2. Summary of Significant accounting Policies :

- 2.1** The financial statements have been prepared on the accrual basis of accounting, cost convention and in conformity with International Financial Reporting Standards and the United States Statement on the Financial Accounting Standard No. 116 and 117 applicable to not for profit organizations.

In the current year, ESDC's management considered all new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of IASB, relevant to its activities, that were issued and effective for annual reporting periods ending on 31 December 2011. The application of the new standards and interpretations has no effect on the financial position or the results of operations of ESDC.

2. Summary of Significant accounting Policies (Continued) :

2.2 Principles of Fund Accounting:

ESDC maintains its accounts in accordance with the principles of fund accounting under which the resources for various purposes are classified into the following classes of net assets which are described below:

- *Unrestricted net assets* represent net assets whose use by ESDC is not subject to donor imposed restrictions.
- *Temporarily restricted* net assets whose use by ESDC is limited by donor-imposed and restriction that either expire by passage of time or can be fulfilled and released by actions of ESDC pursuant to those donor-imposed stipulations.
- *Revenues:* are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified as unrestricted net assets and reported as net assets released from restrictions.

2.3 Contributions:

Contributions are recognized as revenues when received. Pledges receivable represents expenses incurred prior to 31 December and would be reimbursed by donors subsequently.

2.4 Fixed Assets:

Fixed assets are stated at cost net of accumulated depreciation, depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets ranging from 7% to 20%.

When the expected recoverable amount is less than the net book value, the Fixed Assets items amount is reduced to the lower of the cost or net realizable value and the difference (if any) is included in the statement of activities.

The useful lives of fixed assets items, are reviewed at the end of each year. In case the expected useful life is different from what was determined before, the change in estimate is recorded in the following years, being as a change in estimate. Fixed assets items are disposed off when there is no expected future benefit from the use of that asset.

2.5 Severance Pay:

In compliance with labor law prevailing in the area of the Palestinian National Authority, the Center provides for severance pay by accruing for one month compensation for each year of service based on the last salary paid during the year.

2.6 Foreign Currency Transactions:

The books of accounts are maintained in U.S. Dollar. Transactions which are denominated in local currency (Israeli Shekel) are converted into U.S. Dollar as follows:

- Transactions which are expressed or denominated in local currency are converted into U.S. Dollar equivalent at the exchange rate prevailing on the date of the transaction.
- Assets and liabilities which are denominated or expressed in local currency are presented at their U.S. \$ equivalent using the exchange rate prevailing on December 31, 2011 of NIS 3.549.
- Exchange differences arising from the translation of local currency balances is charged to the statement of activities.

2.7 Cash and Cash Equivalent :

Represents all cash and deposits with banks balances maturing within three months.

2. Summary of Significant accounting Policies (Continued) :

2.8 Loan Receivables :

Loans receivable are stated at their outstanding balances as of the date of the financial statements.

2.9 Investments in New Farm:

Investment is stated at cost. Dividends from investment are recorded when received.

2.10 Estimates and assumptions:

The financial statements include certain estimates and assumptions made by management relating to reporting of assets, liabilities, at the statement of financial position date, and the reporting of revenue, expenses, gains, and losses during the year. Actual results may differ from those estimates adopted by the Centre's management. Estimates used in the preparation of the financial statements include useful lives of fixed assets and other provisions.

2.11 Functional Expenses

The Center allocates its expenses on a functional basis among its various programs and general administration. Expenses that can be identified with a specific program or administration are charged directly to related function. Other expenses that are common to several functions are allocated between functions based on the best estimates and judgment of management.

3. Cash on Hand and at banks

Composition:

	December 31,	
	2011	2010
	USD	USD
Cash on Hand	897	945
Deposits with Banks in US Dollar	239,564	240,696
Deposits with Banks in Israeli Shekel (Overdrawn)	(427)	1,113
Deposits with Banks- Loan Revolving Fund	105,959	105,191
	345,993	347,945

4. Investment in New Farm Company

This item represents investment in the "New Farm Company for Marketing and Agro-processing" (private shareholding), in the amount of \$ 48,728 USD for 34,333 Shares at 1 JD par value. The amount paid is 100% of the value of the shares. Through 31 December 2011, the share of ESDC in the accumulated loss of the company was USD 11,900 which was reduced from the investment.

5. Grants Receivable

Composition:

	December 31,	
	2011	2010
	USD	USD
Oxfam- PATIA 80	-	11,092
Care International	42,363	40,846
UNDP- IFAD 3 Project	-	1,247
ACTED	23,832	16,042
SCC- Capicity Building	11,049	-
Oxfam - Tallas Viva PTIA 91	6,410	-
Oxfam - Olive Oil SDC PTIA-95	412	-
ACF convenue	4,295	-
ACF ECHFA Drought	54,771	-
	143,132	69,227

6. Loans Receivables

Composition:

This item represents the balances due from debtors that have been extended in the form of interest-free loans. The amounts collected from borrowers are used to issue new free of interest loans to other beneficiaries. The loans have been issued through grants transferred from the Swedish cooperative centre. The Palestinian center is responsible for managing those loans only and does not have the right to benefit from these grants in any way.

The movement in this account is as follows:

	December 31, 2011	December 31, 2010
	USD	USD
Beginning Balance	86,753	61,700
Issued loans during the year	18,000	54,000
Paid Loans During the Year	(28,400)	(28,947)
Ending Balance	76,353	86,753

7. Other Receivables**Composition:**

	December 31,	
	2011	2010
	USD	USD
Due From Employees	3,774	5,001
Advance payments to suppliers	26,987	7,381
	30,761	12,382

8. Office Furniture and Equipment, Net**Composition:**

	Furniture & Equipment	Cars	Total
For the Year Ended December 31, 2011			
Cost:			
Beginning Balance	78,695	96,669	175,364
Additions	20,587	19,435	40,022
Disposals	-	(28,419)	(28,419)
Ending Balance	99,282	87,685	186,967
Accumulated Depreciation:			
Beginning Balance	27,914	48,322	76,236
Additions	14,895	13,332	28,227
Disposals	-	(22,866)	(22,866)
Ending Balance	42,809	38,788	81,597
Book Value as of December 31,2011	56,473	48,898	105,370
Book Value as of December 31,2010	56,781	48,347	99,128

9. Payables and Accruals**Composition:**

	December 31,	
	2011	2010
	USD	USD
Audit Fees	4,866	-
Due to Suppliers	14,067	-
Other Accrued Expenses	3,648	1,492
	22,581	1,492

10. Provision for Employees' Indemnity**Composition:**

	December 31,	
	2011	2010
	USD	USD
<i>Balance as of 1 January</i>	41,005	23,977
Provision Charged for the year	29,071	42,932
Indemnities paid during the year	(12,360)	(25,904)
Balance as of 31 December	57,716	41,005

11. Due to Loan Revolving Fund

The Movement in this account is as follows:

	December 31, 2011	December 31, 2010
	USD	USD
Beginning Balance	200,798	188,144
Received from Donors	--	12,654
Ending Balance	200,798	200,798

12. Grants and Contributions

A. The details of restricted grants per donor is as follows :

	December 31,	
	2011	2010
	USD	USD
Swedish Cooperative Center (SCC)	331,386	1,006,709
Oxfam	330,047	83,967
Care – Tatweer	55,491	58,103
UNDP / IFAD	44,338	63,369
UNDP / IRDPS	36,570	25,941
ACTED	67,589	16,042
OCHA	144,539	--
ACF	84,747	--
Norwegian People Aid- (FLES)	263,082	--
	1,357,789	1,254,131

12. Grants and Contributions (Continued)

B. The details for unrestricted grants – “ Service Contract ” per donor is as follows :

	December 31, 2011	December 31, 2010
NICCOD	13,289	4,307
Oxfam – Italy	2,232	--
Land research Center	4,000	--
FAO – Training	22,776	34,576
FAO – Coops	5,225	--
FAO – EFPS	8,470	--
Care International	--	17,257
CHF – Guard	24,240	--
CHF – PCAP	66,567	11,139
	146,799	67,279

C. The details for Cost of Service Contract per Account is as follows :

	December 31, 2011	December 31, 2010
Salaries, Wages and Related Costs	24,617	-
Professional Expenses	-	-
Rent and Occupancy	-	-
Travel Expenses	3,018	778
Vehicle Rental	-	-
Cleaning Expenses	98	-
Hospitality	6,154	2,447
Advertisement	-	-
Maintenance	27	-
Postal ,Telephone and Fax	224	-
Office Supplies	5,682	3,693
Printings	3,265	4,480
Subscription	-	-
Accommodation	-	-
Utilities	-	-
Vehicles Cost	-	-
Translation	-	-
Bank Charges	-	-
Other Program Expenses	33,957	25,743
Other Costs	21	-
	77,063	37,141

13. Interest Income and Other Revenues:

Composition:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Revolving Fund Fees	720	900
Membership Fees	628	159
Tender Fees	3,825	2,169
Other Revenues	12,524	9,400
Training	35,838	20,094
Rent	7,205	3,108
Interest Income	5	4
	<u>60,745</u>	<u>35,834</u>

14. Financial Instruments, Fair values and Risks Management:

- **Fair Values of Financial Assets and Liabilities:**

The carrying book value of financial assets and liabilities are not materially different from their fair values at the date of the statement of financial position.

- **Operational Risk:**

The costs of the programs, administrative as well as fixed assets procurement are fully financed by donors through donations. The management believes that the funding level in the year 2012 will be sufficient to finance all of its disbursements and will be consistent with the funding level in the prior years. Furthermore, the management believes that the political and economical conditions prevailing in the area will not materially affect its operations.

- **Credit Risk:**

ESDC Institution credit risk is primarily attributable to its liquid funds and receivables. The credit risk on liquid funds is limited because liquid assets are placed with reputable financial institutions.

- **Currency Risk:**

Currency Risk arises from the possibility changes in the exchange rates that may affect negatively the value of the financial assets and liabilities in case the ESDC does not hedge its currency exposure by means of hedging instruments. The management usually distributes its liquid assets over its functional currencies to minimize any possible loss from currency rates fluctuation.

