

Arab Center for Agricultural Development (ACAD)
Non Profit, Non-Governmental Organization

Ramallah-Palestine

Financial Statements
and
Independent Auditor's Report
For the Year Ended December 31, 2013

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Non Profit, Non-Governmental Organization

Ramallah-Palestine

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Independent Auditor's Report
For the Year Ended December 31, 2013

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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 (ACAD) "Non Profit, Non-Governmental Organization"**, which comprise the statement of financial position as of December 31, 2013, 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 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 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 (ACAD)** as of December 31, 2013, its financial performance and its cash flows for the year then ended in accordance with relevant International Financial Reporting Standards and the United States Statement on Financial Accounting Standards No. 116 and 117 applicable to not for profit organizations.

Emphasis of a matter:

According to the agreement dated February 26th 2014 between the Arab Center for Agricultural Development (the Center) and ACAD Finance and Development Co. (Private Shareholding Co. Ltd.); a subsidiary company to the Center, and according to the approval and the authorization of the Palestinian Monetary Authority (PMA), certain assets and liabilities of the Center have been transferred to the Company in order to start lending activities whereas these activities formerly were executed by the Center. The net value of the assets and liabilities transferred to the Company was amounting to USD (3) million and was considered, according to the agreement, the contribution of the Center in the share capital of the Company. The details of the assets and liabilities transferred are set in note (15).

Considering the afore-mentioned transfer, the assets of the Arab Center for Agricultural Development as of January 1st 2014; the date of the transfer, became USD 1,290,084 and the liabilities became USD 850,813.

Deloitte & Touche (M.E.)

Ramallah:
April 24, 2014

Deloitte & Touche (M.E.)



Statement A

Arab Center for Agricultural Development (ACAD)
Non Profit, Non Governmental Organization
Ramallah- Palestine

Statement of Financial Position
As of December 31 , 2013

	Note	2013	2012
		USD	USD
Assets:			
Cash and Cash Equivalent	3	1,162,005	1,263,496
Loans Receivable-Net	4	4,822,986	4,622,278
Interest Receivable		111,971	109,285
Pledges Receivable	5	50,617	26,853
Prepayments and Other Receivables	6	428,127	372,936
Fixed Assets-Net	7	39,389	45,892
Total Assets		6,615,095	6,440,740
Liabilities And Net Assets:			
Liabilities:			
Accounts Payable and Accruals	8	31,528	27,689
Deffered Grants	9	89,114	3,455
Loans Payable	10	2,325,011	2,428,985
Provisions For Employees' Benefits	11	730,171	716,863
Total Liabilities		3,175,824	3,176,992
Net Assets:			
General Unrestricted Fund		132,503	151,251
Temporarily Restricted Fund		--	(8,789)
Loan Revolving Fund		3,223,364	3,033,250
Investment in Fixed Assets		39,389	45,892
General Reserve for Loan Losses		44,015	42,144
Total Net Assets - Statement (C)		3,439,271	3,263,748
Total Liabilities And Net Assets		6,615,095	6,440,740

The Accompanying Notes Constitute an Integral Part of These Financial Statements

Board Chairman



General Manager

Arab Center for Agricultural Development (ACAD)
Non Profit, Non Governmental Organization
Ramallah- Palestine

Statement of Activities

For the Year Ended December 31, 2013

Note	General Unrestricted Fund	Temporarily Restricted Fund	Loan Revolving Fund	Total	
	USD	USD	USD	2013	2012
				USD	USD
Revenues:					
Temporarily Restricted Contributions to Cover Non-Operating Expenses	-	166,513	-	166,513	169,245
Net Assets Released From Restrictions	167,257	(167,257)	-	-	-
Net Revenues	167,257	(744)	-	166,513	-
Loans Revenue :					
Interest on Loans	-	-	1,003,454	1,003,454	1,038,025
Collection of Bad Debts	-	-	15,354	15,354	14,923
Loans Service Fees & Commissions	-	-	52,701	52,701	37,505
Penalty Revenue	-	-	45,022	45,022	46,270
	167,257	(744)	1,116,531	1,283,044	1,305,968
			109,864	109,864	14,118
Other Revenues	-	-	1,226,395	1,392,908	1,320,086
Net Income Before Provision for Loan Losses	167,257	(744)	(35,427)	1,357,481	(11,723)
Provision for Loan Losses	-	-	-	-	-
Net Income After Provision for Loan Losses	167,257	(744)	1,190,968	1,357,481	1,308,363
Expenses:					
Program Expenses :					
Support & Development Cooperatives	-	-	-	-	56,419
ACTED	35,547	-	-	35,547	-
Food Security	-	-	929,493	929,493	939,262
Home Gardens (Agricultural Land Restoration in Gaza) - NDC	17,161	-	-	17,161	124,928
Beit Seira Development Project - Local Contributors	2,670	-	-	2,670	-
Local Network in Support for Farmers Rights - NPA	55,420	-	-	55,420	58,293
Creation of Saving and Microcredit Woman Centers	-	-	-	-	5,978
Planet Finance	29,570	-	-	29,570	-
UNDP - Deep	26,889	-	-	26,889	-
Gaza Office	-	-	-	-	1,254
Other Programs	5,738	-	-	5,738	-
Total Expenses	172,995	-	929,493	1,102,488	1,186,134
Depreciation Expense	-	-	16,476	16,476	14,795
Loss (Gain) on Currency Fluctuations	17,642	(9,533)	39,138	47,247	(7,570)
Incorporation Expense	-	-	9,269	9,269	-
Tax Expenses	-	-	6,478	6,478	-
Total	190,637	(9,533)	1,000,854	1,181,958	1,193,359
(Decrease) Increase in Net Assets During the Year - Statement (C)	(23,380)	8,789	190,114	175,523	115,004

The Accompanying Notes Constitute an Integral Part of These Financial Statements



Board Chairman

General Manager

190114

Arab Center for Agricultural Development (ACAD)

Non Profit, Non Governmental Organization

Ramallah- Palestine

Statement of Changes in Net Assets
For the Year Ended December 31, 2013

	Net Assets						Total USD
	General Unrestricted Fund	Temporarily Restricted Fund	Loan Revolving Fund	Investment in Fixed Assets	General Reserve for Loan Losses	USD	
Year Ended December 31, 2013:							
Balances at Beginning of the Year	151,251	(8,789)	3,033,250	45,892	42,144		3,263,748
Change in Net Assets for the Year (Statement-B)	(23,380)	8,789	190,114	-	-		175,523
General Reserve for Loan Losses	(1,871)	-	-	-	1,871		-
Additions to Fixed Assets	(9,973)	-	-	9,973	-		-
Depreciation for the Year	16,476	-	-	(16,476)	-		-
Balances at End of the Year (Statement-A)	132,503	-	3,223,364	39,389	44,015		3,439,271
Year Ended December 31, 2012:							
Balances at Beginning of the Year	146,615	68,838	2,840,619	54,930	46,780		3,157,782
Change in Net Assets for the Year (Statement-B)	-	(77,627)	192,631	-	-		115,004
General Reserve for Loan Losses	4,636	-	-	-	(4,636)		-
Additions to Fixed Assets	-	-	-	5,757	-		5,757
Depreciation for the Year	-	-	-	(14,795)	-		(14,795)
Balances at End of the Year (Statement-A)	151,251	(8,789)	3,033,250	45,892	42,144		3,263,748

The Accompanying Notes Constitute an Integral Part of These Financial Statements



Arab Center for Agricultural Development (ACAD)
Non Profit, Non Governmental Organization
Ramallah- Palestine

Statement of Cash Flows
For the Year Ended December 31, 2013

	<u>2013</u>	<u>2012</u>
	<u>USD</u>	<u>USD</u>
Operating Activities:		
Grants Received from Contributors	166,513	169,245
Loans Revenues	1,116,531	1,305,968
Other Revenues	109,864	14,118
Cash Paid to Employees and Suppliers	(1,380,452)	(1,415,921)
Cash Generated from Operating Activities	<u>12,456</u>	<u>73,410</u>
Investing Activities:		
Procurement of Fixed Assets	(9,973)	(5,757)
Cash (Used in) Investing Activities	<u>(9,973)</u>	<u>(5,757)</u>
Financing Activities:		
(Decrease) Increase in Loans Payable	(103,974)	177,774
Cash (Used in) Flow from Financing Activities	<u>(103,974)</u>	<u>177,774</u>
(Decrease) Increase in Cash	<u>(101,491)</u>	<u>245,427</u>
Cash and Cash Equivalent at Beginning of the Year	1,263,496	1,018,069
Cash and Cash Equivalent at End of the Year	<u>1,162,005</u>	<u>1,263,496</u>
Adjustments:		
Change in Net Assets	175,523	105,966
Depreciation	16,476	14,795
Provision for Employees' Benefits	124,739	130,914
(Increase) in Interest Receivable	(2,686)	(13,505)
(Increase) in Loans Receivable	(200,708)	(100,472)
(Increase) in Pledges Receivable	(23,764)	(24,142)
(Increase) Decrease in Prepayments and Other Receivables	(55,191)	21,918
Increase in Payables and Accruals	3,839	11,862
Increase in Deffered Grants	85,659	3,455
Payments of Employees Benefits	(111,431)	(77,381)
Cash Generated from Operating Activities	<u>12,456</u>	<u>73,410</u>



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, 2013

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, 2013 was 53 (45 employees in 2012)

The accompanying financial statements have been approved by the Board of Directors on April 24, 2014.

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 in (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.



- Effective January 1, 2014, the lending activity was entirely transferred to ACAD Finance and Development Co. (Private Shareholding Co. Ltd.) - a subsidiary company to the Center was founded in 2013 under the Palestinian laws and a license from the Palestinian Monetary Authority, whereas mainly the customers' loans accounts, the loans payables and other related accounts were transferred to the company of net value amounting to USD (3) million represents the share capital of the Center in the Company's capital (Note 15).

2. Significant Accounting Policies:

2.1. Adoption of New and Revised International Financial Reporting Standards (IFRSs)

In the current year, ACAD 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 December 31, 2013. The application of the new standards and interpretations has no effect on the financial position or the results of operations of ACAD (Refer to note 17).

2.2. Summary of Significant Accounting Policies:

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

Significant accounting policies followed are as described below:

a. Net Assets of ACAD and Changes therein are Classified and Reported as Follows:

1. **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.
2. **Temporarily Restricted Net Assets:** represent 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.
3. **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.

b. Contributions:

- Grants with stipulations that are expected to be met are recognized as increases in temporarily restricted funds and are released to unrestricted funds over the periods necessary to match them with the costs for which they are intended to compensate on a systematic basis.

Amounts received under conditional grants whose conditions are based on future events and actions are deferred and presented under current liabilities and are taken to the statement of activities when the related conditions are met.

- Grants that are receivable as a compensation for expenses or loss already incurred or for the purpose of giving immediate support to ACAD with no future related costs are recognized in the statement of activities in the period in which they become receivable.



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

c. 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 statement of activities.

d. 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 an evidence to management that these loans cannot be recollecting in part or in full. Such a provision is calculated based on the following criteria:

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

- 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.





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

e. 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, 2013 and 2012 were as follows:

	<u>December 31 ,2013</u>	<u>December 31 , 2012</u>
	<u>USD</u>	<u>USD</u>
Euro	1.374	1.3197
NIS	0.2865	0.2680
JOD	1.4124	1.4124

f. 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.

g. End of Service Indemnity:

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.

h. 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.

i. Functional Expenses:

ACAD 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. Other expenses that are common to several functions are allocated between functions based on best estimates and judgment of management.

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:

Composition:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	<u>USD</u>	<u>USD</u>
Cash in Hand	49,928	34,045
Cash at Banks		
Current Accounts-U.S Dollar	512,538	664,450
Current Accounts- Jordanian Dinar	1,412	4,995
Current Accounts-Israeli Shekel	42,473	46,428
Current Accounts-Euro	17,175	18
	<u>573,598</u>	<u>715,891</u>
Checks Under Collection- Short Term	7,466	2,260
Short -Term Deposits for Employees Benefits	531,013	511,300
	<u>1,162,005</u>	<u>1,263,496</u>

4. Loans Receivable-Net:

Composition:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	<u>USD</u>	<u>USD</u>
Loans Portfolio *	4,922,661	4,648,886
Cooperatives Portfolio **	206,539	246,050
Provision for Impairment	(306,214)	(272,658)
	<u>4,822,986</u>	<u>4,622,278</u>

* The number of performing loans as of December 31, 2013 was 3,094 loan (comparing with 3,264 loan as of December 31, 2012).

** 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 the years from 2008 to 2013. The Center would recover these loans amounts from the Cooperatives for the benefit of the Center.

Effective January 1, 2014, all loans in the loan portfolio which don't include past due instalments for more the 90 days, in addition to the cooperatives portfolio, were transferred to ACAD Finance and Development Co. (Note 15).




4. Loans Receivable-Net (Cont):

The movement in the provision for impairment was as follows:

	December 31, 2013	December 31, 2012
	USD	USD
Balance at Beginning of the Year	272,658	256,299
Transferred (to) from General Reserve for Loan Losses	(1,871)	4,636
Additions During the Year	35,427	11,723
Balance at End of the Year	306,214	272,658

5. Pledges Receivable:

Composition:



	December 31, 2013	December 31, 2012
	USD	USD
ACTED	17,889	--
NDC	1,161	--
Planet Finance	29,570	--
NGO Development Center Home Gardens (Agricultural Land Restoration in Gaza)	--	24,142
NGO Development Center – Khawass Project	1,997	2,711
	50,617	26,853

6. Prepayments and Other Receivables:

Composition:

	December 31, 2013	December 31, 2012
	USD	USD
Prepaid Expenses	111,639	21,127
Due from Employees *	181,774	189,090
Cooperatives, Credit and Saving Funds Receivable	90,298	114,044
UNDP – PAPP– Participating Loans **	14,416	18,675
Receivable from Palestine Monetary Authority – PMA***	30,000	30,000
	428,127	372,936

* Loans to employees are interest free.

** 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 terms of the agreement commenced on September 1, 2010 and will terminate on December 31, 2014.

*** Effective January 1, 2014, the deposit amount receivable from the PMA of USD 30,000 was transferred to ACAD Finance and Development Co. (Note 15).

7. Fixed Assets-Net:

Composition

	January 1, 2013 USD	Additions USD	Disposals USD	December 31, 2013 USD
Cost:				
Furniture and Fixtures	77,426	706	--	78,132
Office Equipment	79,253	7,411	--	86,664
Safes	1,127	--	--	1,127
Cars	46,937	--	--	46,937
Computers& Printers	87,122	1,856	--	88,978
	291,865	9,973	--	301,838
Accumulated Depreciation:				
Furniture and Fixtures	55,378	1,786	--	57,164
Office Equipment	73,725	4,381	--	78,106
Safes	534	34	--	568
Cars	30,802	9,387	--	40,189
Computers& Printers	85,534	888	--	86,422
	245,973	16,476	--	262,449
Net Fixed Assets	45,892			39,389



	January 1, 2012 USD	Additions USD	Disposals USD	December 31, 2012 USD
Cost:				
Furniture and Fixtures	75,222	2,204	--	77,426
Office Equipment	77,137	2,116	--	79,253
Safes	1,127	--	--	1,127
Cars	46,937	--	--	46,937
Computers& Printers	85,685	1,437	--	87,122
	286,108	5,757	--	291,865
Accumulated Depreciation:				
Furniture and Fixtures	53,710	1,668	--	55,378
Office Equipment	69,066	4,659	--	73,725
Safes	500	34	--	534
Cars	22,588	8,214	--	30,802
Computers& Printers	85,314	220	--	85,534
	231,178	14,795	--	245,973
Net Fixed Assets	54,930			45,892

The cost of fixed assets as of December 31, 2013 includes an amount of USD 197,364 represents fully depreciated fixed assets.

Effective January 1, 2014, fixed assets items and other capital expenditures of net book value of USD 41,695 were transferred to ACAD Finance and Development Co. (Note 15).

8. Accounts Payable and Accruals:

Composition:

	December 31, 2013	December 31, 2012
	USD	USD
Unearned Revenue	2,060	10,938
Sundry Creditors	29,468	16,751
	31,528	27,689



9. Deferred Grants:

Composition:

	December 31, 2013	December 31, 2012
	USD	USD
Beit Seira Development Project - Local Contributors	4,257	--
Deep	71,278	--
Olive Oil Plantation Project	8,595	--
Local Network in Support for Farmers Rights – NPA	4,984	3,455
	89,114	3,455

10. Loans Payable :

Composition:

	December 31, 2013	December 31, 2012
	USD	USD
Agency France De Development (AFD)	793,427	906,773
UNDP – DEEP	1,166,651	1,122,212
Due to SIDI	320,000	400,000
Micro World	23,888	--
Kiva	21,045	--
	2,325,011	2,428,985

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/DEEP, the agreement was to establish a Credit Fund amounted to 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.

On May 11, 2010, ACAD signed an additional agreement with the Islamic Development Bank – Jeddah – Saudi Arabia through UNDP/DEEP which considered a continuation of the previous agreement, the agreement was to establish a Credit Fund amounted to 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.

On May 05, 2012, ACAD signed an additional agreement with the Islamic Development Bank – Jeddah – Saudi Arabia through UNDP/DEEP which considered a continuation of the previous agreements, the agreement was to establish a Credit Fund amounted to U.S Dollars 500,000 to be used to support existing businesses or to start new businesses for those poor families through granting small loans up to a maximum amount of U.S Dollars 10,000. The duration of the loan will be for three years starting from June 01, 2012. This loan is interest free and will be paid into nine installments ending June 01, 2015.

c). On April 10, 2010, ACAD signed a loan agreement with Solidarite Internationale Pour Le Developpement et L' Investissement (SIDI) in which the two parties agreed to initiate loan portfolio of USD 400,000. The loan bears an interest rate of 5%. According to the agreement, the duration of the loan is five years. ACAD will pay the loan amount on six annual payments starting from December 31, 2011.

Effective January 1, 2014, loans payable accounts were transferred to ACAD Finance and Development Co. (Note 15).

11. Provision for Employees' Benefits:

Composition:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	<u>USD</u>	<u>USD</u>
Provident Fund	353,301	353,978
End of Service Indemnity	366,307	337,609
Annual Leaves	10,563	25,276
	<u>730,171</u>	<u>716,863</u>

The movements in the employees' benefits accounts were as follows:

A- Provident Fund:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	<u>USD</u>	<u>USD</u>
Opening Balance	353,978	324,652
Additions	78,905	76,795
Payments	(79,582)	(47,469)
Ending Balance	<u>353,301</u>	<u>353,978</u>



B- End of Service Indemnity:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	<u>USD</u>	<u>USD</u>
Opening Balance	337,609	312,857
Additions	45,834	54,120
Payments	(17,136)	(29,368)
Ending Balance	366,307	337,609

Employees end of service indemnity and provident fund have been separated in a special bank account. The deposit value as of December 31, 2013 equals U.S Dollar 531,013 (Note 3).

C- Annual Leaves:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	<u>USD</u>	<u>USD</u>
Opening Balance	25,276	25,821
Payments	(14,713)	(545)
Ending Balance	10,563	25,276



12. Disposition of Grants – Net Assets Released from Restrictions:

	Disposition of Grants						Disposition of Grants		
	Unspent Grants as of 31/12/2012			Unspent Grants as of 31/12/13			Disposition of Grants		
	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	U.S.\$	Program Expenses	Capital Additions	U.S.\$
ACTED	-	-	17,657	17,889	35,546	-	35,546	-	-
Home Gardens (Agricultural Land Restoration in Gaza) - NDC	-	-	16,000	1,161	17,161	-	17,161	-	-
Beit Seira Development Project - Local Contributors	-	-	6,928	-	6,928	(4,257)	2,671	-	-
Creation of Saving and Microcredit Women Centers - CESVI	(46)	-	-	-	(46)	46	-	-	-
Local Network in support for farmers rights - NPA	3,455	46	56,949	-	60,450	(5,030)	55,420	-	-
Planet Finance	-	-	-	29,570	29,570	-	29,570	-	-
Deep	-	-	98,167	-	98,167	(71,278)	26,889	-	-
Khawass Development Project - Local Contributors	(2,711)	-	714	1,997	-	-	-	-	-
Olive Oil Plantation Project	-	-	8,595	-	8,595	(8,595)	-	-	-
Gaza Office Expenses - CCFD	(571)	571	-	-	-	-	-	-	-
Total Expenditure Including Capital Additions	127	617	205,010	50,617	256,371	(89,114)	167,257	167,257	-



13. Operational Expenses:

	Home Gardens		Beit Seira Development		Local Network in		Total		Loans		ACAD		2012	
	(Agricultural Land		Project - Local		Support for		Projects		Revolving Fund		Share		U.S. \$	
	ACTED	NDC	Contributors	Farmers Rights -	NPA	Planet Finance	Deep	2013	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Salaries and Rental Expenses	14,975	3,000	1,425	23,855	28,340	21,626	93,221	558,017	5,522	650,760	610,937			
Closing Loans Expenses	-	-	-	-	-	-	-	10,492	-	10,492	16,727			
Rent	575	-	-	1,000	-	-	1,575	51,740	-	53,315	49,388			
General Maintenance	-	-	-	-	-	-	-	24,282	-	24,282	18,766			
Utilities	795	-	-	-	-	-	795	12,414	-	13,209	10,866			
Hospitality	110	-	-	-	-	-	110	7,309	-	7,419	9,078			
Printing & Stationary	245	210	-	-	-	-	455	11,261	-	11,716	15,393			
Advertising & Promotion	-	-	-	-	-	-	-	1,867	-	1,867	4,270			
Professional & Audit Fees	-	-	-	-	450	-	450	16,820	-	17,270	11,625			
Legal Fees	-	-	-	-	-	-	-	18,854	-	18,854	22,546			
Bank Charges	-	-	-	-	-	-	2	27,699	91	27,792	24,816			
Fees & Subscription	-	-	-	-	-	-	-	3,787	-	3,787	3,491			
Miscellaneous Expenses	-	-	-	-	-	-	-	15,195	-	15,195	16,063			
Insurance Expense	-	-	-	-	-	-	-	257	-	257	2,685			
Donations	-	-	-	-	-	-	-	2,734	-	2,734	2,685			
Car Expense - Insurance	-	-	-	-	-	-	-	1,087	-	1,087	1,298			
Car Expense - Maintenance	-	-	-	-	-	-	-	2,816	-	2,816	2,983			
Car Expense - Fuel	-	-	-	-	-	-	-	12,812	-	12,812	12,854			
Car Expense - Registration	6,045	-	-	-	-	-	6,045	411	-	411	455			
Interest Expense	-	-	-	-	-	-	-	39,553	-	39,553	42,627			
Travel (Local & Overseas), Per Diem & Car Rental	-	-	-	-	-	-	-	31,016	-	33,933	33,156			
Telecommunication	595	1,514	-	1,353	-	1,564	2,917	37,959	-	43,354	37,210			
Medical Expenses	-	-	-	2,089	-	1,197	5,395	23,876	-	23,876	23,481			
Training & Conferences Expenses	-	-	-	-	-	-	-	8,842	-	56,255	35,611			
Bonuses	6,236	12,437	837	26,673	1,230	-	47,413	-	-	-	40,301			
PMA - Credit Service Expense	-	-	-	-	-	-	-	5,486	-	11,329	3,666			
Lenders Awards	5,078	-	408	-	-	-	-	-	-	-	1,197			
Projects Monitoring Expense	-	-	-	-	-	-	-	-	-	-	6,165			
Programs and Systems Development	-	-	-	-	-	-	-	-	-	-	-			
Capital Expenditures	893	-	-	-	-	-	893	-	-	893	5,757			
Projects Activities	-	-	-	-	-	-	-	2,500	-	2,500	124,146			
Total Expenses (Statement - B)	35,547	17,161	2,670	55,420	29,570	26,889	167,257	929,493	5,738	1,102,488	1,190,243			



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 2014 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.



14. Risks Management (Cont.):

December 31, 2013

	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
Assets:						
Cash and Cash Equivalent	630,992	--	--	--	531,013	1,162,005
Loans and Interest Receivable	1,268,908	1,446,684	1,695,692	523,673	--	4,934,957
Pledges Receivable	50,617	--	--	--	--	50,617
Prepayments and Other Receivables	109,567	12,271	16,361	259,928	30,000	428,127
Fixed Assets-Net	--	--	--	--	39,389	39,389
Total Assets	2,060,084	1,458,955	1,712,053	783,601	600,402	6,615,095

Liabilities:

Payables and Accruals	31,528	--	--	--	--	31,528
Deferred Grants	89,114	--	--	--	--	89,114
Loans Payable	119,117	148,901	538,181	1,518,812	--	2,325,011
Provision for Employees' Benefits	--	--	--	--	730,171	730,171
Total Liabilities	239,759	148,901	538,181	1,518,812	730,171	3,175,824
Net Liquidity Sensitivity	1,820,325	1,310,054	1,173,872	(735,211)	(129,769)	3,439,271
Cumulative Sensitivity Gap	1,820,325	3,130,379	4,304,251	3,569,040	3,439,271	--



14. Risks Management (Cont.):

	December 31, 2012				
	Up to 3 months USD	From 3 to 6 months USD	From 6 months to 1 Year USD	More than one year USD	Without maturities USD
Assets:					
Cash and Cash Equivalent	752,196	--	--	--	511,300
Loans and Interest Receivable	1,218,209	1,353,100	1,586,000	574,254	--
Pledges Receivable	26,853	--	--	--	--
Prepayments and Other Receivables	75,000	60,000	80,000	127,936	30,000
Fixed Assets-Net	--	--	--	--	45,892
Total Assets	2,072,258	1,413,100	1,666,000	702,190	587,192
					6,440,740
Liabilities:					
Payables and Accruals	27,689	--	--	--	--
Deferred Grants	3,455	--	--	--	--
Loans Payable	124,444	155,560	562,248	1,586,733	--
Provision for Employees' Benefits	--	--	--	--	716,863
Total Liabilities	155,588	155,560	562,248	1,586,733	716,863
Net Liquidity Sensitivity	1,916,670	1,257,540	1,103,752	(884,543)	(129,671)
Cumulative Sensitivity Gap	1,916,670	3,174,210	4,277,962	3,393,419	3,263,748

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. Subsequent Events::

Subsequent to financial statements date , on February 26, 2014 , an agreement was established and signed by the chairmen's of the Board of Directors of the two parties; the Arab Center for Agricultural Development (an NGO registered with the Palestinian Ministry of Interior under the number QR-158-A) and ACAD Finance and Development Co. (Private Shareholding Co. Ltd. registered with the Companies Controller under number 562527358 in 2013) for transferring portable assets, loan portfolio and bank accounts, from the Center to the Company.

The covenants of the agreement state that the following assets and liabilities will be transferred from the Arab Center for Agricultural Development to ACAD Finance and Development Co. effective January 1, 2014. The value of the net assets to be transferred is USD (3) million and should represent the share capital of the Center in the Company:

Assets transferred :	<u>Amount / USD</u>
Loan portfolio	4.562.787
Interest receivable	111.971
Cooperatives receivable	206.539
Net fixed assets and capital expenditures	41.695
Deposit with PMA	30.000
Cash and checks in hand and at banks	372.019
	<u>5.325.011</u>
Liabilities transferred :	
Loans payable	(2.325.011)
Net assets transferred	<u><u>3,000,000</u></u>



The Convention in its ten clauses states the following:

- A commitment of the Center to transfer, vacuum and transfer the ownership and delivery of the transferable assets specified in the lists annexed to the Convention as an integrated unit in action, undivided, free of any mortgage or any other restrictions, or any rights to any other party, to the Company.
- The delivery of the assets transferred from the Center to the Company is considered as the payment of the contribution of the Center in the Company's capital.
- The Center is committed to deliver to the Company immediately after signing the agreement the transferable assets identified under the minutes of receipt and delivery signed by the legal representative of each of the two teams.
- The Center adheres to transfer an amount of USD 372.019 to the Company at the time requested.

In addition to the above-mentioned convention, the two parties signed other agreements subsequent to the date of the financial statements governing the transfer of loans payable, loan portfolio management in Gaza Strip and the use of the headquarters and branch offices of the Center.

16. 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 carrying book value of financial assets and liabilities are not materially different from their fair values applicable after taking into consideration the allowances for loan losses at the date of the statement of financial position.

17. Adoption of New and Revised International Financial Reporting Standards (IFRSs):

1. New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Center for the first time has applied the following new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements in IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurement and disclosures about fair value measurements except for share-based payment transactions that are within the scope of IFRS 2 Share-based payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purpose).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In accordance with the transitional provisions, the Center has not made any new disclosures required by IFRS 13 for 2012 comparative periods. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The main amendment to IAS 1 requires items of other comprehensive income to be grouped into two categories in the other comprehensive income section:

- a) Items that will not be reclassified subsequently to profit or loss; and
- b) Items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2. New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs have been adopted in these financial statements. The application of these revised new and IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 7 *Financial Instruments: Disclosures* enhances disclosures about offsetting of financial assets and liabilities.



17. Adoption of New and Revised International Financial Reporting Standards (IFRSs) (Continued)

- IFRS 10 *Consolidated Financial Statements* uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* have been amended for the issuance of IFRS 10.
- IFRS 11 *Joint Arrangements* establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly, IAS 28 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11.
- IFRS 12 *Disclosure of Interests in Other Entities* combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard.
- Amendments to IAS 19 *Employee Benefits* eliminate the "corridor approach" and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.

3. New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted

The Center has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:



17. Adoption of New and Revised International Financial Reporting Standards (IFRSs) (Continued)

New and revised IFRSs

Effective for annual periods beginning on or after

- Amendments to IFRS 7 *Financial Instruments*: Disclosures relating to disclosures about the initial application of IFRS 9. When IFRS 9 is first applied

- IFRS 7 *Financial Instruments*: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9. When IFRS 9 is first applied

- IFRS 9 *Financial Instruments* (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments* (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*. At its November 2013 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017. However, IASB allows each version of the standard to be available for early application.

IFRS 9 *Financial Instruments* (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9.

IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013) and IFRS 9 (2010) also superseded IFRS 9 (2009). The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets (2) the classification and measurement requirements for both financial assets and financial liabilities (3) the classification and measurement requirements and the hedge accounting requirements.

- Amendments to IAS 19 *Employee Benefits* - to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. 1 July 2014



17. Adoption of New and Revised International Financial Reporting Standards (IFRSs) (Continued)

3. New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued)

New and revised IFRSs

Effective for annual periods beginning on or after

- Amendments to IAS 32 *Financial Instruments: Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities. 1 January 2014
- Amendments to IAS 36 – *recoverable amount disclosures*
The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to the period in which an impairment loss has been recognized or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal. 1 January 2014
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting*
The amendment allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. 1 January 2014
- IFRIC 21 – *Levies*
Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs. 1 January 2014
- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Guidance on Investment Entities*. 1 January 2014
On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Center's financial statements for the period beginning 1 January 2014 or as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Center in the period of initial application.

