

**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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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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| | | | |
|----------|--------------------------------|---------------------|---------------------|
| 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.

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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> |

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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.