

**Arab Center for Agricultural Development  
Non Profit, Non-Governmental Organization**

**Ramallah-Palestine**

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**Financial Statements  
and  
Independent Auditor's Report  
For the Year Ended 31 December 2011**

ArabCenter for Agricultural Development  
Non Profit, Non-Governmental Organization

Ramallah-Palestine

Financial Statements and  
Independent Auditor's Report  
For the Year Ended December 31, 2011

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## Independent Auditor's Report

**To the General Assembly  
Arab Center for Agricultural Development (ACAD)  
Ramallah-Palestine**

### *Report on the financial statements:*

We have audited the accompanying financial statements of the **Arab Center for Agricultural Development "Non Profit, Non-Governmental Organization"**, which comprise the statement of financial position as of December 31, 2011, and the statement of activities, the statement of changes 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:*

The management of ACAD is responsible for the preparation and fair presentation of these financial statements in accordance with relevant International Financial Reporting Standards and in conformity with the covenants of the financing agreements signed with donors and lenders, 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.

### *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 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 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 **Arab Center for Agricultural Development** as of December 31, 2011, its financial performance and its cash flows for the year then ended in accordance with relevant International Financial Reporting Standards and in conformity with the covenants of the financing agreements signed with donors and lenders.

Ramallah:  
May 2, 2012

*Deloitte & Touche*

Deloitte & Touche (M.E)

## Statement - A

Arab Center For Agricultural Development  
Non Profit, Non Governmental Organization  
Ramallah- Palestine

Statement of Financial Position  
As of December 31 , 2011

	Note	December 31		
		2011	2010	2010
		USD	USD	USD
<b>Assets:</b>			<b>Restated</b>	
Cash and Cash Equivalent	3	1,018,069	1,524,015	1,524,015
Loans Receivable-Net	4	4,210,156	3,467,944	3,467,944
Interest Receivable		95,780	90,949	90,949
Pledges Receivable	5	2,711	11,883	11,883
Prepayments and Other Receivables	6	706,504	556,238	556,238
Fixed Assets-Net	7	54,930	64,605	64,605
<b>Total Assets</b>		<b>6,088,150</b>	<b>5,715,634</b>	<b>5,715,634</b>
<b>Liabilities And Net Assets:</b>				
<b>Liabilities:</b>				
Accounts Payable and Accruals	8	15,827	161,425	161,425
Loans Payable	9	2,251,211	1,695,661	1,695,661
Provision For Employees' Benefits	10	663,330	607,273	607,273
<b>Total Liabilities</b>		<b>2,930,368</b>	<b>2,464,359</b>	<b>2,464,359</b>
<b>Net Assets:</b>				
General Unrestricted Fund		201,545	237,556	3,286,371
Temporarily Restricted Fund		68,838	348,376	348,376
Loan Revolving Fund ( Deficit )		2,840,619	2,626,535	(422,280)
General Reserve for Loan Losses		46,780	38,808	38,808
<b>Total Net Assets - Statement (C)</b>		<b>3,157,782</b>	<b>3,251,275</b>	<b>3,251,275</b>
<b>Total Liabilities And Net Assets</b>		<b>6,088,150</b>	<b>5,715,634</b>	<b>5,715,634</b>

The Accompanying Notes Constitute an Integral Part of These Financial Statements





Arab Center For Agricultural Development  
Non Profit, Non Governmental Organization  
Ramallah- Palestine  
Statement of Activities  
For the Year Ended December 31 , 2011

Statement - B

				Total	
	General	Temporarily	Loan	2011	2010
Note	Unrestricted	Restricted	Revolving		
	Fund	Fund	Fund		
	USD	USD	USD	USD	USD
<b>Revenues:</b>					
Temporarily Restricted Contributions to Cover Non-Operating Expenses	-	234,444	-	234,444	1,015,331
Unrestricted Contributions to Cover Non-Operating Expenses	-	96,578	-	96,578	-
<b>Total Revenues</b>	-	<b>331,022</b>	-	<b>331,022</b>	<b>1,015,331</b>
Net Assets Released From Restriction	11 262,184	(262,184)	-	-	-
<b>Net Revenues</b>	11 262,184	<b>68,838</b>	-	<b>331,022</b>	<b>1,015,331</b>
<b>Loans Revenue :</b>					
Interest on Loans	-	-	893,544	893,544	692,096
Collection of Bad Debts	-	-	25,870	25,870	31,870
Loans Service Fees & Commissions	-	-	15,803	15,803	2,370
Penalty Revenue	-	-	50,647	50,647	50,395
	-	-	<b>985,864</b>	<b>985,864</b>	<b>776,731</b>
Other Revenues	1,212	-	54,935	56,147	165,413
<b>Net Income Before Provision for Loan Losses</b>	<b>263,396</b>	<b>68,838</b>	<b>1,040,799</b>	<b>1,373,033</b>	<b>1,957,475</b>
Release from Provision for Loan Losses	4 -	-	28,902	28,902	118,018
<b>Net Income After Provision for Loan Losses</b>	<b>263,396</b>	<b>68,838</b>	<b>1,069,701</b>	<b>1,401,935</b>	<b>2,075,493</b>
<b>Expenses:</b>					
<b>Programs' Expenses :</b>					
AFD	92,152	-	-	92,152	79,520
Food Security	-	-	827,228	827,228	712,791
NDC-IDB-Tulkarem	-	-	-	-	45,745
UNDP	-	-	-	-	1,713
Welfare - Marketing and Development of Agricultural Products in Jenin	-	-	-	-	89,477
Other Programs	155,412	-	-	155,412	-
UNDP-DEEP	14,620	-	-	14,620	35,023
<b>Total Expenses</b>	<b>262,184</b>	-	<b>827,228</b>	<b>1,089,412</b>	<b>964,269</b>
Administrative and General	-	-	48,745	48,745	823,130
<b>Total Program and Administrative Expenses</b>	<b>262,184</b>	-	<b>875,973</b>	<b>1,138,157</b>	<b>1,787,399</b>
Depreciation Expense	40	-	14,844	14,884	18,099
(Gain) Loss on Currency Fluctuation	-	-	-	-	1,571
<b>Total Expenses</b>	<b>262,224</b>	-	<b>890,817</b>	<b>1,153,041</b>	<b>1,807,069</b>
<b>Change in Net Assets – Statement ( C )</b>	<b>1,172</b>	<b>68,838</b>	<b>178,884</b>	<b>248,894</b>	<b>268,424</b>

The Accompanying Notes Constitute an Integral Part of These Financial Statements

## Arab Center For Agricultural Development

Non Profit, Non Governmental Organization

Ramallah- Palestine

## Statement of Changes in Net Assets

Year Ended December 31, 2011

		Net Assets				
	Unrestricted Fund	Temporarily Restricted Fund	Loans Revolving Fund	General Reserve Losses	Total	
Note	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
<b><u>December 31, 2011:</u></b>						
Balances at Beginning of the Year	237,556	348,376	2,626,535	38,808	3,251,275	
Change in Net Assets for the Year (Statement-B)	1,172	68,838	178,884	-	248,894	
Transferred to General Reserve for Loan Losses	4 (7,972)	-	-	7,972	-	
Prior Years' Adjustments	13 (29,211)	(348,376)	35,200	-	(342,387)	
Balances at End of the Year (Statement-A)	201,545	68,838	2,840,619	46,780	3,157,782	
<b><u>December 31, 2010:</u></b>						
Balances at Beginning of the Year	2,338,312	359,684	134,957	27,644	2,860,597	
Change in Net Assets for the Year (Statement-B)	955,329	708	(687,613)	-	268,424	
Transferred to General Reserve for Loan Losses	4 (11,164)	-	-	11,164	-	
Prior Years' Adjustments	13 3,894	(12,016)	130,376	-	122,254	
Balances at End of the Year (Statement-A)	3,286,371	348,376	(422,280)	38,808	3,251,275	
Reclassification	17 (3,048,815)	-	3,048,815	-	-	
Restated Balance at End of the Year (Statement-A)	237,556	348,376	2,626,535	38,808	3,251,275	

The Accompanying Notes Constitute an Integral Part of These Financial Statements

Arab Center For Agricultural Development  
Non Profit, Non Governmental Organization  
Ramallah- Palestine

Statement of Cash Flows  
Year Ended December 31, 2011

	Year Ended December 31,	
	2011	2010
	U.S. \$	U.S \$
<b>Operating activities:</b>		
Grants Received from Contributors	331,022	1,015,331
Loans Revenue	985,864	776,731
Interest Income and Other Revenues	85,049	283,431
Cash Paid to Employees and Suppliers	(2,458,222)	(2,496,354)
<b>Cash (Used in) Operating Activities</b>	<b>(1,056,287)</b>	<b>(420,861)</b>
<b>Investing Activities:</b>		
Procurement of Fixed Assets	(5,209)	(6,994)
<b>Cash (Used in) Investing Activities</b>	<b>(5,209)</b>	<b>(6,994)</b>
<b>Financing Activities:</b>		
Increase in Loans Payable	555,550	259,963
<b>Cash Flow from Financing Activities</b>	<b>555,550</b>	<b>259,963</b>
<b>Increase in Cash and Cash Equivalent</b>	<b>(505,946)</b>	<b>(167,892)</b>
Cash and Cash Equivalent at Beginning of the Year	1,524,015	1,691,907
<b>Cash and Cash Equivalent at End of the Year</b>	<b>1,018,069</b>	<b>1,524,015</b>
<b>Adjustments:</b>		
Change in Net Assets	248,894	268,424
Depreciation	14,884	18,099
Prior Years' Adjustments	(342,387)	122,254
Provision for Employees' Benefits	113,535	115,430
(Increase) Decrease in Interest Receivable	(4,831)	27,050
(Increase) in Loans	(742,212)	(906,739)
Decrease in Pledges Receivable	9,172	111,625
(Increase) in Prepayments and Other Receivables	(150,266)	(53,470)
(Decrease) in Payables and Accruals	(145,598)	(76,575)
Payments of Employees' Benefits	(57,478)	(46,959)
<b>Cash (Used In) Operating Activities</b>	<b>(1,056,287)</b>	<b>(420,861)</b>

The Accompanying Notes Constitute an Integral Part of These Financial Statements



**Arab Center for Agricultural Development  
Non Profit, Non-Governmental Organization  
Ramallah-Palestine**

**Notes to the Financial Statements  
For the Year Ended December 31, 2011**

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**1. General :**

**a. The Center:**

The Arab Center for Agricultural Development (ACAD) is a Palestinian non-profit, non-governmental organization that has been officially registered in Jerusalem since 1993, and also registered by the Palestinian National Authority since 2001 according to the Palestinian Charitable Institutions Law. ACAD is specialized in Micro-Credit and offers Business Support Services to the poor and low-income Palestinian producers. The Board of Directors comprised of 9 members including the chairman and elected every two years by the General Assembly that governs ACAD.

The number of employees as of December 31, 2011 was 46 (47 employees in 2010)

**b. ACAD Mission:**

ACAD as a development institution established to encourage micro entrepreneurship through small income generating activities among the poor and low-income individuals. ACAD provides financial and business support services concentrating on rural and/or high poverty rate in Palestinian areas that are particularly affected by the difficult political situation. Economic independence and consequently food security for the poor and disadvantaged, is an effective tools towards empowerment and active participation in the economic, social and political spheres of the life in Palestine.

**c. ACAD Objectives:**

- Promotion of self-sustaining employment and income generating projects in the agricultural sector and rural areas.
- Expanding geographical access to financial resources.
- Graduating poor and small rural producers into capital lending markets by shifting the balance of power towards those needing credit.
- Mobilizing rural savings.
- Developing & empowering rural marginalized communities

**d. Target Group:**

ACAD's target group includes low-income Palestinian in rural and urban areas who are willing to develop their small projects in order to improve their standard of living and income. also includes the poor who are willing to get out from the poverty cycle, through integrating in economic investment activities.

**e. Branches and Offices:**

ACAD provides services for small and poor producers through its headquarter in Ramallah and 8 field branches and offices (Gaza, Jericho, Bethlehem, Hebron, Nablus, Jenin, Ramallah and Tulkarem).

**f. Financial Credit Services:**

ACAD provides financial credit services to small-scale and poor Palestinian producers in the Palestinian Territories through four kinds of credit products as follows:

- Woman loans based on cycling.
- Micro loans to finance existing project.
- Small loans to finance capital investment or startup businesses.
- Loans to cooperatives to finance cooperative credit & saving funds.

## 2. Summary of Significant Accounting Policies:

### 2/1. Application of new and revised International Financial Reporting Standards (IFRSs):

The accounting policies for the current year are similar to those accounting policies applied in the previous year. There are new and revised IFRSs and interpretations effective for the current annual period, but these new and revised standards and interpretations have had no material effect on the presentation and / or the disclosures of the accompanying financial statements of the Center. Moreover, there were new and revised standards and interpretations in issue but not yet effective at the date of approving the accompanying financial statements. The Center has not early adopted those new and revised standards and interpretations, and the management of the Center believes that the application of those new and revised standards and interpretations in issue will not have any material effect on the Center's financial statements (Note 20).

### 2/2. Basis of Accounting and Presentation:

The accompanying financial statements have been prepared in accordance with relevant International Financial Reporting Standards and the United States of America Statements on Financial Accounting Standards No. 116, 117, and 124.

### 2/3. The significant accounting policies followed are described below:

- A. Under the provision of these standards and statements (2/2 above), net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. In order to ensure observance of limitations and restrictions placed on the use of the available resources, the accounts are maintained in accordance with the principles of fund accounting. Accordingly net assets of ACAD and changes therein are classified and reported as follows:

- *General (Unrestricted) Net Assets:* represent net assets whose use by ACAD is not subject to donor-imposed restrictions and management of ACAD has direct control.
- *Temporarily Restricted Net Assets:* net assets whose use by ACAD is limited by donor-imposed restrictions that either expire by passage of time or can be fulfilled and released by actions of ACAD pursuant to those donor-imposed stipulations.
- The Center reports cash received as temporarily restricted with donor stipulations that limit the use of the donation. When a donor satisfaction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### B. Fixed Assets:

Fixed assets are stated at cost net of accumulated depreciation. Depreciation is calculated using the straight-line method based on their estimated useful lives as follows:

Furniture and Fixtures	7%
Office Equipment	15%
Safes	3%
Computers and Printers	30%
Cars	20%

When the expected recoverable amount is less than the net book value, the fixed assets amount is reduced to the lower of cost or net realizable value and the difference (if any) is included in the determination of changes in net assets.



## 2. Summary of Significant Accounting Policies (Cont.):

### C. Loans:

Loans receivable are stated at cost net of provision for impairment in loans. A provision for non-performing loans is taken when there is evidence to management that these loans cannot be recollect in part or in full. Such a provision is calculated based on the following criteria:

<u>Time Period</u>	<u>Percentage</u>
1- 30 Days	--
31- 60 Days	10%
61- 90 Days	20%
91- 120 Days	30%
121- 180 Days	40%
181- 360 Days	50%
More than 360 Days	100%

-The resultant provision is recorded in the statement of activities.

-A general reserve for loans against unforeseen future losses is computed at 1.5% of performing loans. This reserve is reflected in the statement of financial position as part of net assets.

-Interests on non-performing credit facilities are suspended, in addition, uncollectible credit facilities are written off by decreasing the provision for credit facilities. Any surplus in the provision as well as any amount collected from credit facilities previously written off are taken to the statement of activities.

### D. Foreign Currency Translation:

The Center's reporting currency is the U.S Dollar. However, transactions in currencies other than U.S Dollar are converted to U.S Dollar equivalent at the exchange rates prevailing at the date of each transaction. Monetary assets and liabilities denominated in other currencies are translated to U.S Dollar equivalent using the exchange rates prevailing at the year end. The resultant difference on exchange is taken to the statement of activities.

The rates of exchange of certain currencies against the U.S.Dollar as of December 31, 2011 and 2010 were as follows:

	<u>December 31 ,</u> <u>2011</u> <u>USD</u>	<u>December 31 ,</u> <u>2010</u> <u>USD</u>
Euro	1.3251	1.4407
NIS	0.2808	0.2647
JOD	1.4064	1.4064

### E. Loan Revolving Fund:

Loan revolving fund represents net assets which are subject to donors' imposed restrictions and to be maintained permanently by ACAD and is composed of all grants received and provided for lending. This fund is charged by provisions for impairment losses if the agreements with the donors stipulated such condition.

### F. Severance Pay:

End of service indemnity is computed in accordance with the prevailing labor law in the Palestinian Territories accruing for one-month compensation for each year of service based on the last salary of the employee. The provision is charged to the statement of activities (programs as well as general and administrative expenses), while indemnities actually paid to staff are booked against the related provision account.

#### G. Provident Fund:

ACAD has a defined provident fund scheme by which the employees and the Center contributions are 7.5% each from the basic monthly salaries.

#### H. Accounting Estimates:

The financial statements include certain estimates and assumptions made by management related to reporting of assets and liabilities at the statement of financial position date, and the reporting of revenues, 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 depreciation rates and useful lives of fixed assets, provision for severance pay and provisions for impairment of loans.

#### 3. Cash and Cash Equivalent:

	December 31, 2011 USD	December 31, 2010 USD
Cash in Hand	15,466	5,809
Cash at Banks		
Current Accounts-U.S Dollar	496,092	898,044
Current Accounts- Jordanian Dinar	877	2,989
Current Accounts-Israeli Shekel	26,944	19,784
Current Accounts-Euro w	1,735	137,811
	<u>525,648</u>	<u>1,058,628</u>
Checks Under Collection- Short Term	2,082	998
Short -Term Deposit for Employees Benefits	474,873	458,580
	<u>1,018,069</u>	<u>1,524,015</u>

#### 4. Loans Receivable-Net:

	December 31, 2011 USD	December 31, 2010 USD
Loan portfolio *	4,466,455	3,761,117
Provision for Impairment	(256,299)	(293,173)
	<u>4,210,156</u>	<u>3,467,944</u>

\* The number of performing loans as of December 31, 2011 was 3,410 loan (comparing with 3,389 loan as of December 31, 2010).

The movement in the provision for impairment was as follows:

	December 31, 2011 USD	December 31, 2010 USD
Balance , at Beginning of the Year	293,173	422,355
Transferred to General Reserve for Loan Losses	(7,972)	(11,164)
Recoveries During the Year	(28,902)	(118,018)
Balance at End of the Year	<u>256,299</u>	<u>293,173</u>



#### 5. Pledges Receivable :

	December 31, 2011 U.S Dollar	December 31, 2010 U.S Dollar
NDC-IDP	--	11,883
NGO Development Center – Khawass Project	2,711	--
	<u>2,711</u>	<u>11,883</u>

#### 6. Prepayments and Other Receivables:

	December 31, 2011 U.S Dollar	December 31, 2010 U.S Dollar
Prepaid Expenses	22,930	9,967
Loans & Advances to Employees *	198,184	140,297
Cooperatives, and Credit and Saving Funds Receivable**	430,040	334,699
UNDP – DEEP- Participating Loans	25,350	--
ASALAH Receivable	--	41,275
Receivable From PMA	30,000	30,000
	<u>706,504</u>	<u>556,238</u>

\* Loans to employees are interest free.

\*\* The balance represents amounts transferred from donors to support cooperatives, saving and credit funds in Palestine. Interest was not calculated on those loans granted before 2008, while interest is calculated on those loans granted during 2008, 2009, 2010 and 2011. The Center would recover these loans amounts from the Associations for the benefit of the Center.

#### 7. Fixed Assets-Net:

	January 1, 2011 USD	Additions USD	Disposals USD	December 31, 2011 USD
<b>Cost:</b>				
Furniture and Fixtures	73,498	1,724	--	75,222
Office Equipment	74,056	3,081	--	77,137
Safes	1,127	--	--	1,127
Cars	46,937	--	--	46,937
Computers	85,281	404	--	85,685
	<u>280,899</u>	<u>5,209</u>	<u>--</u>	<u>286,108</u>
<b>Accumulated Depreciation:</b>				
Furniture and Fixtures	51,113	2,597	--	53,710
Office Equipment	65,061	4,005	--	69,066
Safes	466	34	--	500
Cars	14,374	8,214	--	22,588
Computers	85,280	34	--	85,314
	<u>216,294</u>	<u>14,884</u>	<u>--</u>	<u>231,178</u>
<b>Net Fixed Assets</b>	<u>64,605</u>			<u>54,930</u>

7. Fixed Assets-Net (Cont.) :

	January 1, 2010 USD	Additions USD	Disposals USD	December 31, 2010 USD
<b>Cost:</b>				
Furniture and Fixtures	71,494	2,004	--	73,498
Office Equipment	69,066	4,990	--	74,056
Safes	1,127	--	--	1,127
Cars	46,937	--	--	46,937
Computers	85,281	--	--	85,281
	<u>273,905</u>	<u>6,994</u>	<u>--</u>	<u>280,899</u>
<b>Accumulated Depreciation:</b>				
Furniture and Fixtures	46,768	4,345	--	51,113
Office Equipment	60,229	4,832	--	65,061
Safes	432	34	--	466
Cars	6,160	8,214	--	14,374
Computers	84,606	674	--	85,280
	<u>198,195</u>	<u>18,099</u>	<u>--</u>	<u>216,294</u>
<b>Net Fixed Assets</b>	<u>75,710</u>			<u>64,605</u>

8. Accounts Payable and Accruals:

	December 31, 2011 USD	December 31, 2010 USD
Due to SIDI*	--	150,000
Sundry Creditors	15,827	11,425
	<u>15,827</u>	<u>161,425</u>

\* This amount represents long term loan donated from SIDI to support the Center's operating activities. Under the agreement, understandings regarding the repayment of this loan will be concluded in the future

9. Loans Payable :

	December 31, 2011 USD	December 31, 2010 USD
Agency France De Development ( AFD )	906,773	906,773
UNDP - DEEP	944,438	788,888
Due to SIDI	400,000	--
	<u>2,251,211</u>	<u>1,695,661</u>

a). On March 3, 2010, ACAD signed a no interest loan agreement with Agence Francaise De Development (AFD) , in which the two parties agreed to initiate a loan portfolio for an amount of EURO 673,000 which is subject to ACAD credit procedures & bounded only for farmers cooperatives & women economic projects. According to the agreement, ACAD is exempted from paying any interest or fees . The duration for the loan is eight years which includes a grace period of four years. ACAD will pay the loan amount divided on eight quarterly equal payments starting from September 30, 2013.

b). On July 28, 2008, ACAD signed an agreement with the Islamic Development Bank – Jeddah – Saudi Arabia through UNDP/PAPP, the agreement was to establish a Credit Fund amounted U.S Dollars 700,000 to be used to support small projects of poor Palestinians people through granting small loans ranging between U.S Dollars 3,500 and U.S Dollar 7,500. The duration of the loan will be for three years from the date of the agreement. ACAD will pay the loan amount with interest rate of 2 % divided on nine quarterly equal payments starting from September 1, 2010.

c). On May 11, 2010, ACAD signed an additional agreement with the Islamic Development Bank – Jeddah – Saudi Arabia through UNDP/PAPP which considered a continuation of the previous agreement, the agreement was to establish a Credit Fund amounted U.S Dollars 400,000 to be used to support existing businesses or to start new businesses for those poor families through granting small loans ranging between U.S Dollars 3,500 and U.S Dollar 7,000. The duration of the loan will be for three years from the date of the agreement. ACAD will pay the loan amount with interest rate of 2 % divided on nine quarterly equal payments starting from June 1, 2011.

#### 10. Provision for Employees Benefits:

	December 31, 2011	December 31, 2010
	USD	USD
Provident Fund	324,652	281,577
End of Service Indemnity	312,857	297,733
Annual Leaves	25,821	27,963
	<b>663,330</b>	<b>607,273</b>

The movements in the provident fund and the end of service indemnity were as follows:

##### A- Provident Fund:

	December 31, 2011	December 31, 2010
	USD	USD
Opening Balance	281,577	240,069
Addition	73,156	67,255
Payments	(30,081)	(25,747)
Ending Balance	<b>324,652</b>	<b>281,577</b>

##### B- End of Service Indemnity:

	December 31, 2011	December 31, 2010
	USD	USD
Opening Balance	297,733	269,128
Addition	40,379	47,488
Payments	(25,255)	(18,883)
Ending Balance	<b>312,857</b>	<b>297,733</b>

Employees end of service indemnity and provident fund have been separated in a special bank account. The deposit value as of December 31, 2011 equals U.S Dollar 474,873 (Note 3).

C- Annual Leaves:

	December 31, 2011 USD	December 31, 2010 USD
Opening Balance	27,963	29,606
Addition	--	688
Payments	(2,142)	(2,331)
Ending Balance	25,821	27,963



## 11- Disposition of Grants - Net Assets Released from Restrictions :

								DISPOSITION OF GRANTS		
	Unspent Grants as of 31/12/2010 U.S \$	Foreign Currency U.S \$	Returned To Donors U.S \$	Grants Received in 2011 U.S \$	Grants Pledges Receivables U.S \$	Available Grants for 2011 U.S \$	Unspent Grants as of 31/12/11 U.S \$	Grants Spent in 2011 U.S \$	Program Expenses U.S \$	Capital Additions U.S \$
Support of Electric Sector at Gaza Strip - UNDP-IDB	170,930	-	(96,000)	-	-	74,930	(358)	75,288	75,288	-
Support & Developing of Cooperatives Project - AFD	143,706	(6,049)	-	1,500	-	139,157	47,005	92,152	90,756	1,396
Home Gardens ( Agricultural Land Restoration in Gaza) - NDC	-	-	-	20,000	-	20,000	20,000	-	-	-
Creation of Saving and Microcredit Women Centers - CESVI	-	-	-	30,281	-	30,281	3,049	27,232	27,232	-
UNDP-DEEP	14,620	-	-	-	-	14,620	-	14,620	14,620	-
Greenhouses Rehabilitation at Tulkarem Area - NDC	(11,883)	-	-	9,200	-	(2,683)	(2,683)	-	-	-
	317,373	(6,049)	(96,000)	60,981	-	276,305	67,013	209,292	207,896	1,396
Khawass Development Project - Local Contributors	19,120	-	-	5,000	2,711	26,831	-	26,831	26,831	-
Gaza Office Expenses - CCFD	-	-	-	27,886	-	27,886	1,825	26,061	26,061	-
Total Expenditure Including Capital Additions	336,493	(6,049)	(96,000)	93,867	2,711	331,022	68,838	262,184	260,788	1,396

## **12. UNDP Fund for Musharakeh:**

During the month of September 2010, ACAD has signed an agreement with the UNDP – PAPP (The United Nations Development Program / Program of Assistance to the Palestinian People); by which, the UNDP has allocated U.S. Dollar 100,000 and make the sum available to ACAD in order to target and serve the low-income families with an average loan size not exceeding U.S. Dollar 7,000 and a maximum loan size not exceeding U.S. Dollar 15,000. The fund is restricted for use in the declining Musharakeh for a period of (4) years and then ACAD has the right to use the money as a lending capital for Islamic microfinance products only. The term of the agreement commence on September 1, 2010 and terminate on December 31, 2014.

## **13. Prior Years' Adjustments:**

Prior Years' adjustments represent those adjustments resulted from controlling the net asset account of the Center through assessing the net asset of the loan revolving fund based on the stand alone financial statements issued for the loan revolving fund and the review of the assets and liabilities of the Center.

## **14. Risks Management:**

Financial instruments used by the Center exposed a number of risks. The most significant types of risks are credit risk, liquidity risk and market risk. The Board of Directors is responsible for developing a framework to manage these risks. The policies developed for risk management aimed to define the risks faced by the Centre and analyzing them in order to set controls to monitor these various risks. The policies and regulations designed to control the risk are reviewed periodically by management in order to determine the changes in market conditions and in the services provided by the Centre for its target group.

### **A- Operational Risk:**

The costs of the programs and administrative expenses as well as fixed assets procurement are significantly financed by donors through donations. The management believes that the funding level in the year 2012 will be sufficient to finance all types of its disbursements and will be consistent with the funding level in the prior years.

### **B- Credit Risk:**

Credit risks are risks that may result from the failure or inability of the other party to meet its obligations towards the Centre. The Centre manages credit risk through the development of specified and documented controls and ceilings with clear policies and procedures that guarantee commitment to these ceilings. These controls and ceilings are reviewed and amended periodically, if necessary. The credit risk on liquid funds is limited because they are placed with reputable financial institutions.

### **C- Liquidity Risk:**

Liquidity risk is the inability of the Centre to provide the funding necessary to meet its obligations in due dates. ACAD's policy of prevention of these risks requires management to diversify sources of assets and liabilities and maintain an adequate balance of cash and cash equivalent.



**December 31, 2011**

**Assets:**

	Up to 3 months	From 3 to 6 months	From 6 months to 1 Year	More than one year	Without maturities	Total
	USD	USD	USD	USD	USD	USD
Cash and Cash Equivalent	862,242	--	--	--	155,827	1,018,069
Loans and Interest Receivable	1,243,116	1,135,165	936,854	990,801	--	4,305,936
Pledges Receivable	2,711	--	--	--	--	2,711
Prepayments and Other Receivables	50,000	65,000	72,000	489,504	30,000	706,504
Fixed Assets-Net	--	--	--	--	54,930	54,930
<b>Total Assets</b>	<b>2,158,069</b>	<b>1,200,165</b>	<b>1,008,854</b>	<b>1,480,305</b>	<b>240,757</b>	<b>6,088,150</b>

**Liabilities and Net Assets:**

**Liabilities:**

Payables and Accruals	965	14,862	--	--	--	15,827
Loans Payable	111,097	94,222	94,222	1,951,670	--	2,251,211
Provision for Employees' Benefits	56,000	--	--	--	607,330	663,330
<b>Total Liabilities</b>	<b>168,062</b>	<b>109,084</b>	<b>94,222</b>	<b>1,951,670</b>	<b>607,330</b>	<b>2,930,368</b>
<b>Net Liquidity Sensitivity</b>	<b>1,990,007</b>	<b>1,091,081</b>	<b>914,632</b>	<b>(471,365)</b>	<b>(366,573)</b>	<b>3,157,782</b>
<b>Cumulative Sensitivity Gap</b>	<b>1,990,007</b>	<b>3,081,088</b>	<b>3,995,720</b>	<b>3,524,355</b>	<b>3,157,782</b>	<b>--</b>

**December 31, 2010**

**Assets:**

	Up to 3 months	From 3 to 6 months	From 6 months to 1 Year	More than one year	Without maturities	Total
	USD	USD	USD	USD	USD	USD
Cash and Cash Equivalent	550,000	410,415	--	--	563,600	1,524,015
Loans and Interest Receivable-Net	567,000	867,684	1,247,900	876,309	--	3,558,893
Pledges Receivable	11,883	--	--	--	--	11,883
Prepayments and Other Receivables	45,000	62,275	45,000	373,963	30,000	556,238
Fixed Assets-Net	--	--	--	--	64,605	64,605
<b>Total Assets</b>	<b>1,173,883</b>	<b>1,340,374</b>	<b>1,292,900</b>	<b>1,250,272</b>	<b>658,205</b>	<b>5,715,634</b>

**Liabilities and Net Assets:**

**Liabilities:**

Payables and Accruals	11,425	--	--	--	150,000	161,425
Loans Payable	388,445	129,555	176,666	1,000,995	--	1,695,661
Provision for Employees' Benefits	43,673	--	--	--	563,600	607,273
<b>Total Liabilities</b>	<b>443,543</b>	<b>129,555</b>	<b>176,666</b>	<b>1,000,995</b>	<b>713,600</b>	<b>2,464,359</b>
<b>Net Liquidity Sensitivity</b>	<b>730,340</b>	<b>1,210,819</b>	<b>1,116,234</b>	<b>249,277</b>	<b>(55,395)</b>	<b>3,251,275</b>
<b>Cumulative Sensitivity Gap</b>	<b>730,340</b>	<b>1,941,159</b>	<b>3,057,393</b>	<b>3,306,670</b>	<b>3,251,275</b>	<b>--</b>

**D- Interest Rate Risk:**

Interest rate risk arises from the possibility that changes in market interest rates may affect the value of interest bearing assets. The management of ACAD usually monitors the fluctuation in interest rates in every individual currency in order to maximize the benefits from placements.

**E- Currency Risk:**

Currency risk arises from the possibility that changes in the exchange rates may affect negatively the value of the financial assets and liabilities in case ACAD 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.

**15 – Fair Value of Assets and Liabilities:**

The financial instruments include the financial assets and liabilities. Financial assets represented by cash on hand, cash at banks and loans, financial liabilities represented by payables, accruals and employees benefits. The fair value of assets and liabilities are not materially different from their book value after taking into consideration the allowances for loan losses.

**16- The Financial Statements:**

The accompanying financial statements have been approved by the Board of Directors on May 2, 2012.

**17- Reclassification:**

ACAD provides loans to small enterprises, services and other assistance to small and poor producers and therefore lending activity is considered one of the most important activities of the Center.

For the purpose of informing users of the financial statements on the results of this activity, the Center's management decided to separate the financial statements of loan revolving fund from the financial statements of the Center effective on December 31, 2008 and issue a separate financial statements for loan revolving fund for the year ended December 31, 2008 and permanently in the future years.

The financial statements of ACAD for the year ended December 31, 2010 and for the previous years included in the unrestricted fund balance amounts and transactions belong to the loan revolving fund. In order to achieve the agreement of balances of loan revolving fund between ACAD's financial statements and the financial statements of the loan revolving fund, the following reclassification has been made:

**Loans Activity Financial Results**

	ACAD's Financial Statements U.S. Dollar	Loan Revolving Fund Financial Statements U.S. Dollar	Difference U.S. Dollar
Year 2006	311,484	(381,462)	692,946
Year 2007	(142,368)	(41,243)	(101,125)
Year 2008	(429,148)	50,363	(479,511)
Year 2009	(776,688)	84,472	(861,160)
Year 2010	(687,613)	149,446	(837,059)
	(1,724,333)	(138,424)	(1,585,909)
Transfer from loans to Unrestricted fund			(31,300)
Loans written off in 2007			(233,896)
Transfer of loan loss reserve			(624,005)
UNDP grant to the loan revolving fund			(100,000)
Transfer of undue interest			(153,616)
Correction of an error – undue interest			(153,616)
Amounts before 2006			(166,473)
			(3,048,815)

**18- Due from Related Parties – Net:**

Balances due from related parties as of December 31, 2011 and 2010 represent amounts due from the Agricultural Services Company and the United Agricultural Company fully provided against doubtful debts as follows:

	December 31, 2011 USD	December 31, 2010 USD
Agricultural Services Company	55,000	55,000
United Agricultural Company	34,627	34,627
	<b>89,627</b>	<b>89,627</b>
Allowance for Bad Debts	(89,627)	(89,627)
	<b>--</b>	<b>--</b>



# 19 – Additional Information:

	Loans Revolving Fund	AFD C02600	CCFD C03400	CESVI C03300	DEEP C01700	IDB C0800	Ikhawes C03000	NDC C03100	CCFD C03500	Others	Total Projects	Grand Total
Salaries and Rental Expenses	494,619	25,969	13,460	16,931	-	-	-	-	-	-	56,360	550,879
Salaries/ Currency Exchange	39,786	819	1,065	-	-	-	-	-	-	-	1,904	41,690
Closing Loans Expenses	28,329	-	-	-	-	-	-	-	-	-	-	28,329
Rent and Utilities	45,243	-	3,145	-	-	-	-	-	-	-	3,145	48,388
General Maintenance - Helbron Office	13,395	-	320	-	12,253	-	-	-	-	-	12,573	25,968
Water & Electricity	11,308	-	783	-	-	-	-	-	-	-	783	12,091
Hospitality	5,474	-	81	-	-	150	391	-	-	-	622	6,096
Printing & Stationary	13,034	-	704	-	-	175	-	-	-	-	879	13,913
Advertising & Promotion Material	776	181	-	-	-	-	185	-	-	-	366	1,142
Professional & Audit Fees	8,588	2,000	-	-	-	-	-	-	-	-	2,000	10,588
Legal Fees	20,862	-	-	-	-	-	-	-	-	-	-	20,862
Bank Charges	9,336	307	100	2	17	33	14	-	-	103	576	9,912
Fees & Subscription	3,782	-	50	-	-	-	-	-	-	-	50	3,832
Miscellaneous Expense	9,158	175	1,509	-	-	-	-	-	-	-	1,684	10,842
Depreciation Expense	14,844	-	-	-	-	-	-	-	-	-	-	14,844
Insurance Expense	334	-	-	-	-	-	-	-	-	-	-	334
Currency Exchange	(15,572)	-	-	-	-	-	-	-	-	-	-	(15,572)
Vacations	(44)	-	-	-	-	-	-	-	-	-	-	(44)
Donations	1,141	-	-	-	-	-	-	-	-	-	-	1,141
Car Expense - Insurance	1,515	-	-	-	-	-	-	-	-	-	-	1,515
Car Expense - Maintenance	4,111	705	-	-	-	-	-	-	-	-	705	4,816
Car Expense - Fuel	4,596	9,580	-	-	-	-	-	-	-	-	9,580	14,176
Car Expense - Registration	442	-	-	-	-	-	-	-	-	-	-	442
Interest Expense	48,660	-	-	-	-	-	-	-	-	-	-	48,660
Travel (Local & Overseas), Per Diem & Car Leasing	25,855	3,569	1,299	202	-	289	-	-	-	-	5,359	31,214
Telecommunication	35,493	1,235	1,162	-	-	-	-	-	-	2,646	5,043	40,536
Medical Expense	21,296	-	1,538	-	-	-	-	-	-	-	1,538	22,834
Training & Conferences Expenses	3,678	3,949	-	-	-	-	-	-	-	-	3,949	7,627
Bonuses	34,650	876	-	-	-	-	-	-	-	-	876	35,526
Employees Insurance	2,525	-	-	-	-	-	-	-	-	-	-	2,525
PMA - Credit Service Expense	3,703	-	-	-	-	-	-	-	-	-	-	3,703
Projects Preparation Expense	-	20,439	-	-	-	-	-	-	-	-	20,439	20,439
Programs & Systems Development	-	8,500	-	-	-	-	-	-	-	-	8,500	8,500
Capital Expenses	-	-	825	-	-	-	-	-	-	-	825	3,175
Projects Activities	-	13,848	-	10,097	-	74,642	26,241	-	-	-	124,828	124,828
<b>Total Expenses</b>	<b>890,817</b>	<b>92,162</b>	<b>26,061</b>	<b>27,232</b>	<b>12,270</b>	<b>75,289</b>	<b>26,831</b>	<b>-</b>	<b>-</b>	<b>2,749</b>	<b>264,934</b>	<b>1,165,751</b>

## 20- New and Update:

The following new and revised IFRSs have had no material effect on the presentation and / or the disclosure of the financial statements of the Center:

The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.	Amendments to IAS 1 <i>Presentation of Financial Statements</i> (as part of <i>Improvements to IFRSs</i> issued in 2010)
The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.	Amendments to IAS 7 <i>Statement of Cash Flows</i> (as part of <i>Improvements to IFRSs</i> issued in 2010)
The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.	Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> (as part of <i>Improvements to IFRSs</i> issued in 2011)
The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.	Amendments to IAS 1 <i>Presentation of Financial Statements</i> (as part of <i>Improvements to IFRSs</i> issued in 2011)
The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards—Additional Exemptions for First-time Adopters</i>
The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.	Amendments to IFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.	Amendments to IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> (as part of <i>Improvements to IFRSs</i> issued in 2008)
The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.	IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i>

### *New and revised IFRSs in issue but not yet effective*

The Center has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters <sup>1</sup>
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets <sup>2</sup>
IAS 24 (as revised in 2010)	Related Party Disclosures <sup>3</sup>
Amendments to IAS 32	Classification of Rights Issues <sup>4</sup>
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement <sup>3</sup>
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments <sup>1</sup>

Improvements to IFRSs issued in 2011 (except for the amendments to IFRS 3(2008), IFRS 7, IAS 1 and IAS 28 described earlier in section 2.1)<sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2011.

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2011 and 1 January 2011, as appropriate.