

**The Lebanese Association for Development
Al Majmoua**

Financial Statements
For the year ended December 31, 2005
(With Independent Auditors' Report Thereon)

THE LEBANESE ASSOCIATION FOR DEVELOPMENT-AL MAJMOUA
December 31, 2005

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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, 2005 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, 2005 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.

April 3, 2006
Beirut, Lebanon

**The Lebanese Association for Development
Al Majmoua
Statement of Financial Position
December 31, 2005 and December 31, 2004**

ASSETS	Note	US Dollars 31-Dec-05	US Dollars 31-Dec-04
Cash and Banks	3	2,431,537	1,273,250
Restricted Cash	4	216,153	400,000
Short term accounts receivable	5	6,091,652	5,788,746
Other assets	6	37,569	24,917
Total current assets		8,776,911	7,486,913
Long term receivables	7	533,068	155,078
Property and Equipment	8	101,070	140,556
Total non-current assets		634,138	295,634
Total Assets		9,411,049	7,782,547
 LIABILITIES			
Accounts Payable and Accruals	9	220,228	102,161
Short-term debt	10	112,869	73,370
Deferred Interest	11	946,833	858,527
Total current assets		1,279,930	1,034,058
Provisions - End of Service		60,837	59,883
Long term debt	10	967,896	324,507
Total non-current assets		1,028,733	384,390
Total Liabilities		2,308,663	1,418,448
 NET ASSETS			
Unrestricted		7,102,386	6,364,099
Total Net Assets		7,102,386	6,364,099
Total Liabilities and Net Assets		9,411,049	7,782,547

These financial statements have been authorized for issue by the Company's Executive Director on April 3, 2006

Youssef Fawaz

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 periods ended June 30, 2005 and December 31, 2004**

	Note	US Dollars 31-Dec-05 Unrestricted	US Dollars 31-Dec-05 Total	US Dollars 31-Dec-04 Total
<i>Revenues, Gains and other Support</i>				
Loan Interest and Fees		1,855,691	1,855,691	1,760,558
Bank interest		63,144	63,144	55,010
Other		23,945	23,945	69,488
Total Revenues, Gains and Other Support		<u>1,942,780</u>	<u>1,942,780</u>	<u>1,885,056</u>
<i>Expenses and Losses</i>				
City Group/United Way		0	0	273
ESFD project		76,729	76,729	48,687
Management and General		1,127,688	1,127,688	1,457,347
Total Expenses	14	<u>1,204,417</u>	<u>1,204,416</u>	<u>1,506,307</u>
Loss / (Gain) on Disposal of fixed assets		77	77	3,084
Total Expenses and Losses		<u>1,204,494</u>	<u>1,204,494</u>	<u>1,509,391</u>
Change in Net Assets		738,286	738,286	375,665
Net Assets at Beginning of Year		6,364,100	6,364,100	5,988,435
Net Assets at End of Year		<u>7,102,386</u>	<u>7,102,386</u>	<u>6,364,100</u>

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

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**The Lebanese Association for Development
Al Majmoua
Statement of Cash Flows
December 31, 2005 and December 31, 2004**

	US Dollars 31-Dec-05	US Dollars 31-Dec-04
Cash Flow from Operating Activities:		
Change in Net Assets	738,286	375,666
Adjustments to reconcile change in net assets to net Cash used in operating activities:		
Depreciation	41,412	46,411
Loss on Disposal of fixed assets	76	3,084
Decrease in Provisions	(59,276)	135,302
Increase in Accounts Receivables	(532,361)	(911,313)
Increase in Other assets	(12,652)	5,639
Increase in Accounts Payable and Accruals	118,068	41,418
Increase in Short Term Debt	39,499	73,370
Increase in Long term debt	643,389	324,507
Net cash from operating activities	976,441	94,083
Cash flows from investing activities:		
Purchase of Equipment	(2,001)	(5,970)
Net cash used in investing activities	(2,001)	(5,970)
Net increase in cash and cash equivalents	974,440	88,113
Cash and cash equivalents - Beginning of year	1,673,250	1,585,137
Cash and cash equivalents - End of year	2,647,690	1,673,250

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

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**The Lebanese Association for Development
Al Majmoua
Notes to Financial Statements
December 31, 2005**

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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December 31, 2005**

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

	2005	2004
	USD	USD
Cash on hand	4,482	1,060
Cash at banks	<u>2,427,055</u>	<u>1,272,190</u>
	<u>2,431,537</u>	<u>1,273,250</u>

4 Restricted Cash USD 216,153

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 LBP 1,800,000,000 (One Thousand, Eight Hundred, Million Lebanese Pounds) for the purpose of on-lending to micro and very small sized enterprises.

The funds were disbursed to Al Majmoua in trenches, as follows:

Date	Amount LBP
14/1/2004	450,000,000
16/9/2004	150,000,000
31/5/2005	390,000,000
17/11/2005	810,000,000
Total	1,800,000,000

**The Lebanese Association for Development
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4 Restricted Cash USD 216,153 (Cont'd)

According to the EC Project LBN/B7-4100/99/0225 Loan Contract, Al Majmoua had to initially provide a bank guarantee on the outstanding balance of the loan contract. As of December 31, 2004 the bank guarantee amounted to LBP600,000,000 (equivalent to USD397,878). During 2005, the bank guarantee requirement was changed to 20% of the outstanding balance of the loan contract. As of December 31, 2005 the bank guarantee remained at LBP600,000,000 (equivalent to USD397,878), and a total of USD 216,153 was restricted for the EC project LBN/B7-4100/99/0225.

5 Short term Accounts Receivable

	2005	2004
	USD	USD
Client loans	6,110,948	5,868,005
Employees	59,849	60,116
Provision for doubtful debts	(79,145)	(139,375)
	<u>6,091,652</u>	<u>5,788,746</u>

6 Other assets

	2005	2004
	USD	USD
Advances to Social Security	1,178	923
Rent	14,362	14,329
Insurance	3,679	2,297
Advances on fixed assets	2,306	1,178
Other	16,044	6,190
	<u>37,569</u>	<u>24,917</u>

7 Long term Receivables USD 533,068

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, 2006 amount to \$495,943. Moreover, Al Majmoua provided long term loans to its employees amounting to \$37,125, making the total long term receivables amount to \$533,068.