

No. : 009A/AK – LAP/ 0306

**INDEPENDENT AUDITOR'S REPORT  
ON  
FINANCIAL STATEMENTS OF  
GANESHA MICROFINANCE FOUNDATION  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**RASIN , ICHWAN & REKAN**  
**ALLIOTT**  
GROUP  
A WORLDWIDE NETWORK OF INDEPENDENT FIRMS

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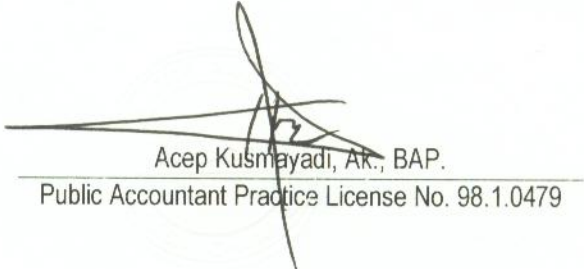
## Independent Auditor's Report

The Board of Directors Ganesha Microfinance Foundation,

We have audited the accompanying statement of financial position of Ganesha Microfinance Foundation as of December 31, 2005 and 2004 and the statement of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits the financial statements referred to above presents fairly, in all material respects, the financial position of Ganesha Microfinance Foundation as of December 31, 2005 and 2004 and the results of their operations, and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Indonesia.

  
Acep Kusmayadi, Ak., BAP.

Public Accountant Practice License No. 98.1.0479

Jakarta, March 15, 2006

The accompanying financial statements are not intended to present the financial position and results of operations, and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in Indonesia. The standards, procedures and practices to audit such statements of financial position are those generally accepted and applied in Indonesia.

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**GANESHA MICROFINANCE FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2005 AND 2004**  
(Expressed In Thousand Rupiah)

	Notes	2005	2004		Notes	2005	2004
<b>ASSETS</b>							
<b>Current Assets</b>				<b>LIABILITIES AND NET ASSETS</b>			
Cash and bank	1	1.913.789	1.716.117	<b>Current Liabilities</b>			
Account receivables	2	3.919.731	1.113.758	Client deposits		368.610	109.040
Prepaid expenses	3	46.406	9.792	Accrued expenses	5	-	672
Other current assets		500	2.125	Taxes payable	6	81.237	57.664
<b>Total Current Assets</b>		5.880.426	2.841.792	<b>Total Current Liabilities</b>		449.847	167.376
<b>Non Current Assets</b>				<b>Non Current Liabilities</b>			
Fixed assets	4			Other payables:	7		
<i>(net of accumulated depreciation of</i>				- related parties	a	1.761.780	1.469.913
<i>236.593 and 100.665 at 2005 and 2004)</i>		548.232	214.913	- third parties	b	3.785.028	1.118.740
<b>Total Non Current Assets</b>		548.232	214.913	<b>Total Non Current Liabilities</b>		5.546.808	2.588.653
				<b>Total Liabilities</b>		5.996.655	2.756.029
				<b>NET ASSETS</b>	8		
				Unrestricted		332.003	200.676
				Permanently restricted		100.000	100.000
				<b>Total Net Assets</b>		432.003	300.676
<b>TOTAL ASSETS</b>		6.428.658	3.056.705	<b>TOTAL LIABILITIES AND NET ASSETS</b>		6.428.658	3.056.705

See accompanying notes to financial statements which are an integral part of the financial statements

GANESHA MICROFINANCE FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(Expressed In Thousand Rupiah)

	Notes	2005	2004
<b>Changes in Unrestricted Net Assets</b>			
<b>Revenue and Income</b>	9		
Interest on loan		1.301.147	516.022
Interest on bank account		20.063	13.269
Others income		8.166	102
<b>Total Revenue and Income</b>		<u>1.329.376</u>	<u>529.393</u>
<b>Expense and Losses</b>	10		
Loan loss expenses		217.495	4.337
Interest on borrowing		8.012	-
General and administrative expense		945.050	255.538
<b>Total Expense and losses</b>		<u>1.170.557</u>	<u>259.875</u>
<b>Increase (Decrease) in Unrestricted Net Assets</b>		<u>158.819</u>	<u>269.518</u>
<b>Changes in Permanently Restricted Net Assets</b>		-	-
<b>Increase in Permanently Restricted Net Assets</b>		-	-
<b>Increase in Net Assets Before Taxes</b>		<u>158.819</u>	<u>269.518</u>
<b>Provision for Income Taxes</b>		(27.492)	(56.098)
<b>Increase (Decrease) in Net Assets</b>		<u>131.327</u>	<u>213.420</u>
<b>Net Assets at the beginning of the year</b>		300.676	87.256
<b>Net Assets at the end of the year</b>		<u>432.003</u>	<u>300.676</u>

See accompanying notes to financial statements which are an integral part of the financial statements

**GANESHA MICROFINANCE FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
(Expressed In Thousand Rupiah)

	<u>2005</u>	<u>2004</u>
<b>Cash Flows from Operating Activities</b>		
Interest received on loan	1.329.376	529.393
Cash disbursement for operating expense	(787.146)	(43.436)
Loan disbursement	(7.417.200)	(2.202.300)
Loan repayment	4.401.374	1.768.641
Loan loss reserve	209.853	1.171
Income tax	(27.492)	(56.098)
<b>Net cash used in operating activities</b>	<u>(2.291.235)</u>	<u>(2.629)</u>
<b>Cash Flows from Investing Activities</b>		
Additional to fixed asset	(469.247)	(116.374)
<b>Net cash used in investing activities</b>	<u>(469.247)</u>	<u>(116.374)</u>
<b>Cash Flows from Financing Activities</b>		
Loan from third parties	2.666.288	1.118.742
Cash received from related parties	291.867	197.054
<b>Net cash provided from financing activities</b>	<u>2.958.155</u>	<u>1.315.796</u>
<b>Increase (decrease) in cash and cash equivalent</b>	<b>197.672</b>	<b>1.196.793</b>
<b>Cash and cash equivalent at the beginning of the year</b>	<b>1.716.117</b>	<b>519.324</b>
<b>Cash and cash equivalent at the ending of the year</b>	<u><u>1.913.789</u></u>	<u><u>1.716.117</u></u>

See accompanying notes to financial statements which are an integral part of the financial statements

# GANESHA MICROFINANCE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (Expressed In Thousand Rupiah)

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### A. GENERAL

Ganesha Microfinance Foundation ("Foundation") was established based on the notarial deed of Mr. H.M. Afdal Gazali, SH. No. 68 dated April 19, 2002.

The Foundation's address is: Ruko Asiatic Blok B No. 27, Jalan Permata Sari, Lippo Karawaci Barat, Kabupaten Tangerang 15810, Banten, Indonesia.

Founding members and the members of the Governing Board of the Foundation on 2005 and 2004 period are as follows:

	2005	2004
Chairman (Founder) :	Mr. Shafique Dhanani	Mr. Shafique Dhanani
Secretary (Founder) :	Ms. Ir. Diah Widarti, MS	Ms. Ir. Diah Widarti, MS
Treasurer (Founder) :	Ms. Elizabeth Sweeting	Ms. Elizabeth Sweeting
Member :	Ms. Helen Todd	-

Based on the notarial deed, the Foundation's aim is to improve people's living standards and reduce poverty, help increase the ability of small scale businesses, create smart, skilled, and healthy communities and also develop the Foundation professionally.

Ganesha initiated its field activities in February 2003 in sub-district Teluk Naga, Rural Tangerang district, near Jakarta. In 2004, Ganesha added 1 (one) sub-district, Rajeg, Rural Tangerang district, near Jakarta. And in 2005, Ganesha added 4 (four) sub-districts Kronjo, Sepatan, Legok, and Kebon Cau.

### B. ACTIVITIES AND FUNDING

To achieve its goals, the foundation undertakes the following activities:

- Implement microfinance activities for economically weak people and the needy
- Document foundation activities
- Efforts in other activities, not deviating from the basis and aims of the Foundation
- Cooperating with public and private agencies and institutions

Funding to run its activities comes from:

- Donation from community, including grants
- Income, grants and loans obtained by the Foundation
- Grants from Founders
- Other 'halal' and legal income

# GANESHA MICROFINANCE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (Expressed In Thousand Rupiah)

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### C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1. Basis for Preparation of Financial Statements

The Financial Statements have been prepared based on Generally Accepted Accounting Principles and the Financial Accounting Standards (PSAK) No. 45 for Not-for-Profit Organizations.

#### 2. Receivables

Receivables consist of loan receivable, interest receivable and other receivables. Accrual of interest receivable reserved in liquid asset at unearned revenue account

#### 3. Transactions with Related Parties

In accordance with the Financial Accounting Standard (PSAK) No. 7, related parties in affiliation are defined as follows:

- (1) Enterprises that control (directly or indirectly through intermediary), or are controlled by, or are under common control with the reporting enterprise (including holding companies, subsidiaries and fellow subsidiary);
- (2) Associated companies;
- (3) Individuals owning, directly or indirectly, in the voting power of the reporting enterprise that gives them significant influence over the enterprise, close members of the families of such individuals (close members of a family are defined as those members who are able to exercise influence or can be influenced by such individuals in conjunction with their transaction with the reporting enterprise);
- (4) Key management personnel; that is, those persons having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise, including commissioners, directors and managers of the enterprise and close members of the families of such individuals;
- (5) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (3) and (4) over which such person is able to exercise significant influence. This includes enterprises owned by commissioners, directors or major shareholders of the reporting enterprise and enterprises that have a key member of management in common with the reporting enterprise.

# GANESHA MICROFINANCE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (Expressed In Thousand Rupiah)

### C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 4. Fixed Assets and Depreciation

Fixed assets are recorded at cost. Fixed assets, except land rights which are not depreciated, are depreciated using the straight line method over the estimated useful lives of the assets from the date the asset is ready for use as follows:

	Years
Office equipment	4
Vehicles	4

#### 5. Net Assets

Based on PSAK No. 45 regarding accounting for not-for-profit organization, net assets are divided into 3 (three) types: permanently restricted, temporarily restricted and unrestricted.

- (1) Permanently restricted means that the asset is not for sale, or aimed for investment that gives permanent income.
- (2) Temporarily restricted means the asset is aimed for certain activities or for certain term investment. Limitation can be classified into time limit, temporary limit or both.
- (3) Unrestricted means the asset has no limitation, usually include service income, goods sales, donation and dividend or share of investment outcome less the expenses.

### D. NOTES TO FINANCIAL STATEMENTS

#### 1. Cash and bank

These represent cash in hand and in banks, with detailed balances as follows:

	2005	2004
Cash	164.110	110.718
Cash in banks :		
Bank Lippo	899.100	1.121.808
Bank Rakyat Indonesia	819.464	475.630
Bank Mandiri	31.115	7.961
	<u>1.913.789</u>	<u>1.716.117</u>

# GANESHA MICROFINANCE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (Expressed In Thousand Rupiah)

### D. NOTES TO FINANCIAL STATEMENTS (continued)

#### 2. Account receivables

The account receivables consist of the amount of basic loan to poor women, with detailed balances as follows:

	<u>2005</u>	<u>2004</u>
Basic loan	4.136.919	1.121.093
Provision for bad debt	<u>(217.188)</u>	<u>(7.335)</u>
	<u><b>3.919.731</b></u>	<u><b>1.113.758</b></u>

As of December 31, 2005, there were 12.335 total borrowers. Outstanding loans amounting to Rp 4.136.919.000,- (full amount) and the interest loan was 30% per year flat basis on the loan provided to each borrower.

Borrowers repay their first basic loan within a period of up to 12 (twelve) months. The borrower's first loan is usually for Rp 500.000,- (full amount) and the second loan amounts to up to Rp 1.000.000,- (full amount), considered a viable size in terms of income generation.

#### 3. Prepaid expense

These represent prepaid expense of rental office for multiple years, with detailed balances as follows:

	<u>2005</u>	<u>2004</u>
Prepaid expense – rent	59.092	12.917
Amortization	<u>(12.686)</u>	<u>(3.125)</u>
	<u><b>46.406</b></u>	<u><b>9.792</b></u>

GANESHA MICROFINANCE FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(Expressed In Thousand Rupiah)

D. NOTES TO FINANCIAL STATEMENTS (continued)

4. Fixed assets

These represent fixed assets owned by the Foundation, with detailed balances as follows:

	2005			
	Beginning Balance	Addition	Deduction	Ending Balance
Cost :				
Furniture	26.230	47.935	-	74.165
Computers	53.774	17.981	-	71.755
Office equipments	17.573	62.292	-	79.865
Vehicles	218.001	341.039	-	559.040
	<u>315.578</u>	<u>469.247</u>	<u>-</u>	<u>784.825</u>
Accumulated depreciation :				
Furniture	4.717	12.773	-	17.490
Computers	7.581	15.824	-	23.405
Office equipments	3.165	11.465	-	14.630
Vehicles	85.202	95.866	-	181.068
	<u>100.665</u>	<u>135.928</u>	<u>-</u>	<u>236.593</u>
	<u><b>214.913</b></u>			<u><b>548.232</b></u>
	2004			
	Beginning Balance	Addition	Deduction	Ending Balance
Cost :				
Furniture	10.132	16.098	-	26.230
Computers	13.160	40.614	-	53.774
Office equipments	3.312	14.261	-	17.573
Vehicles	172.600	45.401	-	218.001
	<u>199.204</u>	<u>116.374</u>	<u>-</u>	<u>315.578</u>
Accumulated depreciation:				
Furniture	1.411	3.306	-	4.717
Computers	2.181	5.401	-	7.581
Office equipments	558	2.606	-	3.165
Vehicles	38.665	46.537	-	85.202
	<u>42.815</u>	<u>57.850</u>	<u>-</u>	<u>100.665</u>
	<u><b>156.389</b></u>			<u><b>214.913</b></u>

# GANESHA MICROFINANCE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (Expressed In Thousand Rupiah)

### D. NOTES TO FINANCIAL STATEMENTS (continued)

#### 5. Accrued expense

Accrued expense balance per December 31, 2004 is the amount of December's salary payable which were cleared on January 2005.

#### 6. Taxes payable

	2005	2004
Income tax article 21 (employee income)	453	1.566
Income tax article 29 (foundation)	80.784	56.098
	<u>81.237</u>	<u>57.664</u>

#### 7. Other payables

##### a. Related parties

These represent other payable to related parties which are non-interest bearing, the detailed balances of which are as follows:

	2005	2004
Shafique Dhanani	1.394.267	1.102.400
Elizabeth Sweeting	367.513	367.513
	<u>1.761.780</u>	<u>1.469.913</u>

##### b. Third parties

	2005	2004
Hivos	3.508.638	1.118.740
Grameen Trust	276.390	-
	<u>3.785.028</u>	<u>1.118.740</u>

Payable of Euro 297.000 (Euro 201.000 and 96.000 in respectively 2005 and 2004) or equivalent with Rp 3.508.638.000 (Rp 2.389.898.000.- Rp and 1.118.740 in respectively 2005 and 2004) are contributions from Hivos, a Dutch non-government organization which operates on the basis of humanistic values. This payable is non-interest bearing.

GANESHA MICROFINANCE FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(Expressed In Thousand Rupiah)

D. NOTES TO FINANCIAL STATEMENTS (continued)

7. Other payables (continued)

Hivos reserves the right to convert a maximum of half of Hivos' contribution to Ganesha's loan portfolio (Euro 150.325) into a subordinated loan or equity, once Ganesha has converted to an appropriate legal entity.

The total amount of Hivos contribution agreed is Euro 363.000 (full amount). This was made available for the project according to the following remittance schedule:

Year	Amount (Euro)	Amount (Rp 000)	Date Planned	Date Received
2004				
	50.000	579.850	16-09-2004	04-11-2004
	46.000	538.890	16-11-2004	25-11-2004
	<u>96.000</u>	<u>1.118.740</u>		
2005				
	32.000	399.680	16-02-2005	21-04-2005
	31.000	360.220	16-05-2005	23-06-2005
	31.000	381.641	16-10-2005	23-09-2005
	31.000	363.103	16-11-2005	22-11-2005
	10.000	116.420	(Additional)	05-12-2005
	33.000	384.417	16-02-2006	06-12-2005
	33.000	384.417	16-05-2006	06-12-2005
	<u>201.000</u>	<u>2.389.898</u>		
2006				
	33.000	-	16-10-2006	-
	33.000	-	16-11-2006	-
	<u>66.000</u>	<u>-</u>		
	<u><b>363.000</b></u>			

The Hivos contribution is available for the following purposes (Euro, original schedule):

	2004	2005	2006	Total
Loan portfolio	82.800	97.850	120.000	300.650
MIS	7.200	2.200	-	9.400
TA and Training	6.000	24.950	12.000	42.950
International Consultant	-	-	10.000	10.000
	<u>96.000</u>	<u>125.000</u>	<u>142.000</u>	<u><b>363.000</b></u>

# GANESHA MICROFINANCE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (Expressed In Thousand Rupiah)

### D. NOTES TO FINANCIAL STATEMENTS (continued)

#### 8. Net assets

The details of net asset as of 31 December 2005 and 2004 are as follows:

	2005	2004
Unrestricted	332.003	200.676
Permanently restricted	100.000	100.000
	<u>432.003</u>	<u>300.676</u>

Permanently restricted of Rp 100.000.000,- (full amount) is the authorized capital at the time of the foundation's establishment based on notarial deed No. 68 of Mr. H.M. Afdal Gazali, SH dated April 19, 2003.

#### 9. Revenue and income

The details of revenue and income as of December 31, 2005 and 2004 are as follows:

	2005	2004
Interest on loan	1.301.147	516.022
Interest on bank account	20.063	13.269
Other income	8.166	102
	<u>1.329.376</u>	<u>529.393</u>

#### 10. Expenses and losses

The details of expense and losses as of December 31, 2005 and 2004 are as follows:

	2005	2004
Loan loss expenses	217.495	4.337
Interest on borrowing	8.012	-
General and administrative expenses	945.050	255.538
	<u>1.170.557</u>	<u>259.875</u>

GANESHA MICROFINANCE FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(Expressed In Thousand Rupiah)

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D. NOTES TO FINANCIAL STATEMENTS (continued)

10. Expenses and losses (continued)

The details of general and administrative expense as of December 31, 2004 and 2003 are as follows:

	2005	2004
Salaries and benefits	334.948	101.877
Incentive and bonus	81.665	14.370
Traveling & conveyance	6.243	5.166
Vehicle running expenses	38.228	10.571
Recruitment & training	6.571	1.655
Communications	9.642	2.365
Rent expense	72.086	5.125
Utilities	6.679	1.098
Office running expenses	67.693	19.147
Repairs, maintenance and insurance	42.419	14.845
Entertainment and publications	3.026	1.331
Software installation	37.452	-
Bank charges	2.999	715
Staff development	66.071	15.155
Professional fees	24.500	2.400
Depreciation expense	135.928	57.850
Other expense	8.900	1.868
	<u>945.050</u>	<u>255.538</u>

11. Subsequent events

There were no subsequent events needed to be reported on this financial statement's notes.