Applied Research Institute - Jerusalem

Consolidated Financial Statements

December 31, 2017

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Independent Auditor's Report

To the Members of General Assembly of Applied Research Institute - Jerusalem

Opinion

We have audited the consolidated financial statements of the Applied Research Institute-Jerusalem (ARIJ), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of activities and changes in net assets and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of ARIJ as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of ARIJ in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note (19) to the accompanying consolidated financial statements, ARIJ's current liabilities exceeded its current assets by U.S. $ 407,003. ARIJ's ability to continue as going concern and meet its obligation when they fall due depends primarily on the successful implementation of management plan. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing ARIJ's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate ARIJ or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the ARIJ's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 ARIJ's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ARIJ's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause ARIJ to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within ARIJ to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of ARIJ audit. We remain solely responsible for our audit opinion.

We communicate with those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Ramallah-Palestine
May 14, 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2017

	Notes	2017 U.S. $	2016 U.S. $
Assets			
Non-current assets:			
Property, plant and equipment	4	898,303	952,379
Investment in an associate	5	275,716	268,292
		1,174,019	1,220,671
Current assets:			
Inventory		173,424	229,928
Contributions receivable	6	1,889,911	1,531,880
Other current assets	7	150,316	273,566
Cash and bank balances	8	1,383,237	592,421
		3,596,888	2,627,795
Total assets		4,770,907	3,848,466
Net assets and liabilities			
Net assets:			
Unrestricted net assets		(427)	309,556
Total net assets		(427)	309,556
Non-current liabilities:			
Employees' benefits provisions	9	767,443	1,046,818
		767,443	1,046,818
Current liabilities:			
Temporarily restricted contributions	12	2,049,540	1,150,259
Bank overdraft and debit balances	10	1,488,826	1,219,431
Other current liabilities	11	465,525	122,402
		4,003,891	2,492,092
Total liabilities		4,771,334	3,538,910
Total net assets and liabilities		4,770,907	3,848,466

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2017

	Notes	2017 U.S. $	2016 U.S. $
Revenues			
Temporarily restricted contributions released from restriction	12	2,510,368	2,555,680
Unrestricted contributions	13	106,448	219,490
Sales		425,988	118,179
Deferred revenue recognized	12	3,224	2,695
Gain on sale of property, plant and equipment		-	9,182
ARIJ's share of results of its associate	5	7,424	6,016
		3,053,452	2,911,242
Expenses			
Projects' expenses	14	(2,510,368)	(2,555,680)
General and administrative expenses	15	(468,589)	(713,255)
Cost of goods sold		(237,171)	(76,437)
Depreciation of property, plant and equipment	4	(57,300)	(68,462)
Contributions receivable written off		(30,640)	(131,545)
Currency exchange differences		(59,367)	(94,120)
		(3,363,435)	(3,639,499)
Decrease in net assets		(309,983)	(728,257)
Net assets, beginning of the year		309,556	1,037,813
Net assets, end of year		(427)	309,556

The attached notes 1 to 20 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2017

	Note	2017 U.S. $	2016 U.S. $
<u>Operating activities:</u>			
Decrease in net assets		(309,983)	(728,257)
Adjustments for:			
Depreciation of property, plant and equipment		57,300	68,462
ARIJ's share of results of its associate		(7,424)	(6,016)
Contributions receivable written off		30,640	131,545
Employees' benefits provisions		72,225	153,312
Finance costs		89,429	53,032
		(67,813)	(327,922)
Changes in working capital:			
Contributions receivable		(388,671)	(478,398)
Temporarily restricted contributions		899,281	383,456
Inventory		56,504	(7,295)
Other current assets		123,250	(13,197)
Other current liabilities		343,123	62,931
Employees' provisions paid		(351,600)	(358,702)
Net cash flows from (used in) operating activities		614,074	(739,127)
<u>Investing activities:</u>			
Purchase of property, plant and equipment		(3,224)	(2,788)
Time deposits maturing after three months		(402,135)	(405,422)
Net cash flows used in investing activities		(405,359)	(408,210)
<u>Financing activities</u>			
Bank overdraft and debit balances		269,395	834,717
Finance costs paid		(89,429)	(53,032)
Cash flows from financing activities		179,966	781,685
Increase (decrease) in cash and cash equivalents		388,681	(365,652)
Cash and cash equivalents, beginning of the year		186,999	552,651
Cash and cash equivalents, end of year	8	575,680	186,999

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

1. General

The Applied Research Institute – Jerusalem (ARIJ) was established in 1990, and was officially registered in Bethlehem as a not-for profit organization under registration number (BL-478-8). In addition to legal registration, ARIJ is recognized by the Ministry Of Higher Education as a research institute specialized in environmental, agricultural, and water research under No. (2/M.B.E/99).

ARIJ is dedicated to promoting sustainable development in the Occupied Palestinian Territory and the self-reliance of the Palestinian people through greater control over their natural resources. ARIJ works specifically to augment the local stock of scientific and technical knowledge and to introduce and devise more efficient methods of resource utilization and conservation, improved practices, and appropriate technology.

The consolidated financial statements of ARIJ as at December 31, 2017 were approved by the administrative committee on May 14, 2018.

2. Consolidated financial statements

The consolidated financial statements comprise the financial statements of the ARIJ and its wholly owned subsidiary 'Green Palestine Investment Company' (Green Palestine) as at December 31, 2017. Green Palestine was established in accordance with the Company's Law of the year 1964 as a private shareholding company with a total capital of U.S. $ 227,400 as at December 31, 2017.

Green Palestine's financial statements have been consolidated with those of ARIJ's on a line-by-line basis after eliminating all intercompany balances and transactions between ARIJ and its subsidiary.

ARIJ and its subsidiary operate in Palestinian National Authority territories.

3. Accounting policies

3.1 Basis of preparation

The financial statements are prepared on a historical cost basis in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been presented in U.S. Dollars, which represents the functional currency of ARIJ.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of ARIJ and its subsidiary as at December 31, 2017. Control is achieved when ARIJ is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, ARIJ controls an investee if, and only if, ARIJ has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and

- The ability to use its power over the investee to affect its returns

When ARIJ has less than a majority of the voting or similar rights of an investee, ARIJ considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- ARIJ's voting rights and potential voting rights

ARIJ re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when ARIJ obtains control over the subsidiary and ceases when ARIJ loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date ARIJ gains control until the date ARIJ ceases to control the subsidiary.

All intra-group balances, unrealized profits or losses and cash dividends relating to transactions between ARIJ and its subsidiary are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If ARIJ loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in statement of activities and changes in net assets. Any investment retained is recognised at fair value.

3.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Furthermore, several standards and interpretations have been issued but are not yet mandatory. ARIJ believes that the new standards and interpretations will have no significant impact on disclosures, financial position or performance when applied at a future date.

3.4 Estimates and assumptions

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, financial assets and liabilities and disclosure of contingent liabilities. Uncertainty about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the assets or liability affected in future periods.

The key estimates and assumptions involved in the consolidated financial statements are as follows:

<u>Useful lives of property, plant and equipment</u>

ARIJ's management reassesses the useful lives of property, plant and equipment, and makes adjustments if applicable, at each financial year-end.

<u>Allocation of expenses</u>

Expenses are allocated among projects and general and administrative activities based on estimates made by management.

Management believes that the estimates and assumptions used are reasonable.

3.5 Summary of significant accounting policies

Donation revenues

Donors' unconditional pledges are those pledges where donors do not specify prerequisites that have to be carried out by the recipient before obtaining the fund.

Donation revenues from unconditional pledges are recognized as follows:

- Unconditional pledges that are not restricted by donor for a specific purpose or time are recognized as revenue when the pledge is obtained.
- Unconditional pledges that are temporarily restricted by the donor for a specific purpose or time are recognized as revenue when such purpose or time is satisfied.

Deferred revenues

Donations related to property, plant and equipment are stated at fair value, recorded as deferred revenues in the statement of activities and changes in net assets and recognized as revenue on a systematic basis over the project period.

Sales of goods

Revenues from goods are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Expenses recognition

Expenses are recognized when incurred based on the accrual basis of accounting.

Inventory

Inventories are stated at the lower of cost, using the first in first out method, or net realizable value. Costs are those amounts incurred in bringing the inventories to its present location and condition.

The carrying values of inventories are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the inventories are written down to their recoverable amount.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Classification of current and non-current assets and liabilities

ARIJ presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is classified as current when:

- It is expected to be realized or intended to sold or consumed in the normal operating cycle.
- It is held primarily for the purpose of trading.
- It is expected to be realized within twelve months after the reporting period.
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be paid within the regular working cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period.
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of activities and changes in net assets.

Cash and cash equivalent

Cash and cash equivalent comprise cash on hand, bank balances and short term deposits with an original maturity of three months or less, net of restricted cash balances, if any.

Contributions receivable

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

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the statement of activities and changes in net assets as incurred. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Useful live (Years)
Building and improvements	33
Furniture and equipment	5-16
Office caravans	14
Vehicles	10
Labs and solar system	3-5

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of activities and changes in net assets when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Investments in an associate

ARIJ's investment in its associate is accounted for using the equity method. An associate is an entity in which ARIJ has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Under the equity method, the investment in the associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in ARIJ's share of net assets of the associates. Goodwill relating to the associates is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of activities and change in net assets reflect the share of the result of operations of the associates. Profits and losses resulting from transactions between ARIJ and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the parent. Where necessary, adjustments are made to bring the accounting policies in line with those of ARIJ.

ARIJ determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case ARIJ calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of activities and change in net assets.

When step acquiring an associate, ARIJ's share is measured at fair value as at the date of acquiring significant influence over the associate. Any resulting differences are recognized in the consolidated statement of activities and change in net assets.

Income taxes

ARIJ is a not-for-profit organization; accordingly, it is not subject to income tax. For-profit subsidiary is subject to income tax.

Provisions

Provisions are recognized when ARIJ has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and reliably measurable.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received whether billed by the supplier or not.

Fair values

The fair values of financial instrument that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotes with no deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the consolidated statement of activities and changes in net assets. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the consolidated statement of activities and changes in net assets.
- For assets carried at cost, impairment is the difference between carrying value and present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Foreign currency transactions

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences are recognized in the consolidated statement of activities and changes in net assets.

4. Property, plant and equipment

	Lands	Building and improvements	Furniture and equipment	Office caravans	Vehicles	Lab and solar system	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:							
Balance, beginning of the year	249,042	707,515	1,051,677	50,074	302,741	135,980	2,497,029
Additions	-	-	3,224	-	-	-	3,224
Balance, end of year	249,042	707,515	1,054,901	50,074	302,741	135,980	2,500,253
Accumulated depreciation:							
Balance, beginning of the year	-	173,698	1,004,121	47,404	219,139	100,288	1,544,650
Depreciation charge for the year	-	22,044	22,775	993	10,395	1,093	57,300
Balance, end of year	-	195,742	1,026,896	48,397	229,534	101,381	1,601,950
Net carrying amount							
At December 31, 2017	249,042	511,773	28,005	1,677	73,207	34,599	898,303
At December 31, 2016	249,042	533,817	47,556	2,670	83,602	35,692	952,379

Property, plant and equipment include U.S. $ 1,140,280 and U.S. $ 1,138,503 of fully depreciated assets as of December 31, 2017 and 2016, respectively, which are still in operation.

5. Investment in associate

	Incorporated in	Ownership %	2017 U.S. $	2016 U.S. $
Investment in New Farm Processing and Marketing Company	Palestine	39.2	275,716	268,292

The following table summarizes the financial information related to ARIJ's investment in its associate:

	2017 U.S. $	2016 U.S. $
Statement of financial position:		
Non-current asset	442,191	411,879
Current asset	420,046	367,701
Current liabilities	(132,576)	(115,447)
Equity	729,661	664,133
ARIJ share from associate equity	286,027	260,341
Currency exchange adjustments:	(10,311)	7,951
Carrying amount of investment	275,716	268,292
Revenues and results of operations:		
Revenues	344,271	222,590
Results of operations	18,940	15,347
ARIJ's share of results of its associate	7,424	6,016

6. Contributions receivable

Following is a summary of movements on the contributions receivable during the year ended December 31, 2017:

	Balance, beginning of year	Additions	Cash received	Written off	Currency exchange differences	Balance, end of year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
European Commission - SWIM	-	1,116,195	(414,214)	-	83,998	785,979
European Commission Monitoring Colonizing Activities (7)	338,091	-	-	-	39,992	378,083
Arab Fund	172,195	-	-	-	2,219	174,414
Food and Agriculture Organization of the United Nations - FAO	-	152,852	(45,856)	-	-	106,996
Care International - Climate Change	222,468	471,341	(615,191)	-	-	78,618
The Arab Center for Alternative Planning	84,616	-	(8,310)	-	(4,534)	71,772
Mennonite Central Committee - MCC 6	-	90,360	(30,092)	-	-	60,268
Palestine Water Authority - Awareness- Jericho	-	52,254	-	-	968	53,222
European Commission – SUDEP	112,861	-	(68,527)	-	7,474	51,808
Belgium Government - Ministry of Local Government	-	40,858	(4,162)	-	758	37,454
European Commission - Local Sat	43,574	-	(10,655)	-	(1,625)	31,294
Swiss Agency for Development and Cooperation - SDC	-	103,466	(81,994)	-	2,958	24,430
Care International - Amenca 3	38,542	172,653	(89,253)	(101,524)	(1,965)	18,453
Oxfam-Novib	9,597	96,633	(98,903)	-	3,317	10,644
Siemenpuu Foundation	-	34,239	(29,411)	-	(1,280)	3,548
Beyond Horizon	8,726	-	(6,830)	-	1,032	2,928
European Commission Monitoring Colonizing Activities (6) – (Sett 6)	108,308	-	(29,746)	(26,488)	(52,074)	-
Cross Boarder Program Heland – EC	64,234	-	(28,059)	-	(36,175)	-
European Commission – Non State Actors – (Non State Actors)	49,949	-	(55,769)	-	5,820	-
Dan Church - Cistern	7,900	-	(7,900)	-	-	-
Swedish Cooperative Center (SCC) - (SCC – GG)	924	151,358	(130,495)	-	(21,787)	-
United Nations Environment Programme 1	6,017	-	-	(6,017)	-	-
United Nations Development Program– OFID– (UNDP–OFID)	13,719	-	(8,620)	(5,099)	-	-
Polish Center for International Aid	-	197,035	(197,035)	-	-	-
UNDP - GEF Small Grants Programme (GEF SGP)	2,500	-	(2,414)	-	(86)	-
	1,284,221	2,679,244	(1,963,436)	(139,128)	29,010	1,889,911

Contributions receivable (continued)

	Balance, beginning of year	Additions	Cash received	Written off	Currency exchange differences	Balance, end of year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Subtotal	1,284,221	2,679,244	(1,963,436)	(139,128)	29,010	1,889,911
Integrity Action – Tiri 5	27,500	-	(27,500)	-	-	-
Palesitne Water Authority - Awareness	157,466	-	(161,011)	-	3,545	-
Oxfam-GP	62,693	-	(62,397)	(296)	-	-
The papal agency for Middle East Relief and development - Pontifical Mission – Jerusalem (PMP)	-	309,184	(330,587)	-	21,403	-
The United Methodist Church	-	45,672	(45,672)	-	-	-
Polish Center for International Aid - NFC	-	190,221	(190,720)	499	-	-
Dan Church - Livestock	-	78,910	(86,738)	-	7,828	-
Dan Church - EPRP - Emergency	-	17,366	(17,311)	-	(55)	-
Oxfam-Medicine	-	37,590	(37,590)	-	-	-
Catholic Relief Services - Arab Women's Union Solar Panels	-	13,000	(13,000)	-	-	-
	1,531,880	3,371,187	(2,935,962)	(138,925)	61,731	1,889,911

7. Other current assets

	2017	2016
	U.S. $	U.S. $
Accounts receivable	79,143	209,041
Prepaid expenses	7,735	7,255
Due from projects partners	5,338	31,435
Employees advances	3,220	7,575
Others	54,880	18,260
	150,316	273,566

8. Cash and bank balances

	2017	2016
	U.S. $	U.S. $
Cash at banks	1,380,128	589,785
Cash on hand	3,109	2,636
	1,383,237	592,421

Term deposits at banks are short term in nature. Average interest rate as at December 31, 2017 was 3%.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise:

	2017	2016
	U.S. $	U.S. $
Cash and bank balances	1,383,237	592,421
Deposits at banks with original maturity of more than three months	(807,557)	(405,422)
	575,680	186,999

9. Employees' benefits provisions

The provision for employee benefits consists of end of service benefits and employees provident fund. Following is a summary of the movement on the provisions during the year:

	Balance, beginning of the year	Additions	Payments	Balance, end of year
December 31, 2017	U.S. $	U.S. $	U.S. $	U.S. $
Provision for employees' benefits	822,991	72,225	(263,417)	631,799
Provident fund	223,827	-	(88,183)	135,644
	1,046,818	72,225	(351,600)	767,443

Based on the Board of Directors' meeting held on December 15, 2016, ARIJ stopped its provident fund scheme from January 1, 2017 onwards, and as such, no additions were made during the year.

It is expected that the Palestinian Social Security Law (the law) will be applied during 2018 which requires the employer to settle the provision for employees' indemnity for periods prior to the effective date of the law.

December 31, 2016	Balance, beginning of the year	Additions	Payments	Balance, end of year
	U.S. $	U.S. $	U.S. $	U.S. $
Provision for employees' benefits	933,645	114,334	(224,988)	822,991
Provident fund	318,563	38,978	(133,714)	223,827
	1,252,208	153,312	(358,702)	1,046,818

10. Bank overdraft and debit balances

This account consists of the following:

	2017	2016
	U.S. $	U.S. $
Overdrafts*	802,084	401,901
Debit balances	686,742	817,530
	1,488,826	1,219,431

* During 2016, ARIJ signed an overdraft account agreement with a ceiling of U.S. $ 400,000. During 2017, the ceiling was increased to U.S. $ 800,000. This account is subject to 5.5% annual interest rate, and 6.5% additional interest rate in case of exceeding of the overdraft ceiling. The balance of this overdraft account is U.S. $ 802,084 and U.S. $ 401,901 as of December 31, 2017 and December 31, 2016, respectively

11. Other current liabilities

	2017	2016
	U.S. $	U.S. $
Due to suppliers and partners	446,019	115,639
Accrued expenses	1,978	2,314
Payroll income tax	1,490	2,308
Others	16,038	2,141
	465,525	122,402

12.Temporarily restricted contributions

This item comprises of temporarily restricted contributions subject to specific purpose or time restriction. These amounts represent the excess of donations pledged over the expenditures made out to satisfy the purposes stipulated by the donors. Movement on temporarily restricted contributions for the year ended December 31, 2017 is as follows:

	Balance, beginning of year	Additions	Temporarily restricted contributions released from restriction	Deferred revenues	Written off	Currency exchange differences	Balance, end of year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
European Commission – SWIM	-	1,116,195	(88,065)	-	-	126,044	1,154,174
European Commission - Monitoring Colonizing Activities (7)	502,077	-	(156,078)	(2,083)	-	48,766	392,682
Food and Agriculture Organization of the United Nations - FAO	-	152,852	(2,621)	-	-	-	150,231
Mennonite Central Committee - MCC 6	-	90,360	(22,836)	-	-	-	67,524
Swiss Agency for Development and Cooperation – (SDC)	-	103,466	(39,314)	-	-	1,659	65,811
Oxfam-Novib	49,320	96,633	(96,891)	-	-	11,133	60,195
Palestine Water Authority - Awareness- Jericho	-	52,254	-	-	-	968	53,222
Belgium Government - Ministry of Local Government	-	40,858	-	-	-	759	41,617
Siemenpuu Foundation	-	34,239	(145)	-	-	1,234	35,328
Oxfam-Medicine	-	37,590	(18,588)	-	-	2,826	21,828
The United Methodist Church	-	45,672	(38,744)	-	-	-	6,928
European Commission – SUDEP	88,963	-	(67,982)	-	-	(20,981)	-
Care International - Climate Change	-	471,341	(470,732)	-	(609)	-	-
Dan Church - Cistern	6,795	-	(6,795)	-	-	-	-
Swedish Cooperative Center (SCC) - (SCC – GG)	-	151,358	(129,062)	(521)	-	(21,775)	-
Polish Center for International Aid	-	197,035	(197,035)	-	-	-	-
Beyond Horizion	6,347	-	-	-	-	(6,347)	-
Centa - Continous Sair	52,759	-	(30,537)	-	-	(22,222)	-
Integrity Action – Tiri 5	15,484	-	(15,484)	-	-	-	-
Palestine Water Authority - Awareness	120,444	-	(116,496)	-	(3,948)	-	-
Oxfam-GP	78,561	-	(83,260)	-	-	4,699	-
Arab Fund	229,509	-	(230,818)	-	-	1,309	-
Care International - Amenca 3	-	172,653	(71,622)	-	(101,524)	493	-
The papal agency for Middle East Relief and development – Pontifical Mission – Jerusalem (PMP)	-	309,184	(330,588)	-	-	21,404	-
Polish Center for International Aid - NFC	-	190,221	(190,221)	-	-	-	-
Dan Church - Livestock	-	78,910	(78,292)	(620)	-	2	-
Dan Church - EPRP - Emergency	-	17,366	(15,162)	-	(2,204)	-	-
Catholic Relief Services - Arab Women's Union Solar Panels	-	13,000	(13,000)	-	-	-	-
	1,150,259	3,371,187	(2,510,368)	(3,224)	(108,285)	149,971	2,049,540

13. Unrestricted contributions

	2017	2016
	U.S. $	U.S. $
Researches and surveys revenues	39,112	135,499
Beneficiary contributions	22,236	14,866
Training	14,567	2,540
Project bid feeds	3,732	5,543
Printing	2,000	-
Others	24,801	61,042
	106,448	219,490

14. Project expenses

	Dan Church - EPRP - Emergency	Swiss Agency for Development and Cooperation – (SDC)	Care International - Climate Change	Swedish Cooperative Center (SCC) – (SCC – GG)	Catholic Relief Services - Arab Women's Union Solar Panels	Polish Center for Internati-onal Aid	Food and Agriculture Organization of the United Nations - FAO	Dan Church - Livestock	Oxfam-Novib
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Agriculture activity expenses	-	-	299,800	7,624	-	132,167	-	36,270	-
Salaries	11,254	31,240	54,559	56,416	-	26,973	1,555	24,534	42,272
Water activity expenses	-	-	300	13,441	13,000	587	-	-	25,804
Project consultant and research expense	1,594	400	46,134	12,305	-	16,430	-	3,956	4,874
Car expenses	127	1,108	20,256	11,289	-	9,399	865	6,833	7,937
Provision for end of service benefits	1,019	3,124	6,242	4,334	-	3,357	155	1,974	4,227
Land Research Center in EU project	-	-	-	-	-	-	-	-	-
Communication and internet fees	-	351	9,468	2,460	-	1,715	-	807	2,655
Printing and publications	740	80	6,996	1,749	-	700	-	-	34
Stationery and office supplies	-	28	3,011	3,166	-	-	-	138	2,361
Employee medical insurance	428	953	2,310	1,681	-	1,784	46	672	1,537
Professional fees	-	-	-	10,680	-	500	-	2,000	-
Rent, electricity and water	-	1,979	3,490	3,917	-	-	-	926	2,977
Conferences and international travel	-	-	15,715	-	-	3,423	-	-	1,305
Maintenance	-	51	2,047	-	-	-	-	-	867
Software	-	-	262	-	-	-	-	-	-
Provident fund	-	-	-	-	-	-	-	-	-
Other expenses	-	-	142	-	-	-	-	182	41
	15,162	39,314	470,732	129,062	13,000	197,035	2,621	78,292	96,891

Project expenses (Continued)

	European Commission – SUDEP	Centa - Continous Sair	Integrity Action – Tiri 5	Palestinian Water Authority - Awareness	Oxfam-GP	Care International - Amenca 3	Arab Fund	European Commission - Monitoring Colonizing Activities (7)	Dan Church – Cistern
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S.$	U.S.$
Agriculture activity expenses	22,200	1,413	-	-	52,408	2,287	122,734	-	6,397
Salaries	6,022	-	2,644	22,258	16,525	58,421	63,696	72,084	-
Water activity expenses	100	25,310	6,034	83,183	-	-	-	-	-
Project consultant and research expense	24,308	3,420	989	1,480	4,672	-	-	94	-
Car expenses	4,910	-	2,310	583	4,622	1,834	3,305	1,113	398
Provision for end of service benefits	602	-	195	2,226	1,652	4,990	6,370	6,920	-
Land Research Center in EU project	-	-	-	-	-	-	-	49,357	-
Communication and internet fees	446	-	108	-	625	2,173	763	-	-
Printing and publications	1,856	-	1,901	6,079	434	-	2,000	304	-
Stationery and office supplies	382	-	905	-	218	642	569	11,100	-
Employee medical insurance	163	-	298	687	910	1,275	2,314	2,357	-
Professional fees	6,793	-	-	-	-	-	2,031	-	-
Rent, electricity and water	-	-	-	-	1,194	-	1,713	3,753	-
Conferences and international travel	-	-	-	-	-	-	-	-	-
Maintenance	-	394	-	-	-	-	699	-	-
Software	200	-	100	-	-	-	-	-	-
Provident fund	-	-	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	24,624	8,996	-
	67,982	30,537	15,484	116,496	83,260	71,622	230,818	156,078	6,795

Project expenses (Continued)

	The papal agency for Middle East Relief and development - Pontifical Mission – Jerusalem (PMP)	European Commission – SWIM	Mennonite Central Committee - MCC 6	The United Methodist Church	Polish Center for International Aid - NFC	Siemenpuu Foundation	Oxfam-Medicine	2017	2016
	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
Agriculture activity expenses	45,077	593	13,585	26,854	142,406	-	-	911,815	1,084,325
Salaries	25,898	68,702	5,613	8,223	35,122	-	3,724	637,735	545,592
Water activity expenses	249,891	2,774	-	-	-	-	12,694	433,118	501,737
Project consultant and research expense	188	123	463	174	2,136	145	262	124,147	54,177
Car expenses	2,757	5,177	1,498	1,588	4,568	-	38	92,515	127,915
Provision for end of service benefits	2,590	6,284	561	663	1,951	-	372	59,808	48,126
Land Research Center in EU project	-	-	-	-	-	-	-	49,357	30,813
Communication and internet fees	3,025	534	491	424	792	-	151	26,988	21,487
Printing and publications	-	-	67	84	2,316	-	-	25,340	7,213
Stationery and office supplies	-	471	289	425	-	-	1,124	24,829	18,052
Employee medical insurance	976	2,419	269	303	776	-	223	22,381	17,900
Professional fees	-	-	-	-	120	-	-	22,124	45,436
Rent, electricity and water	101	946	-	6	34	-	-	21,036	20,700
Conferences and international travel	-	-	-	-	-	-	-	20,443	7,396
Maintenance	85	-	-	-	-	-	-	4,143	930
Software	-	-	-	-	-	-	-	562	562
Provident fund	-	-	-	-	-	-	-	-	22,460
Other expenses	-	42	-	-	-	-	-	34,027	859
	330,588	88,065	22,836	38,744	190,221	145	18,588	2,510,368	2,555,680

15. General and administrative expenses

	2017	2016
	U.S.$	U.S.$
Salaries and related benefits	134,132	543,796
Bank charges	89,429	53,032
Water activity expenses	71,396	12,277
Rent, electricity and water	16,859	14,701
Project consultant and research expense	12,703	5,801
Professional fees	11,451	16,333
Payroll income tax	9,528	8,344
Medical insurance	6,819	17,185
Communication and internet fees	3,815	6,313
Stationery and office supplies	3,329	4,429
Conference and international travel	2,388	2,366
Software	761	761
Printing and publications	516	1,042
Maintenance	463	2,753
Agriculture activity expense	354	2,851
Operating expenses (Subsidiary)	90,809	17,457
Other expenses	13,837	3,814
	468,589	713,255

16. Related party transactions

Related party balances and transactions represent balances and transactions with key management personnel. Polices and conditions related to these transactions are approved by management.

Balances with related parties included in the consolidated statement of financial position as at December 31, 2017 and 2016 are as follows:

	Nature of Relationship	2017	2016
		U.S. $	U.S. $
Employees' benefit provisions	Key Management	263,176	306,795

Transactions with related parties included in the consolidated statement of activities and changes in net assets are as follows:

	2017	2016
	U.S. $	U.S. $
Key management personnel compensation:		
Employees' benefits	66,420	123,732

17. Fair values of financial instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of contributions receivable, other current assets, cash and bank balances at banks. Financial liabilities consist of bank overdrafts and debit balances, temporary restricted contributions and other current liabilities.

The fair values of financial instruments are not materially different from their carrying values.

18. Risk management

Risks affecting the activities of ARIJ are interest rate risk, credit risk, liquidity risk and foreign currency risk. Management of ARIJ sets policies and procedures to manage these risks.

Interest rate risk

Interest rate risk is mainly caused by interest rate changes on financial assets and financial liabilities that are subject to floating interest rates. ARIJ's financial assets are subject to fixed interest rates and therefore there is no interest rate risk.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or a contract, leading to a financial loss. ARIJ's maximum exposure to credit risk is the carrying value of contributions receivable as disclosed in (Note 6). ARIJ limits its credit risk through obtaining funds from several reputable donors.

With respect to credit risk arising from other financial assets of ARIJ including cash and bank balances and other current assets, exposure to credit risk arises from the default of the counterparty. The maximum exposure is equal to the carrying amount of these financial assets.

Liquidity risk

ARIJ limits its liquidity risk by maintaining adequate cash balances and funds from multiple donors to meet its current obligations and to finance its activities. Most of the ARIJ's financial liabilities are due within a period of less than one year from the date of the consolidated financial statements.

Foreign currency risk

The table below indicates ARIJ's foreign currency exposure, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the U.S. Dollar currency rate against the Israeli Shekel (ILS), European Monetary Unit (EURO) and other currencies with all other variables held constant, on the statement of activities and changes in net assets. The Jordanian Dinar (JOD) exchange rate is pegged to the U.S. Dollar exchange rate; therefore, foreign currency risk of JOD is not material on the financial statements.

The effect of decrease in foreign currency exchange rate is expected to be equal and opposite to the effect of the increase shown below:

	Increase in ILS rate to U.S. $	Effect on consolidated statement of activities and changes in net assets for the year	Increase in EURO rate to U.S. $	Effect on consolidated statement of activities and changes in net assets for the year	Increase in other currencies rate to U.S. $	Effect on consolidated statement of activities and changes in net assets for the year
	%	U.S. $	%	U.S. $	%	U.S. $
2017	20	49,136	20	221,640	20	41,732
2016	20	(17,077)	20	367,449	20	19,998

19. Financial stability and management plans

ARIJ's current liabilities exceeded its current assets. Following are the management plan to meet its obligation in the future and generating cash flows:

- Cost reduction: including reduction of administrative costs and human resources with no negative impact on ARIJ's activities.
- Fundraising: including the move towards institutionalizing ARIJ's fundraising activities seeking sustainable income and partnerships. The focus will be on unrestricted and core funding.

20. Concentration of risk in geographic area

ARIJ is carrying out its activities in Palestine. The political and economic situation in the area increases the risk of carrying out its activities.