

**The Lebanese Association for Development
Al Majmoua**

Financial Statements
For the year ended December 31st, 2004
(with Independent Auditors' Report Thereon)

THE LEBANESE ASSOCIATION FOR DEVELOPMENT-AL MAJMOUA
December 31st, 2004

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Independent Auditors' Report

Board of Trustees
The Lebanese Association for Development - Al Majmoua
Beirut, Lebanon

We have audited the accompanying statement of financial position of the Lebanese Association for Development - Al Majmoua ("Al Majmoua") as at December 31, 2004 and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Al Majmoua as at December 31, 2004 and the changes in its net assets and its cash flows for the year then ended in conformity with U.S Generally Accepted Accounting Principles.

May 17, 2005
Beirut, Lebanon

**The Lebanese Association for Development
Al Majmoua
Statement of Financial Position
As at December 31, 2004**

ASSETS	Note	US Dollars 2004	US Dollars 2003
Cash and Banks	3	1,273,250	1,285,137
Restricted Cash	4	400,000	300,000
Short term receivables	5	5,788,746	4,895,500
Grant Receivable	6	-	40,000
Other assets	7	24,917	30,556
Total current assets		<u>7,486,913</u>	<u>6,551,193</u>
Long term receivables	8	155,078	-
Property and Equipment	9	140,557	184,113
Total non-current assets		<u>295,635</u>	<u>184,113</u>
Total Assets		<u><u>7,782,548</u></u>	<u><u>6,735,306</u></u>
 LIABILITIES			
Accounts Payable and Accruals	10	102,161	60,743
Short-term debt	11	73,370	-
Deferred Interest	12	858,527	646,501
Total current liabilities		<u>1,034,058</u>	<u>707,244</u>
Provisions - End of Service		59,883	39,628
Long term debt	11	324,507	-
Total non-current liabilities		<u>384,390</u>	<u>39,628</u>
Total Liabilities		<u>1,418,448</u>	<u>746,872</u>
 NET ASSETS			
Unrestricted		6,364,100	5,948,434
Temporarily Restricted		-	40,000
Total Net Assets		<u>6,364,100</u>	<u>5,988,434</u>
Total Liabilities and Net Assets		<u><u>7,782,548</u></u>	<u><u>6,735,306</u></u>

The notes on pages 5 to 10 form part of these financial statements

The Independent Auditors' report is set forth on page 1

**The Lebanese Association for Development
Al Majmoua
Statement of Activities
For the year ended December 31, 2004**

		US Dollars 2004	US Dollars 2004	US Dollars 2003
	Note	Unrestricted	Temporarily Restricted	Total
<i>Revenues, Gains and other Support</i>				
Loan Interest and Fees		1,760,558	-	1,760,558
Bank interest		55,010	-	55,010
Other		69,488	-	69,488
<i>Net Assets Released from Restrictions</i>				
Satisfaction of Grants Restrictions		40,000	(40,000)	-
Total Revenues, Gains and Other Support		1,925,056	(40,000)	1,885,056
<i>Expenses and Losses</i>				
HNE-A-00-97-00063-00		-	-	6,432
City Group/United Way		273	-	273
ESFD project		48,687	-	48,687
Management and General		1,457,347	-	1,457,347
Total Expenses	14	1,506,307	-	1,506,307
Loss / (Gain) on Disposal of fixed assets		3,084	-	3,084
Total Expenses and Losses		1,509,391	-	1,509,391
Change in Net Assets		415,665	(40,000)	375,665
Net Assets at Beginning of Year		5,948,434	40,000	5,988,434
Net Assets at End of Year		6,364,100	0	6,364,100

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**The Lebanese Association for Development
 Al Majmoua
 Statement of Cash Flows
 For the year ended December 31, 2004**

	US Dollars 2004	US Dollars 2003
Cash Flow from Operating Activities:		
Change in Net Assets	375,666	138,565
Adjustments to reconcile change in net assets to net Cash used in operating activities:		
Depreciation	46,411	49,954
Loss on Disposal of fixed assets	3,084	(52)
Increase in Provisions	135,302	3,103
Increase in Accounts Receivables	(911,313)	(761,138)
Decrease in Other assets	5,639	4,257
Increase in Accounts Payable and Accruals	41,418	4,074
Increase in Short Term Debt	73,370	-
Increase in Long term debt	324,507	-
Net cash from operating activities	<u>94,083</u>	<u>(561,237)</u>
Cash flows from investing activities:		
Purchase of Equipment	(5,970)	(7,991)
Proceeds from sale of fixed assets	-	2,291
Net cash used in investing activities	<u>(5,970)</u>	<u>(5,700)</u>
Net increase in cash and cash equivalents	88,113	(566,937)
Cash and cash equivalents at beginning of year	<u>1,585,137</u>	<u>2,152,074</u>
Cash and cash equivalents at end of year	<u>1,673,250</u>	<u>1,585,137</u>

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The Lebanese Association for Development
Al Majmoua
Notes to Financial Statements
December 31st, 2004

14 Total expenses

	Mgmt & Gen'l	ESFD loan	City Group / United Way	Total Expenses 2004	Total Expenses 2003
	USD	USD	USD	USD	USD
Salaries and Benefits	789,996	38,129	0	828,124	836,238
Office Supplies	24,613	0	0	24,613	14,797
Government Tax	18,866	983	0	19,849	15,868
Rent	58,386	0	0	58,386	57,000
Transport and Telecommunication	91,235	8,026	0	99,260	81,827
Repair and Maintenance	26,431	0	0	26,431	15,745
Common Expenses	22,027	0	0	22,027	28,441
Professional Fees	141,079	0	0	141,079	83,812
Training Expenses	6,292	58	0	6,350	2,716
Insurance Expenses	4,820	0	0	4,820	5,424
Operating Charges	7,583	0	0	7,583	9,502
Depreciation	46,411	0	0	46,411	49,954
Provisions	199,332	0	273	199,606	181,350
Bank Charges	19,711	1,492	0	21,204	5,964
Negative difference of exchange	565	0	0	565	581
Total Expenses	1,457,347	48,687	273	1,506,307	1,389,218

**The Lebanese Association for Development
Al Majmoua
Notes to Financial Statements
December 31, 2004**

1 Nature of operations

The Lebanese Association for Development-Al Majmoua (“Al Majmoua”) is an independent Lebanese not for profit organization. It was established in 1997 to help owners of small businesses, “micro-entrepreneurs”, to expand their micro-activity by offering them sustainable financial services. It was registered at the Ministry of Interior under no. 100/AD, dated August 20, 1997. Al Majmoua innovates in order to render access to financial services a right and not a luxury.

Al Majmoua’s leading product is small loans for working capital. It is especially adapted to suit the needs of the thousands of poor Lebanese who are excluded from access to the banking sector.

Al Majmoua was established in 1997 from a Save the Children Federation pilot project. It started operations in 1998.

2 Summary of significant accounting policies

2.1 Basis of presentation

The financial statements have been prepared in accordance with Statements of Financial Accounting Standards No. 117, “Financial Statements of Not-for-profit Organizations”, which establishes standards for external financial reporting by not-for-profit organizations. SFAS No. 117 is issued by the Financial Accounting Standards Board of the U.S. Financial Accounting Foundation.

Under the provision of these standards, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. In order to ensure observance of limitations and restrictions placed on the use of the available resources, the accounts are maintained in accordance with the principles of fund accounting. Accordingly, net assets of Al Majmoua and changes therein are classified and reported as follows:

Unrestricted-Current Fund: Net assets that are not subject to donor imposed stipulations.

Temporarily Restricted: Net assets subject to donor-imposed stipulations that may or will be met either by actions of Al Majmoua and/or the passage of time.

2.2 Revenue Recognition

Unconditional promises to give are recognized when contracts are signed and budget approved by donor. Contributions and grants from funding agencies received are classified as additions to unrestricted or temporarily restricted net assets depending on restrictions, or absence of, donor-imposed restrictions limiting the use of contributed assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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Notes to Financial Statements
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2 Summary of significant accounting policies (continued)

2.3 Property and Equipment

Plant assets are stated at cost at date of acquisition or fair value at date of donation in case of gifts. Depreciation of Property and Equipment is charged as expenses in the unrestricted assets (current funds) of the statement of activities.

Yearly depreciation rates are 20% for computer equipment and software, 13% for office equipment, 12% for improvement and general installations, 9% for furniture, 15% for vehicles, and 33.33% for software licenses.

Property and Equipment are net of accumulated depreciation.

2.4 Foreign currency

Transactions in currencies other than the USD, the functional currency of Al Majmoua, are translated at the rate of exchange ruling at the transaction date. At statement of financial position date, foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at that date. Resulting exchange differences are recognized in the statement of activities for the year.

3 Cash and banks

	2004	2003
	USD	USD
Cash on hand	1,060	987
Cash at banks	<u>1,272,190</u>	<u>1,284,150</u>
	<u>1,273,250</u>	<u>1,285,137</u>

4 Restricted Cash US \$ 400.000

On October 21, 2003, Al Majmoua signed an agreement (in the form of a loan contract) "EC Project LBN/B7-4100/99/0225" with the Council for Development and Reconstruction (CDR) for the benefit of the Economic Social Fund of Lebanon (ESFD). The agreement states that the CDR agrees to lend Al Majmoua an amount of 1,800,000,000LBP (One Thousand, Eight Hundred, Million Lebanese Pounds) for the purpose of on-lending to micro and very small sized enterprises.

The funds are to be disbursed to Al Majmoua in trenches; the first trench amounting to LBP450,000,000 was received on January 16, 2004; a portion of the second trench amounting to LBP150,000,000 was received on October 6th, 2004.

According to the EC Project LBN/B7-4100/99/0225 Loan Contract, Al Majmoua has to provide a bank guarantee on the outstanding balance of the loan contract.

As of December 31, 2004 a total of USD400,000 was restricted for the EC project LBN/B7-4100/99/0225.

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Notes to Financial Statements
December 31, 2004**

5	Short term receivables	2004 USD	2003 USD
	Client loans	5,868,005	4,829,001
	Employees	60,116	86,514
	Provision for doubtful debts	(139,375)	(24,328)
	Other	-	4,313
		<u>5,788,746</u>	<u>4,895,500</u>
6	Grants receivable	2004 USD	2003 USD
	Grant United Way International	-	40,000
		<u>-</u>	<u>40,000</u>
7	Other assets	2004 USD	2003 USD
	Amounts due from NSSF	923	
	Rent	14,329	14,114
	Insurance	2,297	4,934
	Advances on fixed assets	1,178	1,177
	Prepaid expense staff	-	7,470
	Other	6,190	2,861
		<u>24,917</u>	<u>30,556</u>
8	Long term Receivables		

Al Majmoua provided long term loans to clients extending for a period greater than one year. The capital and the interest accrued that will be paid back from clients after December 31st, 2005 amount to \$133,177. Moreover, Al Majmoua provided long term loans for its employees amounting to \$21,901, making the total long term receivables amount to \$155,078.

**The Lebanese Association for Development
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Notes to Financial Statements
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9 Property and Equipment

Cost	<u>Licenses</u>	<u>Vehicles</u>	<u>Furniture</u>	<u>General</u>	<u>Computer</u>	<u>Office</u>	<u>Total</u>
				<u>Installation</u>	<u>Hardware & Software</u>	<u>Equipment</u>	
At December 31, 2003	20,537	66,975	69,057	49,121	78,581	50,795	335,066
Additions	-	-	2,459	-	652	2,858	5,970
Disposals	-	4,175	612	-	1,597	334	6,718
At December 31, 2004	20,537	62,800	70,904	49,121	77,636	53,320	334,318

Depreciation

At December 31, 2003	7,725	34,612	19,260	16,701	53,264	19,391	150,953
Charge for the year	6,845	9,731	6,251	5,894	11,039	6,650	46,410
Disposals	-	1,741	273	-	1,430	158	3,602
At December 31, 2004	14,570	42,602	25,238	22,595	62,873	25,883	193,761

Book Value

At December 31, 2004	12,812	32,363	49,797	32,420	25,317	31,404	184,113
At December 31, 2004	5,967	20,198	45,666	26,526	14,763	27,437	140,557

10 Accounts payable and accruals

	2004	2003
	USD	USD
NSSF and taxes	21,812	20,016
Other accounts payable	80,349	40,727
	<u>102,161</u>	<u>60,743</u>

11 Short term debt and Long term debt (see notes on reviewed version)

Per the loan contract (mentioned in note 4 above), the outstanding balance of the loan contract as of December 31, 2004 amounted to LBP600,000,000 (USD397,877).

The debt classification is as follows:

	2004	2003
	USD	USD
Short term payables	73,370	0
Long term payables	<u>324,508</u>	<u>0</u>
	<u>397,878</u>	<u>0</u>

**The Lebanese Association for Development
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Notes to Financial Statements
December 31, 2004**

12 Deferred interest

It represents unearned interest as at December 30, 2004 recorded at the time loans were granted broken down as follows:

	2004	2003
	USD	USD
Individual and Group loans	851,093	639,791
Employees loans	7,434	6,710
	<u>858,527</u>	<u>646,501</u>

13 Contingent Liabilities and Commitments

	2004	2003
	USD	USD
Letter of guarantee for ESFD project (equivalent to LBP 600,000,000 and LBP 450,000,000 in 2004 and 2003 respectively) - see note 4	<u>397,878</u>	<u>301,124</u>
	<u>397,878</u>	<u>301,124</u>

14 Comparative figures

Certain comparative figures have been reclassified to comply with the presentation adopted in the current year financial statements.