

**Loan Revolving Fund**  
**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**

**Loan Revolving Fund**  
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**Financial Statements and**  
**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 **Loan Revolving Fund** administered by 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 income, 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 the accounting policies described in Note (2), 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.



As mentioned in note (13) the accounts for lending activities were separated from the centers' overall activities to inform users of financial statements of the results related to this activity, since it is the most important activity in the center and has different properties than the rest of other activities of the Arab Center of Agricultural Development, and it is not necessary to be prepared in accordance with International Financial Reporting Standards.

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 Loan Revolving Fund as of December 31, 2013, its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in Note (2).

***Explanatory Paragraph:***

According to the agreement dated February 26<sup>th</sup> 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 (14).

Considering the afore-mentioned transfer, the assets of the Loan Revolving Fund as of January 1<sup>st</sup> 2014; the date of the transfer, became USD 1,107,854 and the liabilities became USD 830,860.

**Ramallah:  
April 24, 2014**

  
**Deloitte & Touche (M.E.)**  
Deloitte & Touche (M.E)

**Loan Revolving Fund**  
**Arab Center For Agricultural Development (ACAD)**  
**Ramallah-Palestine**

**Statement of Financial Position**  
**For the Year Ended December 31, 2013**

<b><u>ASSETS:</u></b>	<b>Note</b>	<b>December 31, 2013 USD</b>	<b>December 31, 2012 USD</b>
Cash in Hand and at Banks	3	1,118,693	1,252,983
Loans Receivable-Net	4	4,822,986	4,622,278
Interest Receivable		111,971	109,285
Other Assets	5	339,826	285,745
Fixed Assets-Net	6	39,389	36,277
<b>TOTAL ASSETS</b>		<b>6,432,865</b>	<b>6,306,568</b>
<b><u>LIABILITIES AND NET ASSETS:</u></b>			
<b><u>LIABILITIES:</u></b>			
Payables and Accruals	7	100,689	85,326
Loans Payable	8	2,325,011	2,428,985
Employees' Benefits	9	730,171	716,863
<b>TOTAL LIABILITIES</b>		<b>3,155,871</b>	<b>3,231,174</b>
<b><u>NET ASSETS:</u></b>			
Loan Revolving Fund		3,232,979	3,033,250
General Reserve for Loan Losses		44,015	42,144
<b>TOTAL NET ASSETS - Statement ( C )</b>		<b>3,276,994</b>	<b>3,075,394</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>6,432,865</b>	<b>6,306,568</b>

The Accompanying Notes Constitute an Integral Part of These Financial Statements

  
 Board Chairman

  
 Board Secretary



**Loan Revolving Fund**  
**Arab Center For Agricultural Development (ACAD)**  
**Ramallah-Palestine**

**Statement of Income**  
**For the Year Ended December 31, 2013**

	<u>Note</u>	<u>December 31, 2013 USD</u>	<u>December 31, 2012 USD</u>
<b>Interest and Lending Revenues:</b>			
Interest Received		1,003,454	992,658
Collections of Written Off Loans		15,354	14,923
Loans Service Fees and Commissions		52,701	37,505
Penalty Fees		45,022	46,270
Other Revenues	10	109,864	59,485
<b>Revenues before Loan Losses</b>		<b>1,226,395</b>	<b>1,150,841</b>
Provision for Loan Losses		(35,427)	(11,723)
<b>Total Revenues</b>		<b>1,190,968</b>	<b>1,139,118</b>
<b>Expenses:</b>			
Operating Expenses	11	(961,716)	(954,017)
<b>Total Expenses</b>		<b>(961,716)</b>	<b>(954,017)</b>
(Loss) Gain from Currency Fluctuation		(39,138)	7,530
<b>Net Income for the Year- Statement ( C )</b>		<b>190,114</b>	<b>192,631</b>

The Accompanying Notes Constitute an Integral Part of These Financial Statements

  
Board Chairman

  
Board Secretary



**Loan Revolving Fund**  
**Arab Center For Agricultural Development (ACAD)**  
**Ramallah-Palestine**

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

	<u>Loan Revolving Fund USD</u>	<u>General Reserve for Loan Losses USD</u>	<u>Total USD</u>
<b>Balance as of December 31, 2011</b>	<b>2,840,619</b>	<b>46,780</b>	<b>2,887,399</b>
Net Income for the Year 2012	192,631	--	192,631
Deductions from General Reserve For Loan Losses	--	(4,636)	(4,636)
<b>Balance as of December 31, 2012</b>	<b>3,033,250</b>	<b>42,144</b>	<b>3,075,394</b>
Net Income for the Year 2013	190,114	--	190,114
Additions to General Reserve For Loan Losses	--	1,871	1,871
Fixed assets reclassification	9,615	--	9,615
<b>Balance as of December 31, 2013</b>	<b>3,232,979</b>	<b>44,015</b>	<b>3,276,994</b>

The Accompanying Notes Constitute an Integral Part of These Financial Statements



**Loan Revolving Fund**  
**Arab Center For Agricultural Development (ACAD)**  
**Ramallah-Palestine**

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

	December 31, 2013 USD	December 31, 2012 USD
<b>Operating Activities:</b>		
Net Income for the Year	190,114	192,631
<b>Adjustments:</b>		
Depreciation	16,476	14,755
General Reserve for Loan Losses	1,871	(4,636)
Additions to the Provision for Employees' Benefits	124,739	163,181
<b>Cash Flow from Operating Activities before Changes in Operating Assets and Liabilities</b>	<b>333,200</b>	<b>365,931</b>
<b>(Increase) Decrease in Operating Assets:</b>		
Loans & Interest Receivable	(203,394)	(425,627)
Other Assets	(54,081)	(79,669)
<b>Increase (Decrease) in Operating Liabilities</b>		
Payables and Accruals	15,363	69,499
<b>Net Cash Flow from (Used in) Operating Activities before Payments of Employees' Benefits</b>	<b>91,088</b>	<b>(69,866)</b>
Payments of Employees' Benefits	(111,431)	(77,382)
<b>Net Cash (Used in) Operating Activities after Payments of Employees' Benefits</b>	<b>(20,343)</b>	<b>(147,248)</b>
<b>Investing Activities:</b>		
Procurement of Fixed Assets	(9,973)	(5,757)
<b>Cash (Used in) Investing Activities</b>	<b>(9,973)</b>	<b>(5,757)</b>
<b>Financing Activities:</b>		
Loans Payable	(103,974)	545,603
<b>Cash (Used In) Flow from Financing Activities</b>	<b>(103,974)</b>	<b>545,603</b>
<b>Net (Decrease) Increase in Cash</b>	<b>(134,290)</b>	<b>392,598</b>
Cash in Hand and at Banks, Beginning of the Year	1,252,983	860,385
<b>Cash in Hand and at Banks, End of the Year</b>	<b>1,118,693</b>	<b>1,252,983</b>

The Accompanying Notes Constitute an Integral Part of These Financial Statements





**Loan Revolving Fund**  
**Arab Center for Agricultural Development (ACAD)**  
**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 no.1 for the year 2000. ACAD is specialized in Micro-Credit and offers Business Support Services to the poor and low-income Palestinian producers. The Board of Directors is comprised of 9 members elected every two years by the General Assembly that governs ACAD.

**b. ACAD Mission:**

ACAD as a development institution was 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 the 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 Goals and Objectives:**

- Promotion of self-sustaining employment-and income-generating projects in the Palestinian poor and low-income rural and urban communities.
- Expanding geographical access of financial resources.
- Graduating poor and small scale producers into capital lending markets, by shifting the balance of power towards those needing credit.
- Mobilizing saving.
- Empowering poor communities.

**d. Target Group:**

ACAD's target group includes low-income Palestinians 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 the following kinds of credit products:

- Woman loan based on cycling.
- Micro loans to finance existing project.
- Small loans to finance capital investment or start up businesses.
- Loans to cooperatives to finance cooperative credit and 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 14).

## 2. Significant Accounting Policies:

### Summary of Significant Accounting Policies are as follows:

A- The accompanying financial statements have been prepared in accordance with the historical cost principle and in conformity with the covenants of the agreements signed with donors and lenders and relevant prevailing laws and regulations in the Palestinian Territories.

### B- Fixed Assets:

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

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

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

### C- Loans:

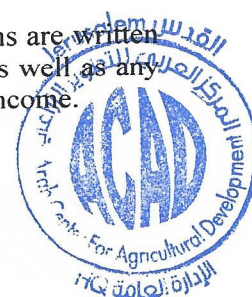
Loans receivable are stated at cost net of provision for impairment losses. A provision for impairment of non-performing loans is taken when there is evidence that these loans cannot be recollectd in part or in full. Such a provision is calculated based on the following criteria:

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

The resultant provision is recorded in the statement of income.

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 loans are suspended, in addition, uncollectible loans are written off by decreasing the provision for loan losses. Any surplus in the provision as well as any amount collected from loans previously written off is taken to the statement of income.



## 2. Significant Accounting Policies (Cont):

### D- Foreign Currency Translation:

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

The rates of exchange of certain currencies against the U.S Dollar as of December 31, 2013 and 2012 were as follows:

	<u>U.S Dollar</u> <u>2013</u>	<u>U.S Dollar</u> <u>2012</u>
Euro	1.3740	1.3197
NIS	0.2865	0.2680
JOD	1.4124	1.4124

### E- Loan Revolving Fund:

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

### F- Severance Pay:

End of service indemnity is computed in accordance with the prevailing labor law in the Palestinian Territories accruing for one-month compensation for each year of service based on the last salary paid during the year. The provision is charged to the statement of income, while indemnities actually paid to staff are booked against related provision account.

### G- Provident Fund:

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

#### Accounting Estimates:

The financial statements include certain estimates and assumptions made by management relating to reporting of assets, 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 ACAD's management.

Management, through applying the accounting policies, uses assumptions and estimates with material impacts on the recognition of the balances recorded in the financial statements. Some of these assumptions are as follows:

- Management periodically reassesses the economic useful lives of tangible assets for the purpose of calculating annual depreciation based on the general status of these assets and the assessment of their useful economic lives expected in the future. Impairment loss (if any) is taken to the statement of income.
- A provision for performing and non-performing loans is taken on the bases and estimates approved by management. These provisions represent allowances for uncollectable loans.
- Estimates used in the preparation of the financial statements are provision for end of service indemnity.



### 3. Cash in Hand and at Banks:

	December 31, 2013 <u>USD</u>	December 31, 2012 <u>USD</u>
Cash in Hand	49,928	34,045
<b>Cash at Banks- Current Accounts:</b>		
U.S Dollar	486,401	653,986
Jordanian Dinar	1,412	4,971
Israeli Shekel	42,473	46,421
	<u>530,286</u>	<u>705,378</u>
<b>Cash at Banks- Fixed Deposits:</b>		
Short-Term Deposits for Employees' Benefits	531,013	511,300
	<u>531,013</u>	<u>511,300</u>
Checks Under Collection- Short Term	7,466	2,260
	<u>1,118,693</u>	<u>1,252,983</u>

### 4. Loans Receivable-Net:

	December 31, 2013 <u>USD</u>	December 31, 2012 <u>USD</u>
Loan 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 from the years 2008 to 2013. The center would recover these loan amounts from the Associations 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 14).

The movement in the provision for impairment was as follows:

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



## 5. Other Assets:

	December 31, 2013 USD	December 31, 2012 USD
Receivable From PMA	30,000	30,000
Prepaid Expenses	111,639	21,127
Loans to Employees*	181,774	189,090
Participation Loans Funded from UNDP**	14,416	18,675
Other Receivables (Cooperatives) from Sidi Others	-- 1,997	26,853 --
	<u>339,826</u>	<u>285,745</u>

\* Loans to employees are not subject to interest rates.

\*\* 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 lending capital for Islamic microfinance products only. The term of the agreement commence on Sept 1, 2010 and 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 14).

## 6. Fixed Assets-Net:

	January 1, 2013 USD	Reclassification USD	Additions USD	Disposals USD	December 31, 2013 USD
<b>Cost:</b>					
Furniture and Fixtures	70,535	6,892	706	-	78,133
Office Equipment	78,846	407	7,411	-	86,664
Safes	1,127	-	-	-	1,127
Cars	46,936	-	-	-	46,936
Computers and Printers	70,966	16,156	1,856	-	88,978
	<u>268,410</u>	<u>23,455</u>	<u>9,973</u>	-	<u>301,838</u>
<b>Accumulated Depreciation:</b>					
Furniture and Fixtures	53,887	1,491	1,786	-	57,164
Office Equipment	72,384	1,341	4,381	-	78,106
Safes	534	-	34	-	568
Cars	30,802	-	9,387	-	40,189
Computers and Printers	74,526	11,008	888	-	86,422
	<u>232,133</u>	<u>13,840</u>	<u>16,476</u>	-	<u>262,449</u>
<b>Net Fixed Assets</b>	<u>36,277</u>				<u>39,389</u>

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 14).



**7. Payables and Accruals:**

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
	<b>USD</b>	<b>USD</b>
Deferred Revenues	2,060	10,938
Due to Saving Program Related to Cooperatives Loans	69,161	64,637
Other Payables & Accruals	29,468	9,751
	<b>100,689</b>	<b>85,326</b>

**8. Loans Payable:**

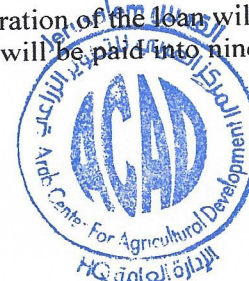
	<b>December 31, 2013</b>	<b>December 31, 2012</b>
	<b>USD</b>	<b>USD</b>
Agency France De Development ( AFD )	793,427	906,773
UNDP – DEEP	1,166,651	1,122,212
SIDI	320,000	400,000
MicroWorld	23,888	--
KIVA Microfunds	21,045	--
	<b>2,325,011</b>	<b>2,428,985</b>

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

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

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

On May 05, 2012, ACAD signed an additional agreement with the Islamic Development Bank – Jeddah – Saudi Arabia through UNDP/PAPP which considered a continuation of the previous agreements, the agreement was to establish a Credit Fund amounted 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 an agreement with SIDI to establish a Credit Fund amounted U.S Dollars 400,000. The duration of the loan will be for five years from the date of the agreement. ACAD will pay the loan amount with an interest rate of 5% divided on six semi annual equal installments starting from December 31, 2011.

Effective January 1, 2014, loans payable accounts were transferred to ACAD Finance and Development Co. (Note 14).

#### 9. Employees' Benefits:

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

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

#### A- Provident Fund:

	December 31, 2013 USD	December 31, 2012 USD
Opening Balance	353,978	309,610
Additions	78,905	91,837
Payments	(79,582)	(47,469)
<b>Ending Balance</b>	<b>353,301</b>	<b>353,978</b>

#### B- End of Service Indemnity:

	December 31, 2013 USD	December 31, 2012 USD
Opening Balance	337,609	296,328
Additions	45,834	70,649
Payments	(17,136)	(29,368)
<b>Ending Balance</b>	<b>366,307</b>	<b>337,609</b>

The liabilities towards staff provident fund and end of service indemnity are deposited in a separate bank account (Note 3).

#### C- Annual Leaves:

	December 31, 2013 USD	December 31, 2012 USD
Opening Balance	25,276	25,126
Additions	--	695
Payments	(14,713)	(545)
<b>Ending Balance</b>	<b>10,563</b>	<b>25,276</b>



## 10. Other Revenues:

Other Revenues represents interest on deposits at banks, profit participation loans, and revenues from loans that were closed before the date of maturity

## 11. Operating Expenses:

	December 31, 2013 USD	December 31, 2012 USD
Salaries and Related Expenses	558,017	608,229
Rent and Utilities	64,154	58,254
Depreciation	16,476	14,755
Medical Expenses	23,876	23,481
Travel (Local and Overseas)	31,016	27,400
Telecommunications	37,959	34,804
Professional and Legal Fees	35,674	17,171
Printing and Stationery	11,261	10,945
Advertising and Promotional Material	1,867	1,268
Insurance	257	200
Entertainment	7,309	6,355
Bank Charges	27,699	24,711
Donations	2,734	--
Training and Workshops Expenses	8,842	--
Fees and Subscriptions	3,787	7,157
Interest on Borrowed Funds	39,553	42,627
Maintenance	24,282	18,766
Cars Expenses	17,126	17,590
Incorporation Expense	9,269	--
Tax Expenses	6,478	--
Loan Closing Expense & Others	34,080	40,304
	<u>961,716</u>	<u>954,017</u>





## **12. Risks Management Policies:**

The most significant types of risks are credit risk, liquidity risk, market risk and operational 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 Center and analyzing them in order to set controls to monitor these various risks. The policies and regulations designed to control the risks are reviewed periodically by management in order to determine the changes in market conditions and in the services provided by the Center for its clients.

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

The Center covers the expenses of loan revolving fund from the income of lending programs. The Center believes that the lending revenue for the year 2014 will be sufficient to finance all lending expenses.

Subsequent to year end, the Center established and operated ACAD Finance and Development Co. "a Subsidiary"; the purpose of establishing and operating that company is to isolate the lending activities from the other activities of ACAD as an N.G.O .

The new company, effective January 1, 2014 started its lending activities on profit basis after it obtained the approval of the regulated bodies in the Palestinian Territory and certain International Organizations to participate in the share capital of the new company.

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

Credit risk is risk that may result from the failure or inability of the other party to meet its obligations towards the Center. The Center 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 Center to provide the funding necessary to meet its obligations in due dates. ACAD's policy to prevent this risk requires management to diversify sources of assets and liabilities and maintain an adequate balance of cash and cash equivalent.

### **D- Interest Rate Risk:**

Interest rate risk arises from the possibility that changes in market interest rates may affect the value of its 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.



### 13. Accompanying Financial Statements:

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

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

The financial statements of ACAD for the year ended December 31, 2013 and for the previous years were audited as a whole, and the accompanying financial statements represent the financial statements for Loan Revolving Fund only, which is separated from the audited financial statements of the Center for the year 2013 according to the following bases:

- Cash, assets and liabilities of loan revolving fund were separated from the Center's assets and liabilities by using the specific identification method.
- The employees who are working for the loan revolving fund were determined and the provision for these employees and all related costs were separated.
- General reserve for loan losses is calculated according to the criteria detailed on note (2/C).
- Net assets for loan revolving fund are determined by reducing assets by the same amounts of liabilities.

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

### 14. 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 in hand and at banks	372,019
	<u>5,325,011</u>
Liabilities transferred :	
Loans payable	<u>( 2,325,011 )</u>
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.

