

The Small Enterprise Center (SEC) – NGO
Ramallah – Palestine

Independent Auditors' Report and
Financial Statements
for the year ended December 31, 2011

Talal Abu-Ghazaleh & Co
Certified Public Accountants



The Small Enterprise Center (SEC) – NGO
Ramallah – Palestine

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Independent Auditors' Report

To M/s the members General Assembly
The Small Enterprise Center (SEC)
Ramallah – Palestine

We have audited the accompanying financial statements of **The Small Enterprise Center (SEC)**, which comprise the statement of financial position as of December 31, 2011, statement of activities and change in net assets and cash flows for the then ended, and a summary of significant accounting policies and other explanatory notes.

Management responsibility for financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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 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.


- The management did not use cost centers for each projects to determine expenses for each project alone in year 2010.
- We did not receive the reconciliation between tax department and SEC.

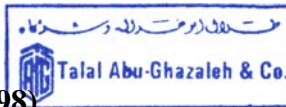
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion

In our opinion, except for what is mentioned above, the financial statements present fairly, in all material respects, the financial position of **The Small Enterprise Center (SEC)**, as of December 31, 2011 and of its financial performance and its cash flows for the year then ended, in accordance with the accounting policies in note no.2.

Talal Abu-Ghazaleh & Co.


Jamal Milhem
Certified Accountant License # (100/98)
Ramallah, May 30, 2012



The Small Enterprise Center (SEC) – NGO
Ramallah – Palestine
Statement of Financial Position as of December 31, 2011 ***Exhibit “A”***

	<u>Note</u>	<u>2011</u> USD	<u>2010</u> USD
<u>Assets</u>			
<u>Current assets</u>			
Cash and cash equivalents	(3)	162,592	159,089
Donors receivables	(4)	334,814	74,511
Other receivables	(5)	1,910	955
Total current assets		499,316	234,555
<u>Fixed Assets</u>			
At cost	(6)	57,021	40,117
Accumulated depreciation		(41,597)	(29,873)
Net book value – Fixed assets		15,424	10,244
Total Assets		514,740	244,799
<u>Liabilities and net assets</u>			
<u>Current Liabilities</u>			
Accrued expenses & others	(7)	45,685	7,166
Total Current Liabilities		45,685	7,166
Deferred revenues	(8,2f)	--	10,137
End of service indemnity	(2g)	21,702	13,271
Total liabilities		67,387	30,574
<u>Net assets</u>			
Unrestricted Net Assets – Exhibit “B”		208,597	214,225
Temporarily restricted Net Assets – Exhibit “B”		238,756	--
Total net assets		447,353	214,225
Total liabilities and net assets		514,740	244,799

“The accompanying notes constitute an integral part of this statement”

The Small Enterprise Center (SEC) – NGO
Ramallah – Palestine
Statement of Activities and Change in Net Assets
for the year ended December 31, 2011

Exhibit “B”

	<u>Note</u>	<u>2011</u>		<u>2010</u>	
		<u>Unrestricted</u> <u>USD</u>	<u>Temporarily</u> <u>Restricted</u> <u>USD</u>	<u>Total</u> <u>USD</u>	<u>Total</u> <u>USD</u>
<u>Grants and revenues</u>					
Grants (New agreements)	(4)	--	781,016	781,016	377,517
Other revenues		13,374	--	13,374	1,364
In-Kind donations (released from restrictions)	(8, 2f)	10,137	--	10,137	10,000
Total		23,511	781,016	804,527	388,881
Net assets released from restrictions	(11)	542,260	(542,260)	--	--
Total revenues		565,771	238,756	804,527	388,881
<u>Expenses and expenditures</u>					
Programs/ Projects expenditures	(10)	(556,520)	--	(556,520)	--
General and administrative expenses	(11)	--	--	--	(200,499)
Depreciation expenses	(6)	(11,724)	--	(11,724)	(10,009)
Bad debt expenses		(4,000)	--	(4,000)	--
Currency variances		845	--	845	(1,706)
Total expenses and expenditures		(571,339)	--	(571,399)	(212,214)
Excess (Shortage) of revenues over (under) expenses and expenditures for the year		(5,628)	238,756	233,128	176,667
Net assets-Beginning of year-Exhibit “A”		214,225	--	214,225	37,558
Net Assets – End of year Exhibit “A”		208,597	238,756	447,353	214,225

The Small Enterprise Center (SEC) – NGO
Ramallah – Palestine
Statement of Cash flows
for the year ended December 31, 2011

Exhibit “C”

	<u>Note</u>	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
<u>Cash flows from operating activities</u>			
Change in net assets during the year		233,128	176,667
<u>Adjustments to reconcile in net assets to</u>			
<u>Net cash flow from operating activities</u>			
Depreciation		11,724	10,009
End of service indemnity		8,431	8,081
<u>Change in current assets and liabilities</u>			
Increase in deferred revenues		(10,137)	(10,000)
Increase in donor Receivables		(260,303)	(74,511)
Increase in other receivable		(955)	(955)
Increase in accrued expense & others		38,519	1,563
Net cash flows provided from operating activities		20,407	110,854
<u>Cash flows from investing activities</u>			
Addition of fixed assets		(16,904)	(56)
Net cash flows (used in) investing activities		(16,904)	(56)
Net increase in cash and cash equivalents for the year		3,503	110,798
Cash and cash equivalents at beginning of year		159,089	48,291
Cash and cash equivalents – end of year	(3)	162,592	159,089

“The accompanying notes constitute an integral part of this statement”

The Small Enterprise Center (SEC) – NGO
Ramallah – Palestine
Notes of the Financial Statements

1. Background:

The Small Enterprise Center (SEC) – Palestine was established in 2002 following a cooperative agreement between the Palestinian Authority (PA) and the German Agency for Technical Cooperation (GTZ). Following the aim of becoming an autonomous organization, SEC has finalized the registration process into an NGO according to the Palestinian NGO law in February 2008 and registered at the general Department of Cooperation-Ministry of Interior and National Security according to the law of charities and NGO's No. 1 for the year 2000, certificate No. RA22545-B.

The main activity of the association is adoption of a general policy aimed at providing appropriate solutions and to facilitate the development and growth of growing entities.

a. German House For Development Cooperation(GIZ):

1. On October 14,2010, SEC signed an agreement with GIZ to support SEM's operations in the Bethlehem Region, in partnership with the local economy development board, for the performance of services, the contractor shall pay to the SEC an amount of 39,940 EURO.

- The first payment received on 20/10/2010, was an amount of (15,796) EURO.
- The second payment received on 14/12/2010, was an amount of (12,859) EURO.

2. GIZ-TVET project

On April 14, 2010, a contract had been signed between SEC and GIZ, targeting the performing services to employment at 14/04/2010, with an amount of 6,800 EUR.

b. PIF-Palestinian Investment Fund:

On Dec,28,2009, Support Agreement had been signed with the PIF on the purpose of covering SEC rent operating center in Ramallah and Bethlehem in addition to other administrative expenses.

PIF obliged to pay SEC the amount of \$25,000 by two payments .

- The first payment (20000)USD upon signing the contract.
- The second payment (5000)USD.

c. DED

DED had signed four agreements as follows:

- \$800 to cover the volunteers salaries in Gaza for.
- \$5,400 to cover the Bethlehem employee salary.
- \$2,100 to partially cover the Gaza employee salary for 7 months.
- \$1,000 granted for providing financial assistance for the training course for rural self-employed women in Gaza.

SEC signed nine agreements with DED – GTZ in 2011 with amount of (\$27,765), these agreements aimed to fund local employees and consultancy

services, purchasing technical equipments and funding training courses for SEC staff.

d. Shorouq women charitable Society

On 13/10/2010 an agreement had been signed between SEC and Shorouq in the purpose of a training course for 10 days at full time about business plans for the group of participants in the interpret The amount of agreement is 4,950 EURO.

e. FPCCIA-Federation of Palestinian Chambers of Commerce ,Industry ,and Agriculture

An agreement had been signed between SEC and FPCCIA in the purpose of supporting the Chambers to expand their business development services SMEs, thus enhancing their financial and technical sustainability. The amount of the contract is \$20,000 and was paid in one payment.

f. PFPI-Palestinian Federation Of Paper Industry

On August 9, 2010, a Memorandum of Understanding had been signed between PFPI and SEC in the purposes to keep the existing youth employed in the printing presses sector and develop their technical competencies to produce high quality products , also to develop the technical skills of new graduates and to enhance their cooperation and partnership among printing presses.

g. UNDP

In 2011 SEC signed three contracts with UNDP the total amount of these contracts is US\$ 607,310.The overall objectives of these projects is to improve deprived families in the West Bank and the Gaza Strip conditions through delivering of services to fully meet their needs, and, strengthening their capacities in establishing their businesses.

h. ABSF

1. Thriive – ABSF

The objectives of this project are to enhance small business production capabilities, to create significant opportunities for small businesses to expand and create new jobs, and to foster a lasting sense of social responsibility and community Philanthropy in participating businesses.

The amount of contract between Small Enterprise Center and ABSF is \$ 100,000.

2. ABSF-Arthur B. Schultz Foundation

On august 30,2010, memorandum of understanding had been signed between the two sides in order to increase the production capacity for the small enterprises and increase the job opportunities in the small enterprises which the donor in obligated to pay an amount of \$92,000 for the financing of the project.

i. OXFAM GB

This project aims to contribute to economic recovery and socio – economic empowerment of youth, small scale producers, and businesses in the agriculture dairy and ICT sector in the Gaza strip.

The amount of this contract 69,795 ILS

At the end of December 2011 this contract was amended from ILS 69,795 to 74,557.5 ILS

j. ILO-International Labor Office

On February 3, 2010, a contract had been signed between SEC and ILO to perform consulting, workshops, and training in many aspects, with an amount of 30,000 USD.

k. TYO-tomorrow Youth Club

Memorandum of Understanding had been signed back on 14-01-2010 with an amount of 27,000 USD, with the purposes of providing suitable halls, provide all refreshments during the needs assessment ,training, and coaching days.

2. Significant accounting policies:

a. Basis of preparation:

The financial statements have been prepared under the historical cost convention. Revenues and expenses were recognized when incurred based on the actual basis of accounting.

b. Foreign currencies translations:

The recording currency is USD. Transactions in foreign currencies are translated at the rate prevailing at the time of transaction. Monetary assets and liabilities in other currencies are translated into USD at exchange rates prevailing at the financial position date. Exchange differences arising from these translations are recorded in the statement of activities.

c. Fixed assets:

Fixed assets are recorded at cost. Depreciation is calculated by using the straight-line method over the estimated useful lives of the assets.

d. Pledge receivable:

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

e. Revenues and expenses:

Revenues are reported as increases in unrestricted donations unless their use is limited by donor-imposed restriction. Expenses reported as decrease in unrestricted donations. When donor restrictions expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished.

f. Deferred revenues:

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

g. End-of-service indemnity:

Employees' end-of-service indemnity is calculated to cover contractual and legal commitments of the employees' services in accordance with the internal management system.

3. Cash and cash equivalents:

This item consists of:

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Cash in hand (petty cash)	814	33
Cairo Amman Bank – USD – Account No. 02/500/407210/00	689	46,156
Cairo Amman Bank – NIS – Account No. 33/500/407210/00	4,080	8,521
Cairo Amman Bank – NIS – Account No. 33/500/40721/01	2,272	331
Cairo Amman Bank – EURO Account No. 33/500/407210	(2)	6,551
Cairo Amman Bank — JD –Account No. 33/500/407210	2	--
Cairo Amman Bank – USD – Account No. 02/500/407210/01	5	4,781
Cairo Amman Bank – USD – 02/500/407210/02	59,571	91,992
Cairo Amman Bank – NIS – 33/500/407210/03	3,778	4,016
Cairo Amman Bank – NIS – 33/500/407210/03	6	--
Cairo Amman Bank – NIS – 33/500/407210/04	6	--
Cairo Amman Bank – NIS – 33/500/407210/02	6,672	--
Cairo Amman Bank – USD – 02/500/407210/03	40,407	--
Cairo Amman Bank – USD – 02/500/407210/04	41,278	--
Cairo Amman Bank – USD – 02/500/407210/05	35,124	--
Deferred checks maturing within three months	(32,110)	(3,292)
Total	162,592	159,089

4. Donors receivables:

This item consists of:

Donor / Project	<u>2011</u>				Currency Variance USD	Receivable written of during the year USD	<u>2010</u>	
	<u>Grant Amount</u> USD	<u>New Agreements</u> USD	<u>Received</u> USD	<u>Pledges Receivable</u> USD			<u>Pledges Receivable</u> USD	
Tomorrow Youth	4,000	--	--	--	(4,000)	--	4,000	
GTZ	14,371	7,857	(27,427)	5,199	--	--	14,371	
PEPI	56,140	--	--	--	--	56,140	56,140	
ABSF	--	100,000	(100,000)	--	--	--	--	
UNDP-MDG	--	180,000	(71,999)	--	--	108,001	--	
UNDP -JAP	--	278,942	(183,615)	--	--	95,327	--	
ARAB FUND	--	165,000	(90,750)	--	--	74,250	--	
Oxfam	--	21,598	(20,502)	--	--	1,096	--	
DED	--	27,619	(23,986)	(3,633)	--	--	--	
Total	74,511	781,016	(518,279)	1,566	(4,000)	334,814	74,511	

5. Other receivable:

This item consists of:

	<u>2011</u>	<u>2010</u>
	<u>USD</u>	<u>USD</u>
Employees receivables	--	875
Members of SEC	793	--
Others	1,117	80
Total	1,910	955
	=====	=====

6. Fixed assets:

This item consists of:

	<u>Cars</u>	<u>Equipments</u>	<u>Furniture</u>	<u>Total</u>
<u>Cost</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
Balance as of 01/01/2011	40,000	--	117	40,117
Additions	--	12,798	4,106	16,904
Total	40,000	12,798	4,223	57,021
	-----	-----	-----	-----
<u>Accumulated depreciation</u>				
Balance as of 01/01/2011	29,863	--	10	29,873
Additions	10,000	1,630	94	11,724
Total	39,863	1,630	104	41,597
	-----	-----	-----	-----
<u>Net book value</u>				
As of 31/12/2011	137	11,168	4,119	15,424
	=====	=====	=====	=====
As of 31/12/2010	10,137	--	107	10,244
	=====	=====	=====	=====

7. Accrued expenses& others:

This item consists of:

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Accrued professional fees	2,233	2,061
Employee income tax	12,604	3,203
Suppliers	19,947	--
Employee payable	7,588	1,329
Other	3,313	573
Total	<u>45,685</u>	<u>7,166</u>

8. Deferred revenue:

This item consists of:

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Beginning balance	10,137	20,137
Released revenue from restriction	(10,137)	(10,000)
Total	<u>--</u>	<u>10,137</u>

9. Donor Revenues:

This item consists of:

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
GIZ revenues	7,857	71,642
PIF	--	25,000
DED	27,619	9,300
Shrouq Women Charitable Society	--	6,435
FPCCI	--	20,000
PFPI	--	96,140
UNDP-Japanese	278,942	--
UNDP-MDG	180,000	--
ABSF	100,000	92,000
Oxfam	21,598	--
Tomorrow Youth	--	27,000
Arab Fund	165,000	--
ILO	--	30,000
Total	<u>781,016</u>	<u>377,517</u>

11. General and Administrative Expenses :

This item consists of:

	<u>2010</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Salaries	--	131,967
Office rent	--	14,000
Severance pay expense	--	13,621
Water, electricity, postal and communications	--	10,525
Training fees and workshop	--	10,368
Transportation	--	4,012
Cleaning expense	--	3,685
Car expenses	--	2,656
Professional fees	--	1,832
Exhibition expense	--	1,500
Hospitality expense	--	1,245
Travel and Accommodation	--	1,065
Stationary expense and printing	--	855
Coordinating fees	--	650
Maintenance expense	--	600
Printing expense	--	593
Interest & Bank charges	--	523
Accounting program	--	504
Hosting & website and newspaper expense	--	--
Others	--	298
Total	----- --	----- 200,499 =====

- During year 2011 management reclassified all general and administration expenses to projects.