

**REEF FINANCE COMPANY  
(NOT FOR PROFIT) - REEF**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2009  
AND INDEPENDENT AUDITORS' REPORT**

**PRICEWATERHOUSECOOPERS** 

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**Independent Auditors' Report**  
**To the Board of Directors of REEF FINANCE COMPANY (NOT FOR PROFIT)**  
**Palestine**

**Report on the financial statements**

We have audited the accompanying financial statements of Reef Finance Company –not for profit (hereinafter "Reef"), which comprise the statement of financial position as of December 31, 2009, statement of income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes. The financial statements as of December 31, 2008, were audited by another auditor whose report dated May 13, 2009 expressed an unqualified opinion on those financial statements.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these 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 the 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

**Auditors' 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 whether the financial statements are free of 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 auditors' 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion on the financial statements**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Reef as of December 31, 2009, and the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

  
PRICEWATERHOUSECOOPERS 

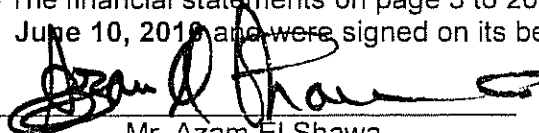
Osama Daher – Partner  
June 10, 2010  
Ramallah

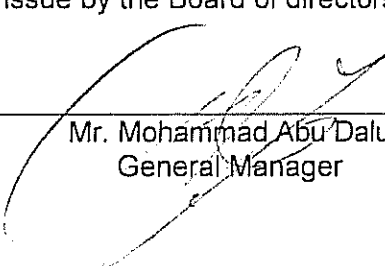
**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**  
 Financial statements for the year ended December 31, 2009

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

	Note	2009	2008
<b>Assets</b>			
<b>Non - current assets</b>			
Property and equipment, net	(3)	52,334	61,130
<b>Current assets</b>			
Deposit with Palestinian Monetary Authority - PMA	(4)	30,000	-
Loans receivable, net	(5)	2,851,529	1,084,848
Contributions receivable	(6)	1,676,728	1,017,541
Other current assets	(7)	11,346	4,327
Cash and cash equivalent	(8)	639,642	366,473
<b>Total current assets</b>		<b>5,209,245</b>	<b>2,473,189</b>
<b>Total assets</b>		<b>5,261,579</b>	<b>2,534,319</b>
<b>Equity, subordinate loan and liabilities</b>			
<b>Equity and subordinate loan</b>			
Share capital	(9)	100,000	96,000
Retained earnings		196,305	67,354
<b>Total equity</b>		<b>296,305</b>	<b>163,354</b>
Subordinate loan	(10)	1,500,000	1,200,000
<b>Total equity and subordinate loan</b>		<b>1,796,305</b>	<b>1,363,354</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long term loan	(11)	293,189	70,031
Provisions for employees' indemnity	(12)	95,025	45,239
Deferred revenues	(13)	52,334	61,130
<b>Total non-current liabilities</b>		<b>440,548</b>	<b>176,400</b>
<b>Current liabilities</b>			
Current portion of long term loan	(11)	151,699	23,344
Cash margin	(14)	63,874	93,187
Temporarily restricted contributions	(15)	2,502,252	794,582
Deferred interest revenue	(16)	249,809	63,482
Other payables and accruals	(17)	57,092	19,970
<b>Total current liabilities</b>		<b>3,024,726</b>	<b>994,565</b>
<b>Total liabilities</b>		<b>3,465,274</b>	<b>1,170,965</b>
<b>Total Equity, subordinate loan and liabilities</b>		<b>5,261,579</b>	<b>2,534,319</b>

- The notes on pages 7 to 20 are an integral part of these financial statements.
- The financial statements on page 3 to 20 were authorized for issue by the Board of directors on June 10, 2010 and were signed on its behalf.

  
 Mr. Azam El Shawa  
 Chairman of the Board

  
 Mr. Mohammad Abu Dalu  
 General Manager

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**  
Financial statements for the year ended December 31, 2009

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**STATEMENT OF INCOME**

(All amounts in US Dollar)

	<u>Note</u>	<u>2009</u>	<u>2008</u>
<b><u>Revenues</u></b>			
Temporarily restricted contributions released from restriction	(15)	486,761	504,686
Interest and commission	(18)	214,832	60,785
Deferred revenues recognized	(13)	16,617	12,965
Other revenues	(19)	5,700	6,570
<b>Total Revenues</b>		<b><u>723,910</u></b>	<b><u>585,006</u></b>
<b><u>Expenses</u></b>			
General and administrative expenses	(20)	529,702	470,855
Finance expenses	(21)	24,925	3,813
Allowance for doubtful loans	(5)	23,715	30,019
Depreciation expense	(3,13)	16,617	12,965
<b>Total Expenses</b>		<b><u>594,959</u></b>	<b><u>517,652</u></b>
<b>Profit for the year</b>		<b><u>128,951</u></b>	<b><u>67,354</u></b>

- The notes on pages 7 to 20 are an integral part of these financial statements.

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**  
 Financial statements for the year ended December 31, 2009

**STATEMENT OF CHANGES IN EQUITY**

(All amounts in US Dollar)

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	Note	Share capital	Retained earnings	Total
<b>Balance as of December 31, 2007</b>		55,000	-	55,000
Issue of share capital		41,000	-	41,000
Profit for the year		-	67,354	67,354
<b>Balance as of December 31, 2008</b>		<b>96,000</b>	<b>67,354</b>	<b>163,354</b>
Issue of share capital	(9)	4,000	-	4,000
Profit for the year		-	128,951	128,951
<b>Balance as of December 31, 2009</b>		<b>100,000</b>	<b>196,305</b>	<b>296,305</b>

- The notes on pages 7 to 20 are an integral part of these financial statements.

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**  
 Financial statements for the year ended December 31, 2009

**STATEMENT OF CASH FLOWS**

(All amounts in US Dollar)

	<u>2009</u>	<u>2008</u>
<b>Cash flow from operating activities</b>		
Profit for the year	128,951	67,354
<b>Adjustments</b>		
<b>Cash used in operating activities</b>		
Provision for employees' indemnity	53,433	41,943
Depreciation	16,617	12,965
Provision for doubtful loans	23,715	30,019
Deferred revenues recognized	(16,617)	(12,965)
<b>Cash flow before changes in working capital</b>	<u>206,099</u>	<u>139,316</u>
<b>Changes in working capital:</b>		
Deposit with PMA	(30,000)	-
Loans receivables	(1,790,396)	(1,114,867)
Contributions receivable	(659,187)	1,458,950
Other current assets	(7,019)	(3,389)
Payments of employee' indemnity	(3,647)	(1,357)
Temporarily restricted contributions and deferred revenue	1,715,491	(1,662,292)
Cash margin	(29,313)	93,187
Deferred interest revenue	186,327	-
Other payables and accruals	37,122	74,720
<b>Net cash used in operating activities</b>	<u>(374,523)</u>	<u>(1,015,732)</u>
<b>Cash flow from investing activities</b>		
Purchase of property and equipment	(7,821)	(33,795)
<b>Net cash used in investing activities</b>	<u>(7,821)</u>	<u>(33,795)</u>
<b>Cash flow from financing activities</b>		
Proceed of Issue of share capital	4,000	41,000
Subordinate loan	300,000	1,200,000
Long term loan	351,513	93,375
<b>Net cash flows provided by financing activities</b>	<u>655,513</u>	<u>1,334,375</u>
<b>Increase in cash and cash equivalent</b>	<b>273,169</b>	<b>284,848</b>
Cash and cash equivalents , beginning of the year	<u>366,473</u>	<u>81,625</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>639,642</u></u>	<u><u>366,473</u></u>

- The notes on pages 7 to 20 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (1) GENERAL**

Reef Finance is a Palestinian private not for profit Company (hereinafter "Reef") registered on July 2, 2007 in Gaza under registration number of (563143734) with an authorized share of capital as of December 31, 2009 amounted to USD 100,000.

Reef provides diversified financial services on a continuous basis directed towards micro and small business, especially in rural areas.

The Palestinian Agriculture Relief Committees (PARC) - major shareholder signed an agreement on August 30, 2007 with the Netherlands Representative Office to the Palestinian Authority in the amount of USD 2,747,385 to establish Reef Finance.

Based on the agreement between PARC and Reef, dated September 10, 2007, and later discussions, PARC is obligated to pay Reef the sum of USD2,616,557 of which USD 1,500,000 to be used for lending, USD 915,140 to be used for general and administrative expenses and USD 201,417 to be expensed directly by PARC for the benefit of Reef.

**NOTE (2) BASIS OF PREPARATION**

The financial statements are prepared according to International Financial Reporting Standards based on the historical cost convention and presented in US Dollars, which represents the functional currency of Reef.

Following is a summary of Reef's significant accounting policies:

**a) Cash and cash equivalent**

Cash and cash equivalent includes cash at bank and cash on hands and short-term deposits with an original maturity of three months or less.

**b) Revenue recognition**

- Donations revenue:  
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.  
Donations revenue from unconditional pledges are recognized as follows:
  - Unconditional pledges that are restricted for specific purpose or time are recognized as revenue when the pledge is obtained.
  - Unconditional pledges that are temporary restricted by donor for specific purpose or time are recognized as revenues when purpose or time is satisfied.
- Interest revenues :  
Interest income from loans is recognized within "Interest and commission" in the statement of income using the effective interest method.
- Commission revenues:  
Commissions are recognized as revenues within "Interest and commission" when the related service is delivered.
- Deferred revenues:  
Interest received in advance from customers is recorded in the statement of financial position as " Deferred interest revenue".



**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**c) Contributions receivable**

Contributions receivable from donors are the amounts not collected from unconditional pledges. 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.

**d) Expense recognition**

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

**e) Loans receivable**

Loans are stated at the amount of outstanding principal reduced by an allowance for loan losses. In determining the value of the allowance, other variables are taken into consideration such as the size of the loan portfolio, experience gained from previous losses, the present economic situation and its effects on loan holders, and the limit of commitment of individuals to the terms of the loan. The allowance is determined based on the management estimations.

Reef established general and specific allowances for doubtful loans based on past collection experience and other factors that may affect collectability:

*Specific allowance:* Specific allowance is calculated as percentage of the loan outstanding balance, based on the amounts past due in each aging category, the following rates are used to calculate the specific provision during 2009:

Loan status	Allowance (Percent) %
15-30 days overdue	5
31-60 days overdue	15
61-90 days overdue	25
91-180 days overdue	50
More than 180 days overdue	100

*General allowance:* General allowance is calculated as percentage of %0.5 of total loan's portfolio at the year end.

Loans receivables with the related allowance for doubtful accounts are written off in case the procedures taken for collecting the loans are ineffective. Any excess in the provision is taken to the statement of income while the collected receivables from previous loans that have been already written off are included within the statement of income.

**f) Property and equipment**

Property and equipment are stated at cost 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:

	Useful lives (Years)
Office furniture	7
Office equipment	5
Lease hold improvements	4
Computer software	4

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

The cost of the final assets includes all the expenditures incurred so as to make the assets ready for use. Any subsequent expenditures are capitalized only when they increase the future economic benefits of the related final assets.

**g) Impairment of assets**

The carrying values of the assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indications exists and when the carrying values exceeds the estimated recoverable amounts the values of the assets are decreased to the recoverable amount, and the difference is recognized in the statement of income.

**h) Long term loans**

Long term loans are recognized initially at fair value, net of transaction costs incurred. Long term loans are subsequently carried at amortized cost.

**i) Other payables 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.

**j) Provisions for employees' indemnity**

Reef provides for employees' end of services benefits by accruing one-month compensation for each year of service based on the last salary paid during the year, in accordance with labor law prevailing in Palestine. Reef also provides employees a provident fund; contributions by the employees and Reef are set at 5% and 10%, respectively, based on the employees' basic monthly salaries.

**k) Change in accounting policies**

The accounting policies used are the same as like those used in the previous year.

**l) Translation of foreign currencies**

The accompanying financial statements are denominated in US Dollars. Transactions in other currencies are accounted for at the exchange rates prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollar by applying the exchange rates prevailing at the reporting date. Exchange gains or losses arising from the above transactions are reflected in the statement of income. The exchange rates against USD as of December 31, 2009 and 2008 were as follows:

<b>Currency</b>	<b>2009</b>	<b>2008</b>
NIS	0,263	0,259
JOD	1.411	1.410
EURO	1.436	1.393

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**m) Risk Management**

**1. 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 risk is divided into the following sections:

A) Fully performing assets

Analysis of this risk is presented in the following section by quality of credit.

<u>Item</u>	<u>Carrying amount</u>	<u>Credit Quality</u>
Cash and cash equivalents	639,642	High
Contribution receivable	1,676,728	High
Loans receivable	2,851,529	High
Other current assets and deposit with PMA	41,346	High

- Reef has an amount of USD 347,234 at Al-Quds bank and 252,250 at Egyptian Real State Bank, and there is no restriction on these amounts.

- Reef has an amount of USD 1,676,728 as contributions receivables, the donors are expected to pay such amount when they come due according to signed agreements with Reef.

- Reef has an amount of USD 2,851,529 of loans receivable that are neither past due nor impaired.

B) Past due but not impaired assets:

As of December 31, 2009 the following table shows the past due but not impaired loans receivable:

<u>Item</u>	<u>Aging (Days)</u>					
	<u>Carrying amount</u>	<u>15-30 days</u>	<u>31-60</u>	<u>61-90</u>	<u>91-180</u>	<u>121-180</u>
Loan receivable	53,734	1,572	2,139	1,350	6,577	42,096

In order to face this risk Reef follows up with the borrowers in order to collect all amounts due. In addition Reef calls the guarantors to collect the overdue loans. If the pervious procedures do not work Reef files claims in the court against the loan holder.

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**2. 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	Carrying amounts	Expected timing of cash outflow			
		0-6 Month	7M-1 Year	1-2 Years	More than 2 Years
Other payables and accruals	57,092	57,092	-	-	-
<b>Long term loan as follows:</b>					
Banca Etica Loan	187,688	53,625	53,625	53,625	26,813
Deep Loan	200,000	22,227	22,222	88,888	66,663
Etimos Loan	57,200	-	-	-	57,200
	<b>501,980</b>	<b>132,944</b>	<b>75,847</b>	<b>142,513</b>	<b>150,676</b>

- Reef will pay an amount of USD 132,944 during the first 6 months of the year 2010, and it will use the available cash to pay these liabilities.

- Reef will pay USD 75,847 during the second half of the next year.

- Reef will pay USD 293,189 during the next two years.

**3. Market risk:**

The main 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 Reef 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. However, Reef mitigates this risk by maintaining all its financial instruments in USD and signing all its agreements (Loans or others) in USD, While any other liabilities or assets in other currencies is justified and has a unique condition like grant or loan. Reef keeps the minimum balance of NIS for petty cash and daily expenses.

The main currencies that Reef uses are the United States Dollars (USD) and the New Israeli Shekels (NIS), Jordanian Dinar (JD) as well as the Euro. The NIS rate to the USD at the end of the year 2009 was 3.802 and for 2008 was 3.85, while the average rate for 2008 was 3.59 and for 2008 the average rate was 4.11. In addition, the Euro rate to the USD at the end of the year 2009 was 1.411 and for 2008 was 1.410, while the average rate for 2009 was 1.49 and for 2008 the average rate was 1.37. These fluctuations in the exchange rates resulted in a loss of USD 15,717.

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**  
 Financial statements for the year ended December 31, 2009

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (3) PROPERTY AND EQUIPMENT, NET**

Details -

	Office furniture	Office equipment	Lease hold improvements	Computer Software	Total
<b>Cost</b>					
Balance Jan. 1, 2009	15,723	43,183	1,465	15,378	75,749
Additions	3,289	4,532	-	-	7,821
Disposals	-	-	-	-	-
<b>Balance December 31, 2009</b>	<b>19,012</b>	<b>47,715</b>	<b>1,465</b>	<b>15,378</b>	<b>83,570</b>
<b>Accumulated depreciation</b>					
Balance January 1, 2009	2,225	9,090	414	2,890	14,619
Additions	2,563	9,064	366	4,624	16,617
Disposals	-	-	-	-	-
<b>Balance December 31, 2009</b>	<b>4,788</b>	<b>18,154</b>	<b>780</b>	<b>7,514</b>	<b>31,236</b>
<b>Net book value December 31, 2009</b>	<b>14,224</b>	<b>29,561</b>	<b>685</b>	<b>7,864</b>	<b>52,334</b>
<b>Net book value December 31, 2008</b>	<b>13,498</b>	<b>34,093</b>	<b>1,051</b>	<b>12,488</b>	<b>61,130</b>

**NOTE (4) DEPOSIT WITH PALESTINIAN MONETARY AUTHORITY - PMA**

During the year 2009, Reef has entered into a Memorandum of Understanding with Palestine Monetary Authority (PMA). As per this MoU, Reef has deposited an amount of US Dollar 30,000 with the PMA. Pursuant to this MoU, Reef will have access to benefits from services provided by PMA. On the other hand, Reef is obligated to comply with the PMA rules and regulations in respect of reporting and lending procedures. The amount deposited is accruing interest income subject to the international interest rates.

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**  
 Financial statements for the year ended December 31, 2009

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (5) LOANS RECIVABLE, NET**

Following are the loans by category:

	<u>2009</u>	<u>2008</u>
Individual loans	2,336,947	587,886
Group loans	568,316	526,981
<b>Total portfolio</b>	<b>2,905,263</b>	<b>1,114,867</b>
Less: allowance for doubtful loans	53,734	30,019
	<b>2,851,529</b>	<b>1,084,848</b>

Following is the movement on the allowance for doubtful loans:

	<u>2009</u>	<u>2008</u>
Beginning balance	30,019	-
Additions during the year	23,715	30,019
<b>Ending balance</b>	<b>53,734</b>	<b>30,019</b>

Following is the distribution of loans in year 2009 by geographic area:

	<u>Outstanding Balance</u>	<u>Allowance for doubtful loans</u>	<u>Net realized value</u>
Ramallah and North of the West Bank	1,708,008	31,484	1,676,524
South of the West Bank	920,796	19,120	901,676
Gaza	276,459	3,130	273,329
	<b>2,905,263</b>	<b>53,734</b>	<b>2,851,529</b>

Following is the movement on the loans balance during 2009:

	<u>Beginning balance</u>	<u>Issued loans</u>	<u>Repayments</u>	<u>Ending balance</u>
Individual loans	587,887	2,960,120	1,211,059	2,336,948
Group loans	526,980	477,835	436,500	568,315
<b>Total</b>	<b>1,114,867</b>	<b>3,437,955</b>	<b>1,647,559</b>	<b>2,905,263</b>

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**  
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**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (6) CONTRIBUTION RECEIVABLES**

Details -

	Beginning balance	Additions	Cash received	Expenses paid directly by the donor	Written off during the year	Ending balance
PARC	1,017,541	800,000	(1,520,000)	(62,239)	(574)	234,728
European Commission (EC)	-	1,430,000	-	-	-	1,430,000
Spanish Agency for International Development Cooperation (AECID)	-	259,308	(259,308)	-	-	-
UNDP - Deep	-	20,000	(8,000)	-	-	12,000
	<b>1,017,541</b>	<b>2,509,308</b>	<b>(1,787,308)</b>	<b>(62,239)</b>	<b>(574)</b>	<b>1,676,728</b>

**NOTE (7) OTHER CURRENT ASSETS**

Details -

	2009	2008
Interest receivable on granted loans	3,640	-
Due from employees	5,354	3,287
Prepaid expenses	1,912	983
Others	440	57
	<b>11,346</b>	<b>4,327</b>

**NOTE (8) CASH AND CASH EQUIVILENTS**

Details -

	2009	2008
Cash on hand	12,145	1,299
Cash at banks	443,038	36,368
Term deposits at banks	184,459	328,806
	<b>639,642</b>	<b>366,473</b>

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**  
 Financial statements for the year ended December 31, 2009

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (9) SHARE CAPITAL**

The authorized share capital of Reef is 100,000 shares of 1 US Dollar par value each. During the year 2009 Reef has issued additional USD 4,000 share capital. As of December 31, 2009 the total share capital (authorized and fully paid) amounted to US Dollar 100,000 shares of 1 U.S. Dollar par value each

During the annual general meeting held on December 30, 2009, the shareholders approved the issuance of additional 100,000 shares of US Dollar par value each. These additional shares will be registered with the company's controller registrar during 2010; accordingly, this increase is not reflected in the equity section as of the statement of financial position date December 31, 2009.

**NOTE (10) SUBORDINATE LAON**

Based on the signed agreement between PARC and Reef, as of September 10, 2007, and later discussions, PARC agreed to transfer USD 1,500,000 for Reef, to be used for granting loans. During the years 2008 and 2009, Reef received from PARC the total agreement amount of USD 1,500,000. The amount has been disbursed as loans during 2008 and 2009.

The amount received was booked as a subordinate loan, based on the intent of PARC to transfer the amount granted to capital by December 31, 2012. PARC preserves its right to the loan, in case Reef was liquidated or operations were closed before December 31, 2012.

**NOTE (11) LONG TERM LOAN**

Details -

	<u>2009</u>	<u>2008</u>
Matures during 2011	293,189	70,031
Matures during 2010	151,699	23,344
	<u><b>444,888</b></u>	<u><b>93,375</b></u>

**NOTE (12) PROVISION FOR EMPLOYEES' INDEMNITY**

Details -

	<u>Beginning Balance</u>	<u>Additions during the year</u>	<u>Payments during the year</u>	<u>Ending balances</u>
Employees' end of service benefits	18,588	20,576	1,600	37,564
Provident fund	26,651	32,857	2,047	57,461
	<u><b>45,239</b></u>	<u><b>53,433</b></u>	<u><b>3,647</b></u>	<u><b>95,025</b></u>



**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (13) DEFERRED REVENUES**

This item represents property and equipment acquired during the period out of temporarily restricted contribution; movement on deferred revenues during the period was as follows:

Details –

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	61,130	40,300
Add: Property and equipment purchases	7,821	33,795
Less: Deferred revenues recognized	<u>16,617</u>	<u>12,965</u>
<b>Balance, end of year</b>	<b><u>52,334</u></b>	<b><u>61,130</u></b>

**NOTE (14) CASH MARGINS**

This amount represents the balance of cash margins deposited by creditor's collateral for the granted loans.

These cash margins are deposited in local banks and are renewed on a monthly basis.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE (15) TEMPORARILY RESTRICTED CONTRIBUTIONS**

This item comprises of temporarily restricted contributions subject to purpose or time restricted by donors. These amounts represent the difference between the pledges received and the expenditures made out to satisfy the purpose stipulated by the donor.

Details -

	Balance beginning of the year	Additions	Temporary restricted contributions released from restriction	Transferred to subordinate Loan	Released for the purchase of property and equipment	Currency variance	Balance end of the year
Palestinian Agricultural Relief Committees (PARC)	794,582	*800,000	486,761	300,000	7,821	-	800,000
European Commission (EC)	-	1,430,000	-	-	-	-	1,430,000
Spanish Agency for International Development Cooperation (AECID)	-	259,308	-	-	-	(7,056)	252,252
UNDP - Deep	-	20,000	-	-	-	-	20,000
	<b>794,582</b>	<b>2,509,308</b>	<b>486,761</b>	<b>300,000</b>	<b>7,821</b>	<b>(7,056)</b>	<b>2,502,252</b>

\*During year 2009, Reef has received a total amount of US Dollar 800,000. This amount has been donated by the Government of Netherland through PARC – a major shareholder. As per the donor's stipulations, the amount has been disbursed as loans. Further, the donor has stipulated that this amount should be classified as donated equity on the statement of financial position. However, as of December 31, 2009, the amount was still not registered with the company's controller registrar; accordingly the amount is classified as a temporarily restricted contribution. Reef is expected to register this amount during 2010.

**NOTE (16) DEFERRED INTEREST REVENUE**

Details -

	2009	2008
Deferred interest revenue - individual loans	242,882	53,454
Deferred interest revenue - group loans	6,927	10,028
	<b>249,809</b>	<b>63,482</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (17) OTHER PAYABLES AND ACCRUALS**

Details -

	<u>2009</u>	<u>2008</u>
Accrued expenses	21,342	16,767
Others	35,750	3,203
	<u>57,092</u>	<u>19,970</u>

**NOTE (18) INTEREST AND COMMISSION**

Details -

	<u>2009</u>			<u>2008</u>
	<u>Interest</u>	<u>Commissions</u>	<u>Total</u>	<u>Total</u>
Individual loans	148,627	27,889	176,516	24,459
Group loans	33,774	4,542	38,316	36,326
	<u>182,401</u>	<u>32,431</u>	<u>214,832</u>	<u>60,785</u>

**NOTE (19) OTHER REVENUES**

This item represents miscellaneous income that does not fit in any of the normal revenue categories, such as interest earned from bank saving accounts, revenue earned from filling loans' application etc...

**NOTE (20) GENERAL AND ADMINISTRATIVE EXPENSES**

Details -

	<u>2009</u>	<u>2008</u>
Salaries and related benefits	319,811	279,661
Management fees*	65,244	-
Training fees	28,233	11,067
Rent	26,652	25,057
Professional fees	15,844	32,290
Communication	13,749	11,080
Transportation	13,032	11,470
Utilities	9,633	7,066
Maintenance	9,347	3,231
Other	7,669	4,380
Stationary and office supplies	7,036	5,486
Advertisement	6,673	24,190
Insurance	5,842	3,732
Contributions written off	574	-
Research fees	363	52,145
	<u>529,702</u>	<u>470,855</u>

\* This item represents amounts charged by PARC – a major shareholder to Reef during the year 2009. This amount consists mainly of the salary of one of PARC's employee who worked for Reef. The amount has been paid directly by PARC on behalf of Reef.

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**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (21) FINANCE EXPENSES**

Details -

	<u>2009</u>	<u>2008</u>
Currency variance	15,717	1,304
Interest on loans	6,820	1,123
Bank commissions and charges	2,388	1,386
	<u>24,925</u>	<u>3,813</u>

**NOTE (22) INCOME TAX**

As stated in note (1) to the financial statements, Reef is registered as a private not for profit company in Gaza. According to the Income Tax Law No. 17 of the year 2004 as amended article (7), Income of not for profit entities arising from business or investment works, and any other activities of a nature that may impact the competitive competence of private sector, is subject to income tax.

Reef has generated a net loss from its taxable business activities as follows:

	<u>2009</u>	<u>2008</u>
<b>Income</b>		
Interest and commission	214,832	60,785
Other revenues	5,700	6,570
	<u>220,532</u>	<u>67,355</u>
<b>Expenses</b>		
General and administrative expenses (excluding the change in provision for employees' indemnity but including finance expenses)	504,841	434,082
Depreciation	16,617	12,965
<b>Net loss from business activities</b>	<u>(300,926)</u>	<u>(379,692)</u>
<b>Beginning of the year balance</b>	<u>(379,692)</u>	<u>-</u>
<b>Cumulative losses</b>	<u>(680,618)</u>	<u>(379,692)</u>

As per the above, Reef has recognized a net loss from business activities and accordingly not subject to income tax for the year 2009.

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 Financial statements for the year ended December 31, 2009

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (23) RELATED PARTY**

Related parties represent associated entities, shareholders, directors and key management personnel of the company, and entities controlled, jointly controlled or significantly influenced by such parties.

-Balances outstanding as the year end with related parties included in statement of financial position:

	<u>Relation</u>	<u>2009</u>	<u>2008</u>
Due from donors - PARC	Major shareholder	234,728	1,017,541
Temporarily restricted contributions - PARC	Major shareholder	800,000	794,582

-Transactions with related parties included in the statement of income:

	<u>Relation</u>	<u>2009</u>	<u>2008</u>
Temporarily restricted contributions released from restriction - PARC	Major shareholder	494,582	466,036
Key management personnel compensation	Key management	48,588	52,780
End of service benefits	Key management	8,640	10,078
Management fees - PARC	Major shareholder	65,244	-