

**Non-Government Organization
Micro Development Fund, Belgrade**

**Audit Report on Financial Statements
for the year ended on December 31, 2007**

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C O N T E N T S

	Pages
Independent Auditor's Report	1
Balance Sheet	2
Income Statement	3
Notes to the Financial Statements	4-21

Non-Government Organization Micro Development Fund, Belgrade

Independent Auditor's Report

We have audited the accompanying financial statements of Non-Government Organization Micro Development Fund, Belgrade, comprising of the Balance Sheet as of December 31, 2007 and the Income Statement for the year then ended.

Management's Responsibility for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Disclosure Guidelines for Financial Reporting by Microfinance Institutions issued by the Consultative Group to Assist the Poorest (CGAP). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and instructions contained in a Handbook for External Audits of Microfinance Institutions issued by the Consultative Group to Assist the Poorest (CGAP). 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 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 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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


Opinion

*In our opinion, the financial statements give **true and fair** view of the state of Non-Government Organization Micro Development Fund's affairs as of December 31, 2007 and of its results for the year then ended in accordance with Disclosure Guidelines for Financial Reporting by Microfinance Institutions issued by the Consultative Group to Assist the Poorest (CGAP).*

Belgrade, March 14, 2008



Managing Director


Bogoljub Aleksic,
Certified Auditor

1. Establishment, Management, Activity and Funds

1.1. Establishment and Management

Non-Governmental Organization Micro Development Fund (Micro Development Fund) was established as a association of citizens on January 23, 2001 and registered with the Federal Ministry of Justice, according to the then applicable law.

Since 1997 Danish Refugee Council (hereafter referred to as DRC) has been implementing self-reliance activities in Serbia – initially directly but since 2001 via its captive agency, Micro Development Fund (hereafter referred to as MDF). Since 2001 the capacity of MDF has been progressively enhanced in a gradual process towards independence.

On December 12, 2003, DRC and MDF signed the Memorandum of Understanding that defined the spin-off of the DRC's self-reliance program in Serbia to the MDF.

According to the Memorandum of Understanding, after finalization of the spin-off process, MDF has taken over full management and ownership of DRC's self-reliance activities and established its independence as of January 01, 2004.

MDF Head Office was located in Belgrade with the address Kneginje Zorke 11a till October 2007 when the MDF reallocated its head office to the new address in Svetozara Markovića 17. MDF has 15 branch offices and two regional offices in the following towns: Niš and Užice.

Board is the highest governing body of MDF, consists of four Board members with voting power. The Board is represented by the Chairman. Functioning of the Board is defined by the Statute. The Director reports to the Board and votes only in case of the tied vote by the Board. The role of the Board is to monitor the activities, give guidelines, propose changes and help in resolving strategic issues.

The Supervisor is independent control body who reports to the Board. The Supervisor is non-voting advisor to the Board.

Management consists of Director – Ms. Milena Gojković, Finance Manager, Credit Coordinator, BDS Manager, Office& HR Manager and two Branch Managers.

MDF has twenty-five employees.

1.2. Activity and Funds

MDF implemented 2 core programs, financial support to small entrepreneurs through “Micro Loan” and none financial “Business Development Services” program aimed to improve trainees vocational and business capacities. In 2007, MDF performed the activities described into two following notes:

1.2.1. Activities under Micro Loan Program

In 2007, MDF disbursed and managed all its Revolving Loan Fund Capital received from respective donors in previous periods, as follows:

- United Nations High Commissioner for Refugees (hereafter referred to as UNHCR);
- Danish International Development Assistance (hereafter referred to as DANIDA);
- International Committee of the Red Cross (hereafter referred to as ICRC);
- Tavolo trentino con la Serbia (hereafter referred to as TTS).

In 2005, the contracts on the hand – over of the Revolving Loan Fund from each of these donors, except TTS, to MDF ownership were signed (with UNHCR on February 02, with DANIDA – DRC on April 08 and with ICRC on May 31).

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

Over 2007, MDF also signed new donation contracts with UNHCR, Tavolo Trentino, SPARK and entered new cooperation with UN HABITAT with 3 contracts. Therefore, MDF has started the disbursement of the micro loan from fresh donations received from following donors:

- UNHCR – Housing loans;
- UN HABITAT – Business loans
- TTS – Business loans

During 2007, MDF has cooperated with Komercijana Banka a.d., Belgrade in the process of issuing loans to clients. MDF signed a Contract regarding crediting operations - “Commission contract” with Bank, on February 13, 2004. Based on the Law on Banks and other Financial Organizations which was in force until October 1, 2006, National Bank of Serbia issued the official document regards to performing of MDF crediting operations as commission operation (Bank is commission agent and MDF is client).

Operationally, Commission Contracts function in the following way:

- MDF has opened bank account for the special purpose of disbursement and repayment of the loans (“Commission” account);
- The micro loans are disbursed from the MDF financial sources;
- MDF appraises, approves micro loans and then submits the list of approved beneficiaries to Komercijalna Banka AD;
- Komercijalna Banka AD concludes the contract with each beneficiaries and issues micro loans in its own name but on the behalf of MDF;
- Clients repay the loans through the bank in behalf of the commission account;
- MDF has the obligation to follow up on the beneficiaries.

All loans are disbursed only through the bank and all loan repayments have to be made in the bank. No cash transactions between loan officers and clients are allowed.

Within 2007 year, MDF disbursed 1,651 loans.

1.2.2. Activities under none financial “Business Development Services” Program

In 2007, MDF implemented Vocational Training funded by UNHCR. Besides, MDF paid a lot of attention to its staff capacity building in order to secure qualitative long term operations.

1.3. Description of Programs

1.3.1. The Micro Loan Program

Micro Loan Program provides financial support to entrepreneurs with skills and ideas for start up or development of existing business as to create or sustain jobs. The program provides clients with continued access to funding in order to enhance gradual businesses strengthening and secure its sustainability.

The Micro Loan Program includes the following product:

- Loans aimed at primarily creating opportunities for refugees, IDPs and local population financed by funds originating from UNHCR;
- Loans to financially active poor people in Serbia financed by funds originating from DANIDA;
- Loans aimed at primarily creating opportunities for economically vulnerable IDPs financed by funds originating from ICRC;
- Loans aimed at individuals or group of individuals for the creating or expansion of an enterprise or self-employment financed by funds originating from TTS;
- Housing loans aimed at IDPs from Kosovo who successfully adopted their living conditions and improved into the new residential communities in Serbia funded by UNHCR fresh donation;
- Business loans at refugees, IDPs and smaller proportion of resident businesses financed by UN HABITAT micro loan fund capital for business loans as grant donation in value of 20% and MDF funds in value of 80%.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

Loans aimed at primarily creating business opportunities for refugees, IDPs and local population financed by funds originating from UNHCR – disbursements of these loans is based on the Agreement concluded on February 02, 2005 between UNHCR and MDF. This Agreement includes Annex E which refers to the Agreement on the Hand – over of Grant pertaining to UNHCR Revolving Loan Funds. Based on this Agreement on the Hand – over of Grant MDF received entire right of ownership and use of the Revolving Fund. Responsibilities of MDF is to use the revolving fund for microcredit activities only and to report to UNHCR with a narrative and financial report on the status of the programe for next one full calendar year.

The total amount of the Revolving Fund that was transferred for ownership was equal to RSD 67,329,178 (equivalent to USD 1,100,510 with the applied exchange rate of 61.18). The amount of RSD 67,329,178 included funds which were already collected and maintained in the separate bank accounts (relating to UNHCR funds) of the MDF and other funds which were in the form of payments due from loans provided to the beneficiaries. MDF converted the amount of RSD 67,329,178 into EUR amount by applying the buying official rate at the date of hand-over, so its equivalent in EUR was 595,776.

Loans to financially active poor people in Serbia financed by funds originating from DANIDA – disbursements of these loans is based on Asset Transfer Contract concluded on April 08, 2005 between DRC and MDF (this contract is effective from January 01, 2005). According to this Contract DRC transferred the ownership of assets (Loan Fund and Physical Assets) to MDF. The value of the Loan Fund transferred was EUR 745,461 (the figures were defined in EUR currency, by Contract). This amount includes in EUR 651,550 initial loan fund capital plus EUR 93,911 in retained interest and principal income from loan activity.

Loans aimed at primarily creating opportunities for economically vulnerable IDPs financed by funds originating from ICRC – disbursements of these loans is based on Agreement on the Transfer of Revolving Loans Funds concluded on May 31, 2005 between ICRC and MDF. Based on this Agreement on the Hand – over of Grant MDF received entire right of ownership and use of the Revolving Fund. Responsibilities of MDF is to use the revolving fund for microcredit activities only and to report quarterly to ICRC with a narrative and financial report on the status of the programe for the period from June of 2005 to May of 2008. The total amount of the funds that was transferred to MDF ownership was EUR 181,500 (the figure was defined in EUR currency, by Agreement)..

Loans aimed at individuals or group of individuals for the creating or expansion of an enterprise or self-employment financed by funds originating from TTS - disbursements of these loans is based on Agreement on the Management of TTS Loan Fund Capital concluded on July 7, 2005 between TTS and MDF. Based on this Agreement, the funds are provided in trusteeship to MDF by TTS, but revolving fund remains the legal property of TTS until a formal hand-over by TTS to MDF. Also, MDF will pay management fee to TTS on the received TTS funds at the rate 7% per annum on quarterly basis. The total amount of funds received in 2006, was EUR 50,000. This Agreement started on July 7, 2005 and ends on June 30, 2007. The agreement on the Management of TTS Loan Fund Capital concluded on July 7, 2005

In 2007, MDF and Tavolo Trentino cooperation was continued through a new contact for supporting the access to credit and overall enhancement of living and working conditions of people in Kraljevo suburbia. The agreement on the Management of TTS Loan Fund Capital was concluded on August 6, 2007. Based on this Agreement, the funds are provided in trusteeship to MDF by TTS, but revolving fund remains the legal property of TTS until a formal hand-over by TTS to MDF. Also, MDF will pay consulting services fee to at the rate 4% per annum on quarterly basis based on the TTS Invoice in installments. The total amount of funds received in 2007, was EUR 7,000. This Agreement started on July 1, 2007 and ends on July 1, 2009.

Housing loans aimed at IDPs from Kosovo who successfully adopted their living conditions and improved into the new residential communities in Serbia funded by UNHCR fresh donation - In 2007, MDF has started new Housing project for IDPs population funded by UNHCR. Based on the signed agreement and relating amendments, UNHCR contributed to MDF the Revolving Loan Funds in the amount RSD 17,332,135 (in five installments). The Agreements on the Hand - over of Grant pertaining to Revolving Loan Fund to MDF were also signed. Therefore, based on these agreements on the Hand - over of Grant, MDF received entire right of ownership and use of the Revolving Fund. The total amount of the Revolving Fund that is transferred for ownership is equal to RSD 17,332,135 (as stated above, the total amount was received in 2007). MDF converted the amount of RSD 17,332,135 into EUR amount by applying the buying official rate at the date of hand-over, so its equivalent in EUR was 214,763.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

Responsibilities of MDF is to use the revolving fund for microcredit activities only and to report to UNHCR with a narrative and financial report on the status of the programme for next four full calendar years.

Business loans at refugees, IDPs and smaller proportion of resident businesses financed by UN HABITAT micro loan fund capital for business loans as grant donation in value of 20% and MDF funds in value of 80% - disbursements of these loans is based on Agreement of cooperation concluded on January 22, 2007 between UN HABITAT and MDF. According to the agreement and within the proposed project it is planned to implement credits valued up to USD 7,500 each. The credits will be financed from MDF funds in amount up to 80%, while the UN HABITAT will contribute to the MDF's crediting fund amount of 20% loans grant funds for the MDF. The MDF will further on use the received annuities as Revolving Fund.

General Characteristics of the loan product

The loans were disbursed and repaid in RSD amounts by using EUR as index currency. MDF classifies its loan products in four groups, as stated below:

In 2007 MDF offered the following loan products:

Micro-classic

For Start-up entrepreneurs, unemployed people, agricultural workers, entrepreneurs who have unregistered businesses, entrepreneurs whose businesses are registered no longer than 6 months, employees supplementing their income, opening market sales.

1. Loans are approved to:
 - Starting up new business
 - For developing current businesses,

Loans are approved progressively:

Cycles	Amount €	Repayment period (months)
I	200-2,000	6-18
II	200-3,000	to 24
III	200-4,000	to 24
IV	200-5,000	to 24

2. The 1st repayment is due one month after receipt of funds.
 3. Repayments are on a monthly basis.
- Loan repayment is assured by collateral and commonly used collaterals are:
- Promissory note signed by two endorses and
 - At least two administrative bans or promissory note of a legal entity.

Loan processing fee is 2%.

For loans from ICRC fund, repeat loan amount is up to 2,500 €.

Our ex product Micro-Bonus are automatically transferred to the Micro-classic with maximum amount of 5 000 € and 24 months repayment period depending on the loan cycle.

Micro-entrepreneur

Target group: Entrepreneurs with businesses registered 6 months or longer.

1. Methodology: Individual
2. Loans are approved for:
Business development, registered 6 months or longer.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

3. Loan amount:
 - Minimum 500 €
 - Maximum 5,000 €
4. Repayment period: 6-24 months
5. The 1st repayment is due one month after disbursement.
6. Repayments are on a monthly basis.
7. Loan repayment is assured by collateral and commonly used collaterals are:
 - For amounts up to 3,000 € promissory note signed by two endorsers, promissory note of a legal entity, minimum two administrative bans or promissory note of a legal entity.
 - For amounts over 3,000 €, promissory note signed by three endorsers, promissory note of a legal entity, three administrative bans or promissory note of a legal entity.Loan processing fee is 2%.

Micro-home

Target group: Internally displaced people from Kosovo, who are in need to solve their housing problem by reconstructing a house or flat.

1. Loans are approved for:
 - Building materials purchase
 - Costs of hiring qualified workers for adaptation
 - Buying already existing property (a house or flat) that need reparation.
2. Loan amount: 200 – 4,000 €
3. Repayment period: Up to 48 months
4. The 1st repayment one month after disbursement.
5. Repayments are on a monthly basis.
6. Loan repayment is assured by collateral and commonly used collaterals are:
Promissory note signed by two-three endorsers, promissory note of a legal entity, administrative bans on salary, or promissory note of a legal entity / mortgage.
Loan processing fee is 2%.

Micro-packet

Target group: Refugees – UN Habitat Rental Housing Beneficiaries who choose business loan as support package.
Loan conditions are as for micro-classic.

1.3.2. Business Development Services

In 2007, MDF implemented Vocational Trainings and Curriculum Trainings funded by UNHCR.

The aim of the Vocational Training program was to upgrade the IDP skills and/or adjust their current professions in order to enhance their chances of successful employment at the local labour market or within their own business.

The aim of the Curriculum Trainings (CT) was to improve skills and knowledge of unemployed adults among IDPs as well as prepare them for future independent job performance in area of curriculum for which they passed this training for.

Besides, MDF paid a lot of attention to its staff capacity building in order to secure qualitative long term operations. Variety of trainings and seminars were attended by MDF management, middle management, Loan Officers and BDS program staff.

In 2007, MDF started the new project “Economic Empowerment of Roma waste collector in Valjevo” financed by the UN HABITAT.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

The project targeted the most vulnerable and economically challenged Roma families in Valjevo, who are making their living through collecting, sorting and selling waste. They were provided BDS services - technical assistance in upgrading their businesses as well as improving their self-reliance.

In 2007, MDF started to implement “Economic Strengthening of the Most Vulnerable Population of Pancevo” financed by UN HABITAT.

The project targeted the most vulnerable and economically challenged families in Pancevo. The beneficiaries were supported with BDS services: Vocational Trainings for business purposes and business start up support. Besides, the project supported MDF capacity building.

In 2007, MDF started the “Settlement and Integration of Refugees Program” Implementation of Support Packages for Rental Housing Beneficiaries funded by UN HABITAT.

The project offers BDS to Refugees to find more durable solutions and self-reliance strategies within the municipalities where they decided to integrate. The beneficiaries were offered different support packages (vocational trainings, micro loans, other technical support...)

2. Basis of Preparation of the Financial Statements

2.1. Accounting Policy

The accompanying financial statements have been prepared in accordance with Disclosure Guidelines for Financial Reporting by Microcredit Institutions prepared by the Consultative Group to Assist the Poorest (CGAP). These guidelines are voluntary norms recommended by a consultative group of international donors. Thus an institution’s failure to comply with the CGAP’s guidelines would not necessarily imply that the institution or its financial statements are in violation of any legal or other authoritative accounting or reporting standard.

2.2. Basis of Accounting

The financial statements of the MDF have been prepared on a cash basis. Under this convention, transactions are recognized when cash is received (and recorded as revenue) or paid (and recorded as expenses), not when they occur.

MDF uses Loan Tracking System (LTS) which is MIS with the main purpose to provide information relevant to the administration of the portfolio, including:

- Identity of the client;
- Amount disbursed;
- Loan terms, such as interest rate, penalty, maturity;
- Repayment schedule-amounts and timing;
- Amount and timing of payments received;
- Amount and aging of delinquency;
- Outstanding balance.

Some of the data generated by LTS flow directly into the accounting system and financial statements-such as disbursements, repayments, interests, penalties, loans recovery, but some of them flow only indirectly - such as delinquency that is used to estimate provisions in the accounting system. This information feeds into the accounting system and financial statements such as following positions: Loans Outstanding (Gross and Net), Financial Income, Allowances for Loan Loss. EUR currency is the index currency of the LTS, used for calculation of all transaction connecting to micro loans.

2.3. Reporting and Accounting Currency

The financial statements of the MDF have been prepared in EUR currency whereas the functional currency was RSD. Accordingly these financial statements should not be considered as being fully consistent with the result of financial position, which would be shown if they have been presented in the functional currency.

According to MDF accounting policy, buying official exchange rate (EUR:RSD) prevailing on the date of transaction is used for calculating of the transactions denominated in RSD currency, during the year. This also relates to the transactions recorded in LTS that are explained in the Note -2.2.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

Items of the Income Statement excluding the Interest, Penalties and Loans recovery which related to micro loans activities (such as Operating Expenses, Financial Costs, Fees), as well as revenues and expenses related to Activities under none financial “Business Development Program” which are denominated in RSD currency are expressed in EUR. The EUR amounts have been calculated, by applying the average exchange rate 1EUR:79.4709RSD, which was calculated by MDF (the sum of the buying official exchange rates prevailing at the last day of each month was divided by 12).

Some items of the Balance Sheet (Fixed Assets, Bank Current Account etc) denominated in RSD are expressed in EUR at the buying official exchange rate prevailing at the balance sheet date – 1EUR:77.6515RSD. The Balance Sheet items denominated in EUR are disclosed in their original amounts.

Comparative Information

The comparative numerical information in previous period has been disclosed in the Financial Statements and expressed in EUR currency.

3. Summary of Significant Accounting Policies

3.1. Financial Income

Financial income results from microcredit activities and includes: interest on loans, penalties, interest on current assets, fees, cost recovery, and recovery from written off loans which have been recorded when received.

3.2. Provision for Loan Losses

Provision for loan losses represents expenses related to actual or anticipated loan losses. Provision for loan losses is shown separately from other expenses in the Income Statement.

The MDF policy is to write off the loans with more than 180 days late, automatically. The loan portfolio is deducted and loan loss reserve is reduced for the value of write offs. The relating expenses are disclosed also separately in the Income Statement.

In case when the calculated value of loan loss allowance at the end of the period is less then the value of loan loss allowance at the beginning of the period, the difference is treated as income and therefore it is separately disclosed in Income Statement as Decrease of Loan Loss Reserve.

3.3. Operating Expenses and Financial Costs

Operating expenses and financial costs represent all expenses related to generating operating income, i.e. financial income and to the operation of the MDF. They consist of personnel expenses, office rent, communication costs, services, other administrative expenses, taxes, bank fees, incurred and paid in the current accounting period.

3.4. Grant Revenues and None Operating Expenses

Income from grants received for non-micro-loan program and expenses associated with them are segregated from income and expenses related to micro-loan activities in the Income Statement, so that the financial performance (profit or loss) from micro-loan operations can be determined.

3.5. Loans

Gross outstanding loan portfolio is the amount of loans that has been disbursed but has not been repaid or written off. Net outstanding loans are stated as the amount of principle outstanding less reserves for loan impairment. Provision for loan impairment is provided as described in Note 3.6.

Loans are disbursed in RSD as the equivalent of an agreed amount in foreign currency EUR by using buying official exchange rate prevailing on the date of transaction. Repayment of loans is in RSD and also is indexed to foreign currency EUR using buying official exchange rate prevailing on the date of transaction.

3.6. Provision for Allowances for Loan Loss

Provision for uncollectible loans is recognized as an expense, charged against income and deducted from the total amount of loans.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

The main measure of loan delinquency is based on aging portfolio at risk ratio derived from the Loan Tracking System. From the Financial Statements it is seen that at the end of the fiscal year, MDF computes a provision for doubtful loans. The allowance is determined by applying predicted loss percentages to aged loans grouped by lateness of payments. A loan becomes late as soon as a scheduled installment is missed. The predicted loss percentages are based on management's analysis of historical outcomes of late loans.

Allowance for loan loss is an amount set aside in the Balance Sheet to recognize probable future loan losses so that the true value of the loan portfolio is fairly stated. The amount of the allowance loan loss is shown, as a negative asset deducted from the loan portfolio.

The allowance is increased by additional loan loss provision expense. Expenses related to actual or anticipated loan losses are shown separately from other expenses in the Income Statement.

Loans are separated into classes depending on how many days overdue they are. MDF calculates loan loss allowance according to the following policy:

Days late	Percentage for reserve
1-30	5.00%
31-60	25.00%
61-90	50.00%
90-180	75.00%
>180	100.00%

Based on the experience from the previous periods MDF has defined the percentage stated in the above table as the basis for the calculation of the loan loss allowance. However, MDF made Decision that the value of the loan loss allowances at the end of period must not be under of 1% of the gross loans outstanding.

A loan is first considered late after the first missed payment. Once a loan has been defined as late, for it to enter write-off status it has to be over 180 days late.

3.7. Fixed Assets

Purchased fixed assets are recorded at costs. Depreciation is calculated on a straight-line basis using the annual depreciation rate defined on the bases of the estimated useful life of an asset.

Donated fixed assets (equipment and vehicle) are recorded at the net value stated in the donor's book.

3.8. Long-term liabilities

Long-term liabilities shall include liabilities with maturity over one year from the date of execution, i.e. compilation of the Financial Statements.

Liabilities shall be evaluated at the nominal value amount resulting from the respective operating or financial transactions supported by the credible certificates.

3.9. In-kind Subsidies

In-kind subsidies show an estimated of additional expenses that MDF would have if subsidies not given. MDF discloses in-kind subsidies in the Income Statement below net income from operations.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

Balance Sheet

4. Bank Current Accounts

The Bank Current Accounts represent all cash available on December 31, 2007.

MDF operates through the accounts in RSD currency held with Komercijalna banka AD, Beograd

Bank accounts	2007
	EUR
Bank account for MDF business activities	8,367
Bank account for disbursement and repayment of loans	24,578
Other bank accounts relating to loan activities	1,094
Transfer bank account (held with Komercijalna bank)	6,322
Bank account relating to the Vocational Training activities	365
Bank account relating to the Action funded by European Agency for Reconstruction	1
Bank account relating to the Action funded by UN HABITAT	22,164
Total	62,891

Disclosed EUR amounts represent the equivalents of RSD amounts which were calculated by applying buying official exchange rate prevailing at the Balance Sheet date.

The amount of EUR 6,322 reported as Transfer bank account represents the amount of made loan repayments in three last days of 2007 (as stated in payment deposit slips), but recorded in the bank statements issued in 2008.

5. Loans Outstanding

The balance of the net loans outstanding disclosed in the Balance Sheet amounts EUR 2,614,985 and relates to the following:

Donor	Gross values	Allowance for loan loss	Net value
	EUR	EUR	EUR
UNHCR	1,187,559	(11,876)	1,175,683
DANIDA	870,152	(8,702)	861,450
ICRC	280,786	(2,808)	277,978
Tavolo Trentino	73,179	(732)	72,447
UN HABITAT	15,963	(160)	15,803
UNHCR HOSING	213,762	(2,138)	211,624
Total	2,641,401	(26,416)	2,614,985

Gross Loans Outstanding represents outstanding principal with MDF clients as of December 31, 2007. MDF is using Loan Tracking System (LTS) and EUR as index currency for calculation of outstanding principle, as well as for all transaction connecting to micro loans. All contracts with MDF clients provided EUR as index currency.

Allowance for loan loss reserve is the calculated category.

Disclosed EUR amounts were generated by LTS, and fed into Financial Statements.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

5.1. Changes on Outstanding Principal during 2007

Amounts are disclosed in EUR							
Description	UNHCR	DANIDA	ICRC	Tavolo Trentino	UNHCR HOUSING	UN HABITAT	Total
At the beginning of period							
Opening balance as per Transaction Summary	1,139,086	832,254	252,854	55,448			2,279,642
Opening balance as per LTS	1,139,322	834,596	252,723	55,448			2,282,089
Adjustment	236	2,342	(131)	-			2,447
Disbursement							
	1,332,750	967,020	336,810	85,350	244,800	17,900	2,984,630
Repayment							
	(1,288,922)	(931,921)	(309,203)	(67,156)	(31,038)	(1,937)	(2,630,177)
Write off			(573)	-			(573)
Transfer in	(240)		-	-			(240)
Transfer out	240	-	-	-			240
Returned principal	31	130					161
Cash Over	1,504	814	380	60			2,758
Cash Short	(259)	(108)	(71)	(28)			(466)
Recovery	3,648	283	410	-			4,341
Special transactions	4,924	1,119	146	-			6,221
At the end of period							
Outstanding principal as per Transaction Summary	1,187,838	868,472	280,607	73,642	213,762	15,963	2,640,284
Outstanding principal as per LTS	1,187,559	870,152	280,786	73,179	213,762	15,963	2,641,401
Adjustment	(279)	1,680	179	(463)			1,117

5.2. Calculation of Allowances for Loan Loss Per donors during 2007

As of December 31, 2007 the total amount of Allowances for Loan Loss disclosed in the Balance Sheet was EUR 26,416. The accounting policy for calculation of loan loss reserves is explained in Note 3.6.

The following table shows the movements in loan loss allowances:

Description	UNHCR	DANIDA	ICRC	Tavolo Trentino	UNHCR HOUSING	UN HABITAT	Total
At the beginning of period	16,122	8,346	2,544	554	-	-	27,566
Loans Written off during the year	-	(573)	-	-			(573)
Provision / decrease for loan loss	(4,246)	356	264	178	2,138	160	(1,152)
At the end of period - 1% of gross outstanding portfolio	11,876	8,702	2,808	732	2,138	160	26,416
At the end of period (aging)	7,759	6,991	2,345	592	278	-	17,965
Provisions (disclosed as expenses)							(3,094)
Decrease (disclosed as income)							4,246
Write off loans							(573)

The amount of loans written off during the year was EUR 573. The loan portfolio was deducted and loan loss allowance was reduced for the value of write offs.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

The calculated value of loan loss allowance as of December 31, 2007 was EUR 26,416. According to the MDF accounting policy (Note 3.6), the value of the loan loss allowances at the end of period must not be under 1% of the gross loans outstanding. And therefore in case when the loan loss allowances calculated based on aged portfolio at risk are less than the amount calculated based on 1% of gross outstanding, the loan loss allowances should be recognized in the amount of 1% of gross outstanding, as it was done.

The result of reconciliation between the total value of loan loss allowance at the beginning of the period after writing off and the calculated value of loan loss allowance at the end of the period was a decrease of value for EUR 1,152 (net effect). Although, the total provisions per donor funds amounted to EUR 3,094 and the total decrease of loan loss allowance per donor funds amounted to EUR 4,246. These figures were separately disclosed in the Income Statement as income and expenses.

The table below shows figures relating to the calculated value of allowances for loan loss based on the aged portfolio at risk and the calculated value of allowances for loan loss based on 1% of gross outstanding. The details of the calculations of these allowances are tabled separately further in this Note.

	Allowances for loan loss based on aged portfolio at risk	Allowances for loan loss based on 1% of gross outstanding
	EUR	EUR
UNHCR	7,759	11,876
DANIDA	6,991	8,702
ICRC	2,345	2,808
Tavolo Trentino	592	732
UN HABITAT	-	160
UN HOSING	278	2,138
Total	17,965	26,416

The table below shows loan delinquency based on aged portfolio at risk. The loans are separated into classes depending on how many days overdue they are.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

Description	Outstanding principle		Allowances for loan loss	
	Amount		Percent	Amount
	EUR		%	EUR
UNHCR	1,187,559			7,759
Current	1,069,376		-	
1-30 days late	110,474		5	5,524
31-60 days late	6,873		25	1,718
61-90 days late	437		50	219
91 180 days late	399		75	299
DANIDA	870,152			6,991
Current	746,867		-	
1-30 days late	120,262		5	6,013
31-60 days late	2,135		25	534
61-90 days late	888		50	444
91 180 days late	-		75	-
ICRC	280,786			2,345
Current	250,342		-	-
1-30 days late	28,178		5	1,409
31-60 days late	785		25	196
61-90 days late	1,481		50	740
91 180 days late	-		75	-
Tavolo Trentino	73,179			592
Current	62,896		-	-
1-30 days late	9,889		5	494
31-60 days late	394		25	98
61-90 days late	-		50	
91 180 days late	-		75	
UNHCR HOUSING	213,762			278
Current	208,207		-	
1-30 days late	5,555		5	278
31-60 days late			25	
61-90 days late	-		50	
91 180 days late	-		75	
UN HABITAT	15,963			
Current	15,963			
TOTAL	2,641,401			17,965
Current	2,353,651		-	
1-30 days late	274,358		5	13,718
31-60 days late	10,187		25	2,546
61-90 days late	2,806		50	1,402
91 180 days late	399		75	299

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

The following table shows the calculation of the loan loss allowances based on 1% of gross outstanding:

	Gross outstanding	1% of Gross outstanding	Allowances for loan loss
	EUR	%	EUR
UNHCR	1,187,559	1%	11,876
DANIDA	870,152	1%	8,702
ICRC	280,786	1%	2,808
Tavolo Trentino	73,179	1%	732
UN HABITAT	15,963	1%	160
UN HOSING	213,762	1%	2,138
Total	2,641,401	1%	26,416

6. Fixed Assets

Fixed Assets consist of vehicles and equipment that are owned by MDF.

Description	2007
	EUR
Costs	31,755
Accumulated Depreciation	(9,894)
Net Fixed Assets	21,861

7. Long Term Liabilities

Disclosed amount of Long-term liabilities as of December 31, 2007 consists of:

Descriptions	EUR
Deferred Revenue	24,153
UNHCR	365
UN Habitat	22,164
Deferred revenue related to donated equipment	1,624
Other Long Term Liabilities	60,140
Other Long Term Liabilities to Tavolo Trentino	57,000
Other Long Term Liabilities to UN Habitat	3,140
Total	84,293

Other long term liability of EUR 57,000 represents liability to the TTS based on the two Agreements on the management of TTS loan fund capital. One of the agreements was concluded on July 7, 2005. TTS transferred the loan fund capital in the amount of EUR 50,000 (First installment of EUR 25,000 paid on February 8, 2006 and second installment of EUR 25,000 paid on June 22, 2006). According to the Agreement, the revolving fund remains the legal property of TTS until a formal hand over by TTS to MDF, so the received amount was recognized as liability by MDF.

Another agreement was concluded on August 6, 2007. TTS transferred the loan fund capital in the amount of EUR 7,000 (The amount of EUR 7,000 was paid on November 23, 2007). According to the Agreement, the revolving fund remains the legal property of TTS until a formal hand over by TTS to MDF, so the received amount was recognized as liability by MDF

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

Deferred revenue represents the grants received from UNHCR and UN HABITAT for covering activities under none financial “Business Development Program“ which has not been spent till balance sheet date. Namely, the received grants were initially recognized as deferred revenue, which has on systematic and rational grounds been posted in favour of incomes during the year after matching with the associated expenses that need to be covered according to the Agreement with donors. And therefore disclosed balances represent unspent donors’ funds as of balance sheet date (Note 14.1).

The amount of EUR 3,140 disclosed as Other Long Term Liabilities to UN Habitat represents the participation of 20% of the UN HABITAT funds which was used for disbursements of loans defined in the Agreement signed between UN HABITAT and MDF.

8. Net Worth

Net Worth represents the aggregate of accumulated donations and retained earnings. As of December 31, 2007 it consists of:

Descriptions	EUR
Equity	
Donated Equity	1,660,166
Donations for fixed assets	16,927
Cumulative Grants for Operations (Revolving loan fund - UNHCR)	595,776
Cumulative Grants for Operations (Initial loan fund -DANIDA)	651,550
Cumulative Grants for Operations (Initial loan fund - ICRC)	181,150
Cumulative Grants for Operations (Initial loan fund UNHCR Housing)	214,763
Retained Net Surplus (Deficit)	959,012
Prior Periods	796,218
Current Periods	162,794
Total	2,619,178

8.1. Donated Equity

Donations for fixed assets - the amount of EUR 16,927 comprises the amount of EUR 11,190 which represents the net value of equipment and vehicle granted by DANIDA in 2005 and the amount of EUR 5,737 which represents the net value of equipment and vehicle granted by UNHCR in 2006.

Cumulative Grants for Operations – disclosed amounts represent the value of the initial loan fund made available by donors (mentioned in table above) in the prior periods, except amount relating to UNHCR which represents revolving loan fund and the value of the fresh donation received from UNHCR in 2007 for housing loans.

In 2005, each of three donors transferred the ownership of revolving loan funds to the MDF (defined by Agreements concluded between MDF and each donor separately, details in Note 1.4.1.). Revolving loan fund includes the initial loan fund made available by donors and retained earnings from prior periods. Retained earnings from prior periods relating to the DANIDA and ICRS are disclosed, separately from initial loan fund, within the item – Retained net surplus from prior period.

Cumulative grants for operations UNHCR Housing were owned by MDF in 2007, based on the Agreement on the Hand - over of Grant (explained in Note 1.3.1.). UNHCR contributed to MDF the fresh loan funds in the amount RSD 17,332,135 (in five installments). For the accounting purposes the received funds were translated in EUR amounts by applying the buying official exchange rates prevailing at the day of hand – over of grant.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

8.2. Retained Net Surplus

Retained Net Surplus represents all funds accumulated by MDF from the micro loan activities.

As of December 31, 2007 the total amount of retained net surplus from the prior periods was EUR 796,218.

Retained Net Surplus from the current period amounted to EUR 162,794 what is also disclosed in the Income Statement as Excess of Revenues over Expenses.

Income Statement

9. Financial Income

The total amount of financial income disclosed in Income Statement for the year ended on December 31, 2007 amounts to EUR 676,512 and consists of:

Descriptions	EUR
Interest on loans	609,990
Penalties	12,931
Fees	29,846
Loans recovery	3,648
Cost recovery	12,057
Other income	8,040
Total	676,512

Interest on loans represents the most significant part of financial income, it was generated from micro loan activity. Interest on loans is collected with monthly loan repayment.

Penalties are charges for late payments - 0.2% per day.

Loans Recovery is the result of collecting loans that were written off.

Fees are charge for transactions relating to the loans disbursement – at value of 2% of the disbursement amount (1% belongs to bank and 1% to MDF).

Cost recovery represents the refund for paid salaries to employee who was on maternity leave, made by Authorities.

Stated EUR amounts were generated by LTS, and fed into Income Statements.

	UNHCR	DANIDA	ICRC	Travolo Trentino	UNHCR HOUSING	UN HABITAT	Total
Interest on loans	298,764	213,727	70,411	15,218	11,136	734	609,990
Penalties	6,259	4,813	1494	338	22	5	12,931
Loans recovery	3,648	-	-	-	-	-	3,648
Fees	13,328	9,670	3,368	854	2,448	179	29,846
Total	321,999	228,210	75,273	16,410	13,606	918	656,415

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

10. Financial Costs

The total amount of financial costs disclosed in Income Statement for the year ended on December 31, 2007 amounts to EUR 47,016 and consist of:

Descriptions	EUR
Taxes	46,225
Bank fees	791
Total	47,016

The amount of EUR 46,225 represents the amount paid during 2007 for profit tax (the liability for profit tax for 2006 was settled and advance installments for 2007 based on the tax return for previous year were paid).

11. Operating Expenses

The total amount of operating expenses disclosed in Income Statement for the year ended on December 31, 2007 amounts to EUR 460,163 and consists of:

Descriptions	EUR
Depreciation	4,584
Salaries and benefits	298,028
Travel Costs	23,645
Office Rent	29,494
Communication Costs	12,377
Services	29,962
Office Supplies	9,726
Vehicle Maintenance	25,684
Office Utilities	16,339
Audit Costs	9,171
Promo-activities	1,153
Total	460,163

The amount of EUR 460,163 includes all operating expenses relating to microcredit activities which were covered from financial income during the year.

12. None Operating Expenses

The total amount of none operating expenses disclosed in Income Statement for the year ended on December 31, 2007 amounts to EUR 259,230 and consists of:

Descriptions	EUR
Cost related to project financed by UNHCR	162,744
Cost related to project financed by EAR	11,201
Cost related to projects financed by UN Habitat	76,151
Cost related to project financed by MFC	3,174
Fuel Coupons	5,960
Total	259,230

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

Cost related to Project financed by UNHCR disclosed in Income Statement for the year ended on December 31, 2007 amounts to EUR 162,744 and it includes all expenses relating Project activities which are covered by grants received from UNHCR.

Cost related to Project financed by EAR disclosed in Income Statement for the year ended on December 31, 2007 amounts to EUR 11,201 and it includes all expenses relating to grant program activities which are covered by EAR grants transferred by DRC.

Cost related to projects financed by UN Habitat disclosed in Income Statement for the year ended on December 31, 2007 amounts to EUR 76,151 and it includes all expenses relating three Projects activities which are covered by grants received from UN Habitat.

Cost related to project financed by MFC disclosed in Income Statement for the year ended on December 31, 2007 amounts to EUR 3.174 and it includes all expenses relating Project activities defined by Agreement signed with MFC. These activities were temporary financed by MDF own funds. Therefore MDF recognized the receivables from MFC in the balance sheet in the amount of its funds which was used for covering MFC expenses (Note 14).

14. None Operating Revenue

The total amount of none operating expenses disclosed in Income Statement for the year ended on December 31, 2007 amounts to EUR 259,230 and consists of:

Descriptions	EUR
Grant Revenues from UNHCR	162,744
Grant Revenues from EAR	11,201
Grant Revenues from UN Habitat	76,151
Grant Revenues from MFC	3,174
In – kind Subsidy	5,960
Total	259,230

14.1. Grant Revenues

In 2007, UNHCR granted funds in the amount of EUR 163,109 for covering Project expenses defined by Project Agreement. In the Income Statement the Grant Revenues was reported in the amount of EUR 162,744 what represents the amount of made disbursements, since the remaining funds of EUR 365 were disclosed as deferred revenue in the Balance Sheet (Note 7).

In 2007, UN Habitat granted funds in the amount of EUR 98,315 for covering Projects expenses defined by three Project Agreements. In the Income Statement the Grant Revenues was reported in the amount of EUR 76,151 what represents the amount of made disbursements, since the remaining funds of EUR 22,164 were disclosed as deferred revenue in the Balance Sheet (Note 7).

In 2007, EAR granted funds in the amount of EUR 11,201 for covering Projects expenses defined by Project Agreement. In the Income Statement the Grant Revenues was reported in the amount of EUR 11,201 what represents the amount of made disbursements, since the Project unspent funds were reimbursed to EAR at July 4, 2007 (after Project termination).

Due to fact that the MFC payments defined by Project Agreements were late, the MDF financed temporary Project activities from own funds (Note 13).

14.2. In-kind Subsidy

In 2007, MDF received the fuel coupons from UNHCR. MDF estimated the additional expense that would be incurred in fuel coupons absence in the amount of EUR 5,960, as disclosed in Income Statement.

14.3. Exchange Rate difference

The exchange difference of EUR 7,279 resulting from translating assets and liabilities at the buying official exchange rate prevailing at the balance sheet date – 1EUR:77.6515RSD and income and expenses at average exchange rate 1EUR:79.4709RSD, which was calculated by MDF (the sum of the buying official exchange rates prevailing at the last day of each month was divided by 12).

15. Events after the Balance Sheet Date

In January of 2008 Komercijana Banka a.d., Belgrade required termination of the “Commission contract” which was concluded on February 13, 2004 (Note 1.2.1.). Cancellation term was 60 days and expired on March 11, 2008. According to that, the MDF stopped loans disbursement in accordance with Contract on Commission Bank Transaction with Komercijalna banka. MDF has started with process of finding a new bank, activity modality with the aim of continuing with loan activities.