

19
3/8
0

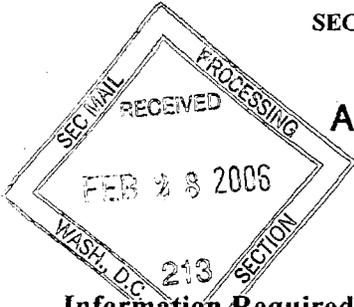


06002850

C23
2

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL
OMB Number: 3235-0123
Expires: January 31, 2007
Estimated average burden
hours per response..... 12.00



**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8-04218

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/05 AND ENDING 12/31/05 *
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Development Corporation for Israel

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

575 Lexington Avenue, 11th Floor

(No. and Street)

New York,

(City)

New York

(State)

10022

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Mr. Neil Lieberman

(212) 446-5847

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Grant Thornton LLP

(Name - if individual, state last, first, middle name)

60 Broad Street

(Address)

New York

(City)

N.Y.

(State)

10004

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED

MAY 12 2006

THORNTON
FINANCIAL

FOR OFFICIAL USE ONLY

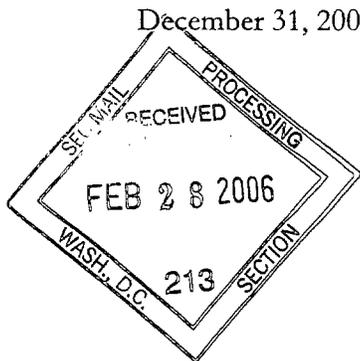
85-11

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

STATEMENT OF FINANCIAL CONDITION
AND REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

DEVELOPMENT CORPORATION FOR ISRAEL

December 31, 2005



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Development Corporation for Israel

We have audited the accompanying statement of financial condition of Development Corporation for Israel as of December 31, 2005. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Development Corporation for Israel as of December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
February 13, 2006

Development Corporation for Israel

STATEMENT OF FINANCIAL CONDITION

December 31, 2005

ASSETS

Cash and cash equivalents	\$ 7,432,926
Securities owned	137,737
Prepaid pension cost	3,701,064
Furniture, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$3,338,485	1,987,420
Other assets	<u>881,036</u>
	<u>\$14,140,183</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities	
Accrued expenses payable	\$ 3,283,039
Other liabilities	894,873
Deferred income taxes payable	<u>1,278,000</u>
	<u>5,455,912</u>
Commitments (Note E)	
Subordinated note payable	<u>4,100,000</u>
Stockholder's equity	<u>4,584,271</u>
	<u>\$14,140,183</u>

The accompanying notes are an integral part of this statement.

Development Corporation for Israel

NOTES TO STATEMENT OF FINANCIAL CONDITION

December 31, 2005

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Development Corporation for Israel (the "Company") is a registered broker-dealer that serves as underwriter in the United States of America for the sale of State of Israel Bonds (the "Bonds") on a best-efforts basis. The Company's revenue is contingent on its continuation as underwriter and marketer for the Bonds pursuant to various underwriting agreements, which provide for a selling concession and management fee to be earned on all bonds sold.

The Company is wholly owned by American Society for Resettlement and Rehabilitation in Israel, Inc. (the "Parent"), a corporation organized under the laws of the State of New York. There were no transactions during the reporting period between the Company and its Parent.

1. *Foreign Currency*

Transactions denominated in foreign currency are translated into U.S. dollars based on exchange rates in effect at the dates of the transactions.

2. *Furniture, Equipment and Leasehold Improvements*

Depreciation and amortization are provided for using the straight-line method of depreciation/amortization for all capitalized assets in amounts sufficient to relate the cost of capitalized assets to operations over their estimated service lives.

3. *Securities Transactions*

Transactions in securities owned are recorded on a trade-date basis.

4. *Securities Owned*

Securities listed on a securities exchange for which market quotations are available are valued at the last quoted sales price on the last business day of the period.

5. *Other Liabilities*

Other liabilities primarily include the unamortized balance of a deferred alteration allowance on the New York leased premises paid for by the landlord pursuant to the lease agreement, which is being amortized over the remaining life of the lease obligation.

Development Corporation for Israel

NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)

December 31, 2005

NOTE A (continued)

6. *Cash and Cash Equivalents*

Included in cash and cash equivalents are investments in money market funds which are readily convertible to cash.

7. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - SECURITIES OWNED

At December 31, 2005, securities owned consisted of the following:

Stock investments (cost \$36,337)	\$135,397
Corporate securities (cost \$8,991)	<u>2,340</u>
	<u>\$137,737</u>

NOTE C - SUBORDINATED NOTE PAYABLE

A note in the amount of \$4,100,000 is subordinated to the claims of general creditors under a subordinated loan agreement for equity capital with the State of Israel. Pursuant to an amendment effective December 31, 2004, the note matures on December 31, 2007. Interest is calculated at the six-month average negotiable certificate of deposit rate, plus 25 basis points.

Pursuant to an agreement approved by the National Association of Securities Dealers, Inc., the subordinated borrowing is included in the computation of net capital under the Securities and Exchange Commission's Uniform Net Capital Rule. To the extent that such borrowing is required for the Company's continued compliance with minimum net capital requirements, it may not be repaid.

Interest on the subordinated note payable is determined based on a floating market rate and, accordingly, its carrying value approximates fair value.

Development Corporation for Israel

NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)

December 31, 2005

NOTE D - LITIGATION

In the ordinary course of business the Company is subject to litigation. Various lawsuits, claims and proceedings of a nature normal to its business are pending against the Company. Such matters relate to labor grievances and arbitration under a collective bargaining agreement between the union and the Company. The Company, after consultation with legal counsel, believes that any such allegations are without merit and that the outcome of these lawsuits will not have a material adverse effect on its earnings, cash flow or financial position.

NOTE E - COMMITMENTS

The Company leases sales and administrative offices under long-term lease agreements. The remaining terms of these leases range from one to ten years.

Minimum rental payments under noncancelable leases are approximately:

<u>Year</u>	<u>Amount</u>
2006	\$ 1,956,551
2007	1,607,723
2008	1,307,392
2009	1,214,986
2010	1,174,806
2011 and thereafter	<u>5,484,642</u>
	<u>\$12,746,100</u>

On December 31, 2005, the Company abandoned its office space in Long Island, which had 30 months remaining under the term of the lease agreement; Allentown, which had two months remaining under the term of the lease agreement; and New Brunswick, which had four months remaining under the term of the lease agreement. The rent for this remaining lease term, which amounted to \$111,320 at December 31, 2005 has been included in future lease commitments in the table above and is also included in "Accrued expenses payable" in the accompanying statement of financial condition.

Development Corporation for Israel

NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)

December 31, 2005

NOTE F - FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements consist of the following at December 31, 2005:

	Useful life (in years)	
Computer equipment and software	3	\$ 3,359,934
Furniture and fixtures	5	377,914
Leasehold improvements	12	<u>1,588,057</u>
		5,325,905
Less accumulated depreciation and amortization		<u>(3,338,485)</u>
		<u>\$ 1,987,420</u>

An allowance for alteration of the New York office leased premises amounting to \$1,000,000, paid for by the landlord pursuant to the lease agreement, has been capitalized and included on the statement of financial condition in "Leasehold improvements." Such leasehold improvements are being amortized over the life of the lease. At December 31, 2005, a corresponding deferred liability in the amount of \$786,207, net of amortization, is included on the statement of financial condition in "Other liabilities."

NOTE G - RELATED PARTIES

Pursuant to various underwriting agreements, the State of Israel pays the Company for its underwriting activities on their behalf.

Pursuant to an agreement between the State of Israel and the Company, the State of Israel provided the Company with funding of approximately \$407,000 for certain of its capital expenditures. These amounts were reflected as a receivable and included on the statement of financial condition in "Other assets." They have been received by the Company subsequent to year-end.

Development Corporation for Israel

NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)

December 31, 2005

NOTE H - EMPLOYER RETIREMENT PLANS

Defined Benefit Pension Plans

The Company maintains noncontributory defined benefit pension plans covering substantially all of its employees. In May 1997, the Company amended its defined benefit pension plans and 401(k) Savings Plan, separating the defined benefit pension plans into two components. Certain employees had the choice to either continue to receive benefits under the provisions of the existing plans (the Old Plan component) or to begin to receive benefits under the provisions of the Cash Balance Plan (the Cash Balance component).

The Old Plan component provides defined benefits based on years of service and final average compensation. The Cash Balance component provides for defined benefits based on each individual employee's accumulated cash balance which is credited annually in an amount equal to 4% of eligible compensation, plus an earned interest credit at a rate established at the beginning of each plan year based on the average 30-year Treasury Bond yield during the month of November of the previous calendar year. The Company's funding policy is to make annual contributions of at least the minimum contribution requirement described under section 412 of the Internal Revenue Code. The Company uses a December 31 measurement date for all its plans.

All of the following information is presented for the Old Plan and the Cash Balance components on an aggregated basis.

The following is an analysis of the changes in projected benefit obligation for the year ended December 31, 2005:

Benefit obligation, beginning of year	\$17,595,109
Service cost	861,001
Interest cost	1,025,917
Actuarial loss (gain)	1,593,583
Settlements	(2,223,682)
Benefits paid	<u>(72,245)</u>
Benefit obligation, end of year	<u>\$18,779,683</u>

Development Corporation for Israel

NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)

December 31, 2005

NOTE H (continued)

The following is an analysis of the changes in the fair value of plan assets for the year ended December 31, 2005:

Fair value of plan assets, beginning of year	\$16,254,530
Actual return on plan assets	1,233,602
Company contributions	2,400,000
Settlements	(2,223,682)
Benefits paid	<u>(72,245)</u>
Fair value of plan assets, end of year	<u>\$17,592,205</u>

The following represents the components of the net amount recognized as "Prepaid pension cost" in the accompanying statement of financial condition at December 31, 2005:

Funded status of plan	\$(1,187,478)
Unrecognized actuarial (gain) loss	4,875,357
Unrecognized prior service cost	<u>13,185</u>
Net amount recognized as prepaid pension cost	<u>\$ 3,701,064</u>

The accumulated benefit obligation of the Company's defined benefit pension plans at December 31, 2005 was \$17,453,448.

The weighted-average assumptions used to determine benefit obligations as of December 31, 2005 were as follows:

Discount rate	5.50%
Lump-sum/annuity conversion rate	5.25%
Rate of compensation increase	3.75%

Development Corporation for Israel

NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)

December 31, 2005

NOTE H (continued)

Plan assets were invested in the following asset categories as of December 31, 2005:

<u>Asset category</u>	<u>Target allocation</u>	<u>Actual allocation</u>
Equity	55% - 65%	51.0%
Fixed income	25% - 35%	26.9%
Real estate	5% - 15%	8.9%
Cash reserves	2% - 15%	<u>13.2%</u>
Total		<u>100.0%</u>

At December 31, 2005, the Pension Plan Master Trust assets included \$1,835,000 of State of Israel Bonds, valued at cost, which approximates market value.

Investment Strategy

The Company's investment strategy is based on the objective to balance, over time, the capital appreciation offered by stocks with the income and relative stability of fixed income securities. The objective is to provide capital appreciation, current income, and preservation of capital through a portfolio of stocks and fixed income securities. The determination of the expected return on assets rate is based on a building block approach. First, the underlying inflation rate is determined. Then, the expected real rate of return of stocks and bonds is determined based on their allocation percentages within the Trust.

Contributions

The Company's minimum required contribution was \$0 for the year ended December 31, 2005.

Development Corporation for Israel

NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)

December 31, 2005

NOTE H (continued)

Future Benefit Payments

Expected future benefit payments for each of the next ten years are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 594,937
2007	740,013
2008	878,910
2009	1,089,010
2010	1,189,578
2011 - 2015	<u>7,697,466</u>
	<u>\$12,189,914</u>

Subsequent Event

On February 13, 2006, with a successful ratification vote by its Local 1707 Union bargaining unit, the Company notified the appropriate personnel of its intention to terminate its defined benefit pension plans for its Employees' Pension Plan and Executives' and Non-Union Employees' Pension Plan during 2006, subject to the required filings and approvals from the Pension Benefit Guaranty Corporation, the Department of Labor and the Internal Revenue Service. The Company intends to provide the affected employees with enhanced benefits in its 401(k) savings plan. The Company expects to contribute approximately \$4.4 million to the Pension Plan Master Trust during 2006 in order to fully fund the liabilities on a termination basis.

401(k) Savings Plan

All eligible employees are entitled to contribute, on a pretax basis, from 1% to 30% of their annual eligible compensation, up to the Internal Revenue Service limit of \$14,000 for the year ended December 31, 2005, to the 401(k) Savings Plan (the "Plan"). Participants that are at least 50 years old may elect to contribute, on a pretax basis, an additional percentage of their annual eligible compensation up to the Internal Revenue Service limit of \$4,000 for the year ended December 31, 2005. The Company matches the contributions of those employees who are participating in the Old Plan and the Cash Balance components. For participants in the Old Plan component, the Company has agreed to match 1% of annual eligible compensation for employees that have elected to contribute at least 1% of their annual eligible compensation to the Plan. For participants in the Cash Balance component, the Company has agreed to match dollar for dollar up to 3% of annual eligible compensation of employees that have elected to contribute at least 1% of their annual eligible compensation to the Plan.

Development Corporation for Israel

NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)

December 31, 2005

NOTE I - NET CAPITAL

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities and Exchange Commission's ("SEC") Uniform Net Capital Rule, the Company is required to maintain minimum net capital. The Company has elected to use the alternative method, permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions. At December 31, 2005, the Company had net capital of \$1,998,102, which exceeded net capital requirements of \$250,000 by \$1,748,102.

In the normal course of its operations, the Company receives checks from investors payable to the State of Israel to purchase the Bonds. The Company transmits the checks received to the State of Israel's fiscal agent. Accordingly, the Company is subject to the computation for reserve requirements for broker-dealers under Rule 15c3-3. At December 31, 2005, the Company did not have any credits or debits under the reserve requirement computation. The Company established a reserve bank account under Rule 15c3-3 in which a \$1,000 balance is maintained.

NOTE J - CONCENTRATION OF CREDIT RISK

The Company maintains cash balances with several financial institutions. Certain account balances may not be covered by the FDIC, while other accounts, at times, may exceed federally insured limits. The Company believes that risk from concentration of cash balances with such financial institutions is not significant.

NOTE K - INCOME TAXES

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recorded for financial reporting purposes and such amounts as measured in accordance with tax laws. The items which comprise deferred income taxes as of December 31, 2005 are as follows:

Development Corporation for Israel

NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)

December 31, 2005

NOTE K (continued)

Deferred tax assets (liabilities)

Prepaid pension cost	\$ (1,480,000)
Accruals	269,000
Depreciation	(15,000)
Other	<u>(52,000)</u>
Deferred income taxes payable	<u>\$ (1,278,000)</u>

The following represents the changes in deferred taxes payable for the year ended December 31, 2005:

Deferred income taxes payable, beginning of year	\$ (1,070,000)
Provision for deferred income taxes	<u>(208,000)</u>
Deferred income taxes payable, end of year	<u>\$ (1,278,000)</u>

INDEPENDENT AUDITORS' SUPPLEMENTARY
REPORT ON INTERNAL CONTROL REQUIRED BY
SEC RULE 17a-5

DEVELOPMENT CORPORATION FOR ISRAEL

December 31, 2005



**INDEPENDENT AUDITORS' SUPPLEMENTARY
REPORT ON INTERNAL CONTROL REQUIRED BY
SEC RULE 17a-5**

To the Board of Directors of
Development Corporation for Israel

In planning and performing our audit of the financial statements and supplemental information of Development Corporation for Israel (the "Company") for the year ended December 31, 2005, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission ("SEC"), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate debits and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e). Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications and comparisons and recordation of differences required by rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives

of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005, to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc. and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used by anyone other than these specified parties.

Crawford Thornton LLP

New York, New York
February 13, 2006

Grant Thornton

Grant Thornton LLP
US Member of
Grant Thornton International
© 2005 Grant Thornton LLP
All rights reserved

60 Broad Street
New York, New York 10004
Tel: 212 422-1000
Fax: 212 422-0144
www.granthornton.com