

**THE APPLIED RESEARCH INSTITUTE – JERUSALEM
(ARIJ)**

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2012

AND INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF TRUSTEES OF THE APPLIED RESEARCH INSTITUTE- JERUSALEM (ARIJ)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Applied Research Institute – Jerusalem (hereinafter the "the Institute"), which comprise the consolidated statement of financial position as of December 31, 2012, and consolidated statement of activities and changes in net assets and consolidated cash flows statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risks assessment, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the consolidated 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 Institute'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 consolidated 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Institute as of December 31, 2012 and its consolidated results of its activities and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The consolidated financial statements as of December 31, 2011 were audited by another auditor whose report dated March 29, 2012 expressed an unqualified opinion on those statements.


PricewaterhouseCoopers Palestine limited
Ramallah: May 30, 2013


THE APPLIED RESEARCH INSTITUTE – JERUSALEM (ARIJ)
 Consolidated financial statements for the year ended December 31, 2012

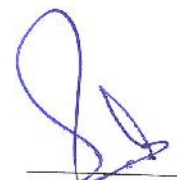
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 (All amounts in US Dollar)

	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	(3)	1,028,110	1,042,619
Investment in associates	(4)	253,296	217,339
Total non-current assets		1,281,406	1,259,958
Current assets			
Inventories		157,979	50,169
Pledges receivable	(5)	4,105,774	1,496,405
Prepaid expenses and other current assets	(6)	290,317	193,720
Cash and cash equivalents	(7)	775,258	1,780,297
Total current assets		5,329,328	3,520,591
Total assets		6,610,734	4,780,549
NET ASSETS AND LIABILITIES			
Net assets			
Unrestricted net assets		1,422,010	1,283,791
Temporary restricted net assets	(8)	4,149,920	2,345,372
Total net assets		5,571,930	3,629,163
Liabilities			
Non-current liabilities			
Provision for end-of-service indemnity	(9)	727,361	593,305
Provision for provident fund	(10)	201,212	215,519
Total non-current liabilities		928,573	808,824
Current liabilities			
Due to Banks		-	270,760
Accrued expenses and other current liabilities	(11)	110,231	71,802
Total current liabilities		110,231	342,562
Total liabilities		1,038,804	1,151,386
Total net assets and liabilities		6,610,734	4,780,549

- The notes on pages (6) to (21) form an integral part of these consolidated financial statements.
 - The consolidated financial statements on pages from (3) to (21) were authorized for issue by the Board of Trustees on May 30, 2013 and were signed on its behalf.


 Mr. Fahd Abu Saymeh
 Financial and Administrative Director


 Mr. Jaad Isaac
 General Director


 Mr. Nasri Qumsiyeh
 Chairman

THE APPLIED RESEARCH INSTITUTE – JERUSALEM (ARIJ)
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CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 (All amounts in US Dollar)

	Note	2012	2011
<u>Changes in unrestricted net assets</u>			
Revenues, gains and other revenues			
Net assets released from restrictions			
Unrestricted revenues	(8)	2,886,572	2,767,305
Operating revenues, net	(12)	175,462	239,767
Currency variances	(13)	58,598	63,594
		-	29,185
Total revenues, gains and other revenues		<u>3,120,632</u>	<u>3,099,851</u>
Expenses			
Projects' expenses	(14)	2,853,184	3,121,752
General and administrative expenses	(15)	226,545	191,216
Depreciation expense		80,576	79,827
Currency variance		(148,473)	(252,977)
Written off projects	(5,8)	6,538	-
Unrealized (gain) loss from investments	(4)	(35,957)	35,256
Total expenses and losses		<u>2,982,413</u>	<u>3,175,074</u>
Net change in unrestricted net assets		<u>138,219</u>	<u>(75,223)</u>
<u>Changes in temporary restricted net assets</u>			
Grants and donations	(8)	4,899,266	3,607,001
Net assets released from restrictions	(8)	(2,886,572)	(2,767,305)
Written off projects	(8)	(6,538)	-
Currency variances	(8)	(201,608)	(252,977)
Changes in temporary restricted net assets		<u>1,804,548</u>	<u>586,719</u>
Changes in net assets for the year		<u>1,942,767</u>	<u>511,496</u>
Net assets, beginning of year		3,629,163	3,117,667
Net assets, end of year		<u>5,571,930</u>	<u>3,629,163</u>

- The notes on pages (6) to (21) form an integral part of these consolidated financial statements.

THE APPLIED RESEARCH INSTITUTE – JERUSALEM (ARIJ)
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CONSOLIDATED STATEMENT OF CASH FLOWS
 (All amounts in US Dollar)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets for the year	1,942,767	511,496
Adjustments:		
End of service expense	161,139	99,491
Provident fund expense	60,191	51,672
Depreciation expense	80,576	79,827
	<u>2,244,673</u>	<u>742,486</u>
Changes in working capital		
Inventories	(107,810)	(5,434)
Pledges receivable	(2,609,369)	(114,951)
Prepaid expenses and other current assets	(96,597)	(435,184)
Accrued expenses and other current liabilities	38,429	35,292
End-of-service payments	(27,083)	(24,681)
Provident fund payments	(74,498)	(127,828)
Net cash used in operating activities	<u>(2,876,928)</u>	<u>(672,786)</u>
Cash flows from investing activities:		
Investments valuation	(35,957)	35,256
Purchases of property and equipment	(66,067)	(93,258)
Net cash used in investing activities	<u>(102,024)</u>	<u>(58,002)</u>
Cash flows from financing activities:		
Due to Banks	(270,760)	264,222
Net cash (used in) provided by financing activities	<u>(270,760)</u>	<u>264,222</u>
(Decrease) increase in cash and cash equivalents	(1,005,039)	275,920
Cash and cash equivalents, beginning of year	1,780,297	1,504,377
Cash and cash equivalents, end of year	<u>775,258</u>	<u>1,780,297</u>

- The notes on pages (6) to (21) form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (All amounts in US Dollar)

NOTE (1) GENERAL

The Applied Research Institute- Jerusalem (hereinafter the "Institute/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, the institute is recognized by the Ministry of Higher Education as a research institute specialized in environmental, agricultural, and water researches under registration number. (2/M.B.E/99).

Applied Research Institute - Jerusalem (ARIJ) is dedicated to promote sustainable development in the occupied Palestinian territory and self-reliance of the Palestinian people through greater control over their natural resources. The Institute 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.

NOTE (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards, based on historical cost convention and are presented in the US Dollar. IFRS do not include any specific requirements regarding not-for-profit organizations in respect to accounting policies or the presentation of the financial statements.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Institute's accounting policies. There are no estimates or judgments which materially affects the consolidated financial statements.

Changes in accounting policies and disclosures

The accounting policies used is the same as those used in the previous year, unless otherwise stated.

Amendments on the existing International Financial Reporting Standards:

New standards, amendments and interpretations issued but not effective and not applicable for the financial year beginning 1 January 2012 and not early adopted.

- IAS 19, 'Employee benefits' was amended in June 2011.
- IFRS 9, 'Financial instruments', (will be affected at 1 January 2015).
- IFRS 10, 'consolidated financial statements', (will be affected at 1 January 2015).
- IFRS 12, 'Disclosures of interests in other entities' (will be affected at 1 January 2015).
- IFRS 13, 'Fair value valuation', (will be affected at 1 January 2015).

Property and equipment

Property and equipment is stated at cost or at fair value at the date of granting, if it was granted by a donor, less accumulated depreciation and any impairment in value.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentage rates:

Class of Assets	%
Office equipment and furniture	6-20
Vehicles	10
Building	3
Labs and solar system	20-33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditures incurred to replace a component of an item of property and equipment that are accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalized only when they increase future economic benefits of the related item of property and equipment. All other expenditures are recognized in the statement of activities and changes in net assets as expense when incurred.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Institute has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Institute controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Institute. They are de-consolidated from the date on which control ceases.

The following is the subsidiary of the Institute as of December 31, 2012:

	<u>Incorporated in</u>	<u>Ownership %</u>	<u>Main activities</u>
Green Palestine Investment Company	Palestine	100%	Environment-related services

Green Palestine Investment Company (hereinafter the "The Company") was established as a private limited company and was registered in companies' controller on November 2009 under the registration number 562490946. The Company's registered capital is USD 300,000 divided into 300,000 shares (Par value 1 USD of each share). The paid in capital as of December 31, 2012 is USD 177,400. The Company was established to provide Environment-related services, such as disposal of waste water, recycling rubbish and scrap and managing environment protection and pollution control programs.

The consolidated financial statements include the financial statements of the Company. The financial statements are consolidated by combining the financial statements of the Institute (ARIJ), and eliminating the items and the transactions between the Institute and the Company like accounts receivables, accounts payables, and any inter-group revenues and expenses, losses and gains.

Associates

Associates are all entities over which the institute has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The following is the associate of the Institute as of December 31, 2012:

	<u>Incorporated in</u>	<u>Ownership Percentage</u>	<u>Nature of Business</u>
New Farm Processing and Marketing Company	Palestine	39.2%	Agricultural products

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method.

Pledges receivable

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

Allowance for bad debts

Allowance for bad debts is provided for based on management's review of the collectability of each account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and short-term deposits with an original maturity of three months or less. Bank overdrafts are shown in the current liabilities section of the consolidated statement of financial position.

Net assets

Net assets of ARIJ and changes therein are classified and reported as follows:

A. Unrestricted net assets: Net assets whose use by ARIJ is not subject to donor-imposed restrictions and whose restrictions are met in the same reporting period.

B. Temporarily restricted net assets: Net assets whose use by ARIJ is limited by donor-imposed stipulations that limits the use of the donation. When donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

As per International Accounting Standard number 8 paragraph 10, in the absence of a standard and interpretation that specifically applies to a transaction, other event or condition, management can use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. In doing so, management can consider the standards set by other standard-setting bodies.

End of Service Indemnity

Benefits payable to the employees of the Institute at the end of their services are provided for in accordance with the guidelines set by the local labour laws and Institute's bylaw.

Provident Fund

Upon the Board of Directors decision, The Institute deducts 2.5 % of the employee's base salary from each salary payment, and contributes an additional 5 % from its own funds to form the provident fund for employees. The employee is entitled to receive the full amount of his or her contribution and Institute's contribution to the fund, if and when the employee ceases work at the Institute.

Accrued expenses and other current liabilities

Accounts payable and accrued expenses are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Revenues

Donation revenues:

Revenues from donations are recognized when contributions are pledged.

Operating revenues:

Operating revenues are the revenues generated from consultations, researches and other services. These revenues are recognized during the period in which such services are rendered. Revenues from products sales are recognized during the period in which the sale occurs.

Expenses recognition

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

Judgments and estimation uncertainty

ARIJ consolidated statements of financial position and results of activities are sensitive to accounting methods, assumptions, estimates and judgments that underlie the preparation of the consolidated financial statements. ARIJ bases its estimates on its past experience and on various other assumptions deemed reasonable, the results of which form the basis for making judgments the carrying values of assets and liabilities. Due to different assumptions and about situations, the actual results might differ significantly from these estimates. There are no estimates or adjustments which materially affect the consolidated financial statements.

THE APPLIED RESEARCH INSTITUTE – JERUSALEM (ARIJ)

Consolidated financial statements for the year ended December 31, 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

Foreign currencies

Transactions in foreign currencies are recognized on the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the consolidated statement of financial position date. All differences are reflected on the consolidated statement of activities and change in net assets.

The exchange rates against US Dollar as of December 31, 2012 and 2011 were as follow:

	2012	2011
New Israeli Shekel (ILS)	0.267	0.282
Jordanian Dinar (JOD)	1.416	1.416
European Monetary Unit (EURO)	1.299	1.331

Risk management**Credit risk:**

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The following are the assets that are performing:

Item	Carrying amount
Cash on hand and at banks	775,258
Prepaid expenses and other current assets	290,317
Pledges receivable	4,105,774

1. The Institute has an amount of USD 775,258 as cash at bank and cash on hand, and there are no restrictions on using this amount.
2. The Institute has an amount of USD 290,317 as prepaid expenses and other current assets.
3. The Institute has an amount of USD 4,105,774 as pledges receivable, which represents promises from the Donors.

Liquidity risk:

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The schedule below presents expected cash outflow resulting from financial liabilities broken down by time brackets:

Items	Expected timing of cash outflow			
	Carrying amounts	0-6 Month	7 Months-1 Year	1-2 Years
Accrued expenses and other current liabilities	110,231	110,231	-	-

The Institute will pay an amount of USD 110,231 of the accrued expenses and other current liabilities during the first six months of the year 2013, and it will use the available cash to pay these liabilities.

Market risk:

The market risk is defined as the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices.

The main market risk faced by the Institute is currency risk. Currency risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The main currencies that the Institute uses are the United States Dollar (USD), the Israeli Shekel (ILS), the Jordanian Dinar (JOD) and the European Monetary Unit (EURO).

These fluctuations in the exchange rates resulted in a net gain of US Dollar 148,473.

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Consolidated financial statements for the year ended December 31, 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

NOTE (3) PROPERTY PLANT AND EQUIPMENT

Details for the year 2011:

<u>Cost</u>	<u>Lands</u>	<u>Building and Improvements</u>	<u>Furniture and equipment</u>	<u>Office Caravans</u>	<u>Vehicles</u>	<u>Lab and solar system</u>	<u>Total</u>
Beginning balance	239,740	582,007	903,520	50,074	257,785	125,050	2,158,176
Additions	-	65,638	27,620	-	-	-	93,258
Disposals	-	-	-	-	-	-	-
Ending balance	239,740	647,645	931,140	50,074	257,785	125,050	2,251,434
<u>Accumulated depreciation</u>							
Beginning balance	-	53,680	780,312	39,926	173,878	81,192	1,128,988
Additions	-	16,767	34,235	5,026	21,541	2,258	79,827
Disposals	-	-	-	-	-	-	-
Ending balance	-	70,447	814,547	44,952	195,419	83,450	1,208,815
Net book value 2011	239,740	577,198	116,593	5,122	62,366	41,600	1,042,619

THE APPLIED RESEARCH INSTITUTE- JERUSALEM (ARIJ)

Consolidated financial statements for the year ended December 31, 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

NOTE (3) PROPERTY PLANT AND EQUIPMENT (CONTINUED)

Details for the year 2012:

<u>Cost</u>	<u>Lands</u>	<u>Building and Improvements</u>	<u>furniture and equipment</u>	<u>Office Caravans</u>	<u>Vehicles</u>	<u>Lab and solar system</u>	<u>Total</u>
Beginning balance	239,740	647,645	931,140	50,074	257,785	125,050	2,251,434
Additions	623	29,629	35,815	-	-	-	66,067
Disposals	-	-	-	-	-	-	-
Ending balance	240,363	677,274	966,955	50,074	257,785	125,050	2,317,501
Accumulated depreciation							
Beginning balance	-	70,447	814,547	44,952	195,419	83,450	1,208,815
Additions	-	17,140	39,332	3,505	18,341	2,258	80,576
Disposals	-	-	-	-	-	-	-
Ending balance	-	87,587	853,879	48,457	213,760	85,708	1,289,391
Net book value 2012	240,363	589,687	113,076	1,617	44,025	39,342	1,028,110

NOTE (4) INVESTMENTS IN ASSOCIATES

Details:

	<u>incorporated in</u>	<u>Ownership %</u>	<u>Cost of Investments</u>	<u>profit from investments</u>	<u>Carrying amounts of the investments</u>
New Farm Processing and Marketing Company	Palestine	39.2%	217,339	35,957	253,296

THE APPLIED RESEARCH INSTITUTE- JERUSALEM (ARIJ)

Consolidated financial statements for the year ended December 31, 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

NOTE (5) PLEDGES RECEIVABLE

Pledge receivables details are as follows:

	Beginning Balance	Additions during the year	Received during the year	Written off Projects	Currency Gain (loss)	Ending Balance
European Commission	74,220	-	-	-	-	74,220
European Commission - Dead Sea (1)	41,325	-	-	-	-	41,325
European Commission - Monitoring Colonizing Activities (3)	6,255	-	-	-	-	6,255
European Commission - Monitoring Colonizing Activities (4)	126,603	-	-	-	-	126,603
European Commission - Monitoring Colonizing Activities (5)	223,245	-	-	-	-	223,245
International Development and Research Center – (IDRC)	12,891	-	-	-	-	12,891
YMCA- Life	67,231	-	-	-	-	67,231
Swiss Agency for Development and Cooperation –Phase (3)	11,591	-	-	-	-	11,591
Swiss Agency for Development and Cooperation –Phase (4)	432	-	-	-	-	432
Swiss Agency for Development and Cooperation –Phase (5)	-	1,224,885	(375,000)	-	(432)	-
Arab Fund for Social and Economic Development	31,068	-	-	-	-	31,068
Chemnonix International Inc.	8,833	-	-	-	(8,833)	-
Care International –Tatweer	208,361	320,700	(200,210)	-	-	328,851
Monnolite Canadian Central Committee - MCC 3	57,443	-	(50,485)	-	-	6,958
Monnolite Canadian Central Committee - MCC 4	19,567	299,058	-	-	-	318,625
Spanish Cooperation - CENTA 2	323,824	-	-	-	-	323,824
NDC - Human Rights	8,000	-	(7,902)	-	(98)	-
Catholic Relief Services (CRS) Project (1)	18,856	-	(12,318)	(6,538)	-	-
Catholic Relief Services (CRS) - Social Capital	99,372	-	(51,587)	-	-	47,785
SP7 European Commission –Oltriva	230,719	-	-	-	-	230,719
Action Against hunger- ACF	63,724	-	(5,953)	-	(57,771)	-
Integrity -Tiri (2)	2,513	-	-	-	(2,513)	-
Integrity -Tiri (3)	-	-	-	-	-	-
Integrity -Tiri (4)	-	-	-	-	-	-
Jerusalem Capital of Arab Culture	141	60,490	(10,178)	-	-	50,312
Spanish Cooperation –JVP	-	-	-	-	(141)	-
Spanish Cooperation – FSIS	-	-	-	-	-	-
Spanish Cooperation – QNSVP	-	-	-	-	-	-
Sub- total	1,636,214	2,134,655	(949,191)	(6,538)	6,036	2,751,388

THE APPLIED RESEARCH INSTITUTE - JERUSALEM (ARIJ)

Consolidated financial statements for the year ended December 31, 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

	Beginning Balance	Additions during the year	Received during the year	Written off Projects	Currency Gain (loss)	Ending Balance
Sub- total from previous page	1,636,214	2,134,655	(949,191)	6,538	(63,752)	2,751,388
Dan Church Aid	-	136,364	(47,855)	-	-	88,509
Swedish Cooperative Center (SCC)	-	-	-	-	-	-
Swedish Cooperative Center (SCC) - NFC 2011	6,473	-	-	-	-	6,473
Swedish Cooperative Center (SCC) NFC 2012	-	167,583	(166,330)	-	-	1,253
Swedish Cooperative Center (SCC) - GG 2011	-	-	-	-	-	-
Swedish Cooperative Center (SCC) - GG 2012	-	87,770	(76,479)	-	-	11,291
Swedish Cooperative Center (SCC)- Cap 2011+2012	-	391,678	(388,189)	-	-	3,489
Oxfam SDC	-	452,973	(334,281)	-	-	118,692
Oxfam EU	-	739,286	(94,003)	-	-	645,283
Oxfam Direct	-	208,661	(62,941)	-	-	145,720
Polish Aid	-	74,193	(77,933)	-	3,740	-
UNEP 1	-	12,000	(5,984)	-	-	6,016
UNEP Jan 13	-	28,000	-	-	-	28,000
World Wide View	-	20,161	(20,132)	-	(29)	-
Australlian Aid -AUSAID	-	-	-	-	-	-
Arab Center for Alternative planning -ACAP	-	142,955	-	-	-	142,955
Henrich Boll	-	12,209	-	-	-	12,209
Cross Boarder Program Heland- EC	-	207,389	-	-	-	207,389
Adour Garonne Water Agency -ACAD	-	43,389	-	-	-	43,389
UNDP (GEF) - Forest Management	-	40,000	-	-	-	40,000
Total	1,642,687	4,899,266	(2,223,318)	6,538	(60,041)	4,252,056
Allowance for doubtful accounts	(146,282)					(146,282)
	1,496,405					4,105,774

THE APPLIED RESEARCH INSTITUTE- JERUSALEM (ARIJ)

Consolidated financial statements for the year ended December 31, 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

NOTE (6) PREPAID EXPENSES AND OTHER CURRENT ASSETS

Details:

	<u>2012</u>	<u>2011</u>
Accounts receivables	70,629	99,058
Accounts receivables – consultancy works	121,102	57,394
Due from employees	10,764	9,641
Due from partners	71,794	-
Letter of credit	6,299	15,457
Due from VAT department	5,214	6,120
Prepaid expenses	4,515	6,050
	<u>290,317</u>	<u>193,720</u>

NOTE (7) CASH AND CASH EQUIVALENTS

Details:

	<u>2012</u>	<u>2011</u>
Cash on hand	3,262	2,412
Cash at banks	771,996	1,777,885
	<u>775,258</u>	<u>1,780,297</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

NOTE (8) TEMPORARY RESTRICTED NET ASSETS

Details:

	Beginning Balance	Additions during the year	Released from restrictions	Written off projects	Currency Gain (loss)	Ending Balance
European Commission	-	-	-	-	-	-
European Commission - Dead Sea (1)	-	-	-	-	-	-
European Commission - Monitoring Colonizing Activities (3)	-	-	-	-	-	-
European Commission - Monitoring Colonizing Activities (4)	-	-	-	-	-	-
European Commission - Monitoring Colonizing Activities (5)	489,674	-	(244,973)	-	-	244,701
International Development and Research Center - (IDRC)	-	-	-	-	-	-
YMCA- Life	-	-	-	-	-	-
Swiss Agency for Development and Cooperation -Phase (3)	-	-	-	-	-	-
Swiss Agency for Development and Cooperation -Phase (4)	-	-	-	-	-	-
Swiss Agency for Development and Cooperation -Phase (5)	433	1,224,885	(545,240)	-	-	680,078
Arab Fund for Social and Economic Development	-	-	-	-	-	-
Chemnonix International Inc.	19	-	-	-	(19)	-
Care International -Tatweer	125,395	320,700	(185,640)	-	-	260,455
Mennonite Canadian Central Committee - MCC 3	-	-	-	-	-	-
Mennonite Canadian Central Committee - MCC 4	-	299,058	(52,130)	-	-	246,928
Spanish Cooperation - CENTA 2	323,824	-	(18,920)	-	-	304,904
NDC - Human Rights	98	-	-	-	(98)	-
Catholic Relief Services (CRS) Project (1)	6,538	-	-	(6,538)	-	-
Catholic Relief Services (CRS) - Social Capital	115,865	-	(90,819)	-	(25,046)	-
FP7 European Commission -OLITRAVA	648,011	-	(41,540)	-	-	606,471
Action Against hunger- ACF	33,224	-	-	-	(33,224)	-
Integrity -Tiri (2)	25,881	-	-	-	(25,881)	-
Integrity -Tiri (3)	36,161	-	(16,221)	-	(19,940)	-
Integrity -Tiri (4)	-	60,490	(43,605)	-	-	16,885
Jerusalem Capital of Arab Culture	141	-	-	-	(141)	-
Spanish Cooperation - JVP	99,547	-	(32,808)	-	(66,739)	-
Spanish Cooperation - FSIS	15,835	-	-	-	(15,835)	-
Spanish Cooperation - QNSVP	-	229,522	(115,510)	-	-	114,012
Sub-total	1,920,646	2,134,655	(1,387,406)	(6,538)	(186,923)	2,474,434

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(All amounts in US Dollar)

NOTE (8) TEMPORARY RESTRICTED NET ASSETS (CONTINUED)

	Beginning Balance	Additions during the year	Released from restrictions	Written off projects	Currency (gain)/ losses	Ending Balance
Sub- total from previous page	1,920,646	2,134,655	(1,387,406)	(6,538)	(186,923)	2,474,434
Dan Church Aid	-	136,364	(46,300)	-	-	90,064
Swedish Cooperative Center (SCC)	12,034	-	-	-	(12,034)	-
Swedish Cooperative Center (SCC) NFC 2012	-	167,583	(172,254)	-	-	(4,671)
Swedish Cooperative Center (SCC) - GG 2011	3,376	-	-	-	(3,376)	-
Swedish Cooperative Center (SCC) - GG 2012	-	87,770	(82,381)	-	-	5,389
Swedish Cooperative Center (SCC)- Cap 2011+2012	310,589	391,678	(595,997)	-	-	106,270
Oxfam SDC	-	452,973	(186,014)	-	-	266,959
Oxfam EU	-	739,286	(135,961)	-	-	603,325
Oxfam Direct	-	208,661	(7,747)	-	-	200,914
Polish Aid	-	74,193	(74,962)	-	769	-
UNEP 1	-	12,000	(12,501)	-	501	-
UNEP Jan 13	-	28,000	(18,705)	-	-	9,295
World Wide View	-	20,161	(20,179)	-	18	-
Australian Aid -AUSAID	98,727	-	(62,622)	-	-	36,105
Arab Center for Alternative Planning -ACAP	-	142,955	(23,104)	-	-	119,851
Henrich Boll	-	12,209	(11,646)	-	(563)	-
Gross Boarder Program Heland- EC	-	207,389	(17,244)	-	-	190,145
Acour Garonne Water Agency -ACAD	-	43,389	(28,082)	-	-	15,307
UNDP (GEF) - Forest Management	-	40,000	(3,467)	-	-	36,533
Total	2,345,372	4,899,266	(2,886,572)	(6,538)	(201,608)	4,149,920

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (All amounts in US Dollar)

NOTE (9) PROVISION FOR END-OF-SERVICE INDEMNITY

Following is a summary of the movement on the provision for End-of-service indemnity during the year:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	593,305	518,495
Additions during the year	161,139	99,491
Payments during the year	(27,083)	(24,681)
Balance, end of year	<u>727,361</u>	<u>593,305</u>

NOTE (10) PROVISION FOR PROVIDENT FUND

This amount represents employees' saving fund. The Institute contributes 5% of employees' base salaries from its own funds. Following is a summary of the movement on the provident fund during the year:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	215,519	291,675
Additions during the year	60,191	51,672
Payments during the year	(74,498)	(127,828)
Balance, end of year	<u>201,212</u>	<u>215,519</u>

NOTE (11) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Details:

	<u>2012</u>	<u>2011</u>
Accrued expenses and other payables	70,370	45,527
Due to suppliers and partners	39,861	12,813
Due to tax department	-	3,039
Due to partners	-	5,574
Due to Banks	-	4,849
	<u>110,231</u>	<u>71,802</u>

NOTE (12) UNRESTRICTED REVENUES

Details:

	<u>2012</u>	<u>2011</u>
Researches and consultancy works revenues	141,692	221,640
Other revenues	28,112	11,833
Bank interests	5,658	6,294
	<u>175,462</u>	<u>239,767</u>

NOTE (13) OPERATING REVENUES, NET

Details:

	<u>2012</u>	<u>2011</u>
Sales revenue	116,588	170,449
Cost of sales	(57,990)	(106,855)
	<u>58,598</u>	<u>63,594</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

NOTE (14) PROJECTS' EXPENSES

Details:

	TATWEER	Centra 2	JVP	SCC- Cap 2012	SCC- NFC	SCC- GG	Tiri 3	Ausaid	CRS- SC	Sett 5	Sub-total
Salaries and related expenses	64,573	14,962	20,200	57,295	51,639	33,716	1,028	24,470	30,050	129,804	427,737
Employee medical insurance	1,104	261	585	1,098	481	415	20	536	370	2,627	7,497
Software	61	-	-	-	-	-	200	-	-	4,480	4,741
Printing and publications	-	-	6,350	-	-	1,610	613	-	4,606	3,288	16,467
Stationary and office supplies	1,022	280	403	785	-	72	619	1,705	-	1,589	6,475
Conferences and international travel	-	-	-	428	1,920	-	-	-	-	1,335	3,683
Communication and internet fees	13	27	457	830	7,458	235	1,327	882	372	-	11,601
Car expenses	-	2,511	657	14,047	13,841	12,138	2,847	4,853	1,139	3,236	55,269
Rent, electricity and water	3,772	-	1,116	1,007	-	-	-	1,917	1,830	-	9,642
Maintenance	89	-	26	-	-	-	-	-	-	-	115
Professional fees	600	500	-	164	18,802	7,500	550	-	12,340	2,599	43,055
Other expenses	-	-	2,375	169	6,882	3,923	-	-	-	16,091	29,440
Land Research Center in EU project	-	-	-	-	-	-	-	-	-	54,974	54,974
Agriculture activity expenses	114,380	-	-	517,348	69,066	559	-	28,235	3,000	-	732,588
Project consultant and research expense	27	351	525	2,732	1,978	10,921	8,569	24	12,908	24,328	62,363
Water activity expenses	-	27	-	-	-	11,292	448	-	2,000	-	13,767
Grand Total	185,641	18,919	32,694	595,903	172,067	82,381	16,221	62,622	68,615	244,351	1,479,414

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

NOTE (14) PROJECTS' EXPENSES (CONTINUED)

	Previous Balance	Dan Church Aid	Oltriva	NQVSP	Oxfam- SDC	Oxfam EU	ACAP	Henrich Boll	Tiri 4	PCPM	MCC 4	Sub-total
Salaries and related expenses	427,737	915	32,403	72,987	48,450	60,768	18,197	5,800	12,766	26,048	27,745	733,816
Employee medical insurance	7,497	19	359	2,292	699	833	299	95	222	727	800	13,842
Software	4,741	-	-	-	249	-	-	-	-	-	-	4,990
Printing and publications	16,467	-	403	2,878	644	638	-	360	1,062	-	-	22,452
Stationary and office supplies	6,475	173	3,100	5,843	1,537	72	392	3,081	825	602	997	23,097
Conferences and international travel	3,683	-	1,108	-	8,406	108	-	-	376	120	-	13,801
Communication and internet fees	11,601	-	57	3,930	3,349	19	214	-	1,979	724	2,464	24,337
Car expenses	55,269	893	1,031	8,757	2,283	2,013	1,068	1,060	8,382	6,050	3,350	90,156
Rent, electricity and water	9,642	-	-	5,133	3,395	-	1,423	-	2,098	-	900	22,591
Maintenance	115	-	-	116	-	-	-	-	324	-	-	555
Professional fees	43,055	-	-	1,400	-	14,000	-	-	2,020	-	-	60,475
Other expenses	29,440	-	2,770	7,677	72	-	1,511	-	52	-	52	41,574
Land Research Center in EU project	54,974	-	-	-	-	-	-	-	-	-	-	54,974
Agriculture activity expenses	732,588	44,300	-	1,150	112,478	52,836	-	-	-	38,844	14,828	997,024
Project consultant and research exp.	62,363	-	308	2,332	135	532	-	1,250	7,128	1,847	994	76,889
Water activity expenses	13,767	-	-	-	-	-	-	-	6,066	-	-	19,833
Grand Total	1,479,414	46,300	41,539	114,495	181,697	131,819	23,104	11,646	43,300	74,962	52,130	2,200,406

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

NOTE (14) PROJECTS' EXPENSES (CONTINUED)

	Previous Balance	UNEP 1	Oxfam Direct	WW Views	Heland	ACAD	Forest Management	UNEP Jan 13	SDC	Total 2012	Total 2011
Salaries and related expenses	733,816	10,324	1,982	5,965	8,278	2,108	1,163	15,472	431,807	1,210,915	970,338
Employee medical insurance	13,842	209	18	94	191	59	39	256	8,900	23,608	24,452
Software	4,990	-	-	-	-	-	-	-	1,274	6,264	1,264
Printing and publications	22,452	-	-	-	-	-	-	-	3,523	25,975	16,573
Stationary and office supplies	23,097	377	-	1,546	7	-	442	760	6,529	32,758	34,156
Conferences and international travel	13,801	-	-	-	4,711	-	-	-	6,285	24,797	11,074
Communication and internet fees	24,337	466	-	28	469	-	307	724	10,536	36,867	33,600
Car expenses	90,156	999	-	1,794	298	454	231	162	23,311	117,405	102,453
Rent, electricity and water	22,591	126	-	-	692	-	731	931	24,550	49,621	35,831
Maintenance	555	-	-	137	-	-	200	200	408	1,500	5,332
Professional fees	60,475	-	-	-	728	-	-	200	19,625	81,028	80,388
Other expenses	41,574	-	-	-	1,128	-	52	-	1,484	44,238	79,249
Land Research Center in EU project	54,974	-	-	-	-	-	-	-	-	54,974	30,775
Agriculture activity expenses	997,024	-	5,747	4,447	-	16,877	-	-	6	1,024,101	1,576,633
Project consultant and research exp.	76,889	-	-	6,168	742	-	158	-	6,637	90,594	59,720
Water activity expenses	19,833	-	-	-	-	8,583	-	-	123	28,539	59,914
Grand Total	2,200,406	12,501	7,747	20,179	17,244	28,081	3,323	18,705	544,998	2,853,184	3,121,752

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US Dollar)

NOTE (15) GENERAL AND ADMINISTRATIVE EXPENSES

Details:

	<u>2012</u>	<u>2011</u>
Salaries and related expenses	111,733	138,082
Rent, electricity and water	8,606	8,066
Conferences and international travel	5,705	7,836
Car expenses	14,193	6,687
Professional fees	9,432	4,819
Communications and internet fees	76	3,896
Stationery and office supplies	6,010	3,344
Employees' medical insurance	6,616	3,040
Maintenance	2,292	1,882
Income tax expense	4,812	6,682
Agriculture activity expenses	5,110	-
Project consultant and research exp	5,627	-
Water activity expenses	7,014	-
Subscription, Registration Printing and publications	522	1,083
Consultant and research expenses	-	684
Software	1,455	650
Water activity expenses	-	517
Other expenses	37,342	3,948
	<u>226,545</u>	<u>191,216</u>

NOTE (16) RELATED PARTY TRANSACTIONS

Related parties represent associated organizations, directors and key management personnel of the Institute, and entities controlled or significantly influenced by such parties. Terms of these transactions are approved by the Institute's management.

Transactions with related parties included in the financial statements are as follows:

	<u>2012</u>	<u>2011</u>
Key management compensation	309,964	262,845

NOTE (17) COMPARATIVE FIGURES

The corresponding figures of December 31, 2011 have been reclassified in order to conform with the presentation for the current year.