

No : 070/AK-LAP/0805

INDEPENDENT AUDITOR'S REPORT
ON
FINANCIAL STATEMENTS OF
GANESHA MICROFINANCE FOUNDATION
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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

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A WORLDWIDE NETWORK OF INDEPENDENT FIRMS

Independent Auditor's Report

The Boards of Ganesha Microfinance Foundation

We have audited the accompanying statement of financial position of Ganesha Microfinance Foundation as of December 31, 2004 and 2003 and the statements 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 present fairly, in all material respects, the financial position of Ganesha Microfinance Foundation as of December 31, 2004 and 2003 and the results of their operations, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Indonesia.



Drs. Ichwan Yunus, Ak. MM

Public Accountant License No. : 98.1.0.0337

Jakarta August 10, 2005

The accompanying statement of financial position 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.

GANESHA MICROFINANCE FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2004 AND 2003
(Expressed In Thousand Rupiah)

	Notes	2004	2003		Notes	2004	2003
ASSETS							
Current Assets				LIABILITIES AND NET ASSETS			
Cash and bank	1	1.716.117	519.324	Current Liabilities			
Account receivables	2	1.113.758	681.270	Client deposits		109.040	-
Prepaid expense	3	9.792	2.917	Accrued expense	5	672	672
Other current assets		2.125	1.214	Taxes payable	6	57.664	328
Total Current Assets		2.841.792	1.204.725	Total Current Liabilities		167.376	1.000
Non Current Assets				Non Current Liabilities			
Fixed Assets	4			Other payable - related parties	7a	1.469.913	1.272.859
<i>(net of accumulated depreciation of</i>				Other payable - third parties	7b	1.118.742	-
<i>100.665 and 42.815 at 2004 and 2003)</i>		214.913	156.389	Total Non Current Liabilities		2.588.655	1.272.859
Total Non Current Assets		214.913	156.389	Total Liabilities		2.756.031	1.273.859
				NET ASSETS	8		
				Unrestricted		200.674	(12.745)
				Permanently restricted		100.000	100.000
				Total Net Assets		300.674	87.255
TOTAL ASSETS		3.056.705	1.361.114	TOTAL LIABILITIES AND NET ASSETS		3.056.705	1.361.114

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, 2004 AND 2003
(Expressed In Thousand Rupiah)

	Notes	2004	2003
Changes in Unrestricted Net Assets			
Revenue and Income	9		
Interest on loan		516.022	133.082
Interest on bank account		13.269	3.372
Others income		102	-
Total Revenue and Income		<u>529.393</u>	<u>136.454</u>
Expense and Losses	10		
Provision for loan losses		4.337	6.874
General and administrative expense		255.539	142.325
Total Expense and losses		<u>259.876</u>	<u>149.199</u>
Increase (Decrease) in Unrestricted Net Assets		<u>269.517</u>	<u>(12.745)</u>
Changes in Permanently Restricted Net Assets			
Donation		-	100.000
Increase in Permanently Restricted Net Assets		<u>-</u>	<u>100.000</u>
Increase in Net Assets Before Taxes		<u>269.517</u>	<u>87.255</u>
Provision for Income Taxes		(56.098)	-
Increase (Decrease) in Net Assets		<u>213.419</u>	<u>87.255</u>
Net Assets at the beginning of the year		87.255	-
Net Assets at the end of the year		<u><u>300.674</u></u>	<u><u>87.255</u></u>

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

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Expressed In Thousand Rupiah)

	<u>2004</u>	<u>2003</u>
Cash Flows from Operating Activities		
Interest received on loan	529.393	136.454
Cash disbursement for operating expense	(43.436)	(109.513)
Loan disbursement	(2.202.300)	(1.132.800)
Loan repayment	1.769.812	451.530
Income tax	(56.098)	-
Net cash used in operating activities	<u>(2.629)</u>	<u>(654.330)</u>
Cash Flows from Investing Activities		
Additional to fixed asset	(116.374)	(199.205)
Net cash used in investing activities	<u>(116.374)</u>	<u>(199.205)</u>
Cash Flows from Financing Activities		
Endowment fund	-	100.000
Loan from third parties	1.118.742	-
Cash received from related parties	197.054	1.272.859
Net cash provided from financing activities	<u>1.315.796</u>	<u>1.372.859</u>
Increase (decrease) in cash and cash equivalent	1.196.793	519.324
Cash and cash equivalent at the beginning of the year	519.324	-
Cash and cash equivalent at the ending of the year	<u><u>1.716.117</u></u>	<u><u>519.324</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, 2004 AND 2003 (Expressed In Thousand Rupiah)

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 on Ruko Asiatic Blok B No. 27, Jl. Permata Sari, Lippo Karawaci Barat, Kabupaten Tangerang 15810, Banten.

Founding members and the members of the Board of Foundation on 2004 and 2003 period are as follows:

Chairman	:	DR. Shafique Dhanani
Secretary	:	DR. Ir. Diah Widarti, MS
Treasurer	:	DR. Elizabeth Sweeting

Based on the notarial deed, the Foundation's aim is to improve people's living standard and reduce poverty, help increasing small scale business' ability, 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. At 2004, Ganesha added 1 (one) sub district, Rajeg, Rural Tangerang district, near Jakarta.

B. ACTIVITIES AND FUNDING

To achieve its goals, the foundation has undertaken the following activities:

- Undertaking microfinance activities for economically weak people and the needy.
- Documenting 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, 2004 AND 2003 (Expressed In Thousand Rupiah)

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of 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 manager 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, director 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, 2004 AND 2003 (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:

	<u>Years</u>
Office equipment	4
Vehicles	4

5. Net Assets

Based on PSAK No. 45 about accounting for not-for-profit organization, net assets divided into 3 (three) kinds, 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 on hand and in banks, the detailed balances of which are as follows:

	<u>2004</u>	<u>2003</u>
Cash	110.718	135.940
Cash in banks :		
Bank BRI – 33228608	475.630	71.033
Bank BRI – 33228609	-	179.609
Bank BRI – 33228774	-	71.802
Bank Mandiri	7.961	60.940
Bank Lippo	1.121.808	-
	<u>1.716.117</u>	<u>519.324</u>

GANESHA MICROFINANCE FOUNDATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(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, the detailed balances which are as follows:

	<u>2004</u>	<u>2003</u>
Basic loan	1.121.093	687.434
Provision for bad debt	<u>(7.335)</u>	<u>(6.164)</u>
	<u>1.113.758</u>	<u>681.270</u>

As of December 31, 2004, there were 3.274 total borrowers. Cumulative loans issued amounted to Rp. 3.335.100,- (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 will amount 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 2 years the detailed balances which are as follows:

	<u>2004</u>	<u>2003</u>
Prepaid expense - rent	12.917	5.000
Amortization	<u>(3.125)</u>	<u>(2.083)</u>
	<u>9.792</u>	<u>2.917</u>

GANESHA MICROFINANCE FOUNDATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (Expressed In Thousand Rupiah)

D. NOTES TO FINANCIAL STATEMENTS (continued)

1. Accrued expense

Accrued expense balance per December 31, 2004 and 2003 is the amount of December's salary payable which will be paid on January 2005 and 2004.

2. Taxes payable

	2004	2003
Income tax article 21 (employee income)	1.566	328
Income tax article 29 (foundation)	56.098	-
	<u>57.664</u>	<u>328</u>

3. Other payables - related parties

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

	2004	2003
Shafique Dhanani	1.102.400	905.674
Elizabeth Sweeting	367.513	367.185
	<u>1.469.913</u>	<u>1.272.859</u>

b. Payable of Euro 96.000 (full amount) equivalent with Rp 1.118.740.000.- (full amount) are contribution from Hivos, a Dutch non - government organization which operates on the basis of humanist values. This payable is non-interest bearing.

GANESHA MICROFINANCE FOUNDATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (Expressed In Thousand Rupiah)

D. NOTES TO FINANCIAL STATEMENTS (continued)

7. Other payables - related parties (continued)

The amount of contribution will be Euro 353.000 (full amount). This will be made available for the project according to the following remittance schedule:

Amount (Euro)	Date
50.000	November 4, 2004
46.000	November 25, 2004
32.000	February 16, 2005
31.000	May 16, 2005
31.000	August 16, 2005
31.000	November 16, 2005
33.000	February 16, 2006
33.000	May 16, 2006
33.000	August 16, 2006
33.000	November 16, 2006
<u>353.000</u>	

The Hivos contribution is available for the following purposes:

	2004	2005	2006
Loan portfolio (Euro)	82.800	97.850	120.000
MIS(Euro)	7.200	2.200	-
TA and Training(Euro)	6.000	24.950	12.000
	<u>96.000</u>	<u>125.000</u>	<u>132.000</u>

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.