

**Non-Government Organization
Micro Development Fund, Belgrade**

**Audit Report on Financial Statements
for the year ended on December 31, 2005**

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Auditor's Opinion

We have audited the accompanying financial statements of Non-Government Organization Micro Development Fund, Belgrade, comprising of the Balance Sheet as of December 31, 2005 and the Income Statement for the year then ended.

The financial statements were prepared in accordance with Disclosure Guidelines for Financial Reporting by Microfinance Institutions issued by the Consultative Group to Assist the Poorest (CGAP). In accordance with these guidelines the annual Financial Statements were prepared on a cash basis. Under this convention, transactions are recognized when cash is received or paid, not when they occurred.

These financial statements set out on pages 2 to 3 are the responsibility of the Non-Government Organization Micro Development Fund Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants and instructions contained in a Handbook for External Audits of Microfinance Institutions issued by the Consultative Group to Assist the Poorest (CGAP). International Standards on Auditing 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, the evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management of Micro Development Fund, 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 give **true** and **fair** view of the state of Non-Government Organization Micro Development Fund's affairs as of December 31, 2005 and of its results for the year then ended in accordance with Disclosure Guidelines for Financial Reporting by Microfinance Institutions issued by the Consultative Group to Assist the Poorest (CGAP).*

Belgrade, March 10, 2006

“MGI AUDITING AND ACCOUNTING”



Managing Director

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Bogoljub Aleksic,
Certified Auditor

1. Establishment, Management, Activity and Funds

1.1. Establishment and Management

Non-Governmental Organization Micro Development Fund (Micro Development Fund) was established as a association of citizens on January 23, 2001 and registered with the Federal Ministry of Justice, according to the applicable law.

Since 1997 Danish Refugee Council (hereafter referred to as DRC) has been implementing self-reliance activities in Serbia – initially directly but since 2001 via its captive agency, Micro Development Fund (hereafter referred to as MDF). Since 2001 the capacity of MDF has been progressively enhanced in a gradual process towards independence.

On December 12, 2003, DRC and MDF signed the Memorandum of Understanding that defined the spin-off of the DRC's self-reliance program in Serbia to the MDF.

According to the Memorandum of Understanding, after finalisation of the spin-off process, MDF has taken over full management and ownership of DRC's self-reliance activities and established its independence as of January 01, 2004.

MDF Head Office is located in Belgrade with the address Kneginje Zorke 11a. MDF has 15 branch offices and two regional offices in the following towns: Niš and Užice.

Board is the highest governing body of MDF, consists of four Board members with voting power. The Board is represented by the Chairman. Functioning of the Board is defined by the Statute. The Director reports to the Board and votes only in case of the tied vote by the Board. The role of the Board is to monitor the activities, give guidelines, propose changes and help in resolving strategic issues.

The Supervisor is independent control body who reports to the Board. The Supervisor in non-voting advisor to the Board.

Management consists of Director – Ms. Milena Gojković, Finance Manager, Credit Coordinator, Office & HR Manager and two Branch Managers.

MDF has twenty-one employees.

1.2. Activity and Funds

MDF has supported improvements in the social and economic living standards of economically active and poor people in Serbia. MDF's target group includes refugee, Internally Displaced Persons, and smaller part of local entrepreneurs. Targeting the entrepreneurs' business ideas for start up or enhancing existing business, MDF supports business initiatives in areas of production, crafts, service and agricultural activities.

During 2005, MDF performed the following programs:

I. Micro Loan Program

Micro Loan program funding sources originate from the initial loan fund capital granted by the following donors:

- ◆ United Nations High Commissioner for Refugees (hereafter referred to as UNHCR);
- ◆ Danish International Development Assistance (hereafter referred to as DANIDA);
- ◆ International Committee of the Red Cross (hereafter referred to as ICRC).

In 2005, the contracts on the hand – over of the Revolving Loan Fund from each of these donors to MDF ownership were signed (with UNHCR on February 02, with DANIDA on April 08 and with ICRC on May 31).

Within 2005 year, MDF disbursed 2,277 loans.

II. Vocational Training Program

In 2005, Vocational Training Program was financed by UNHCR.

1.3. Micro Loan Program

During 2005, MDF has cooperated with Komercijalna Banka a.d., Belgrade in the process of issuing loans to clients. MDF has signed a contract with this Bank on “Commission contract” which fulfills all legal requirements of National Bank of Serbia regarding crediting operations.

Operationally, Commission Contracts function in the following way:

- ◆ MDF has opened bank account for the special purpose of disbursement and repayment of the loans (“Commission” account);
- ◆ The micro loans are disbursed from the MDF financial sources;
- ◆ MDF appraises, approves micro loans and then submits the list of approved beneficiaries to Komercijalna Banka AD;
- ◆ Komercijalna Banka AD concludes the contract with each beneficiaries and issues micro loans in its own name but on the behalf of MDF;
- ◆ Clients repay the loans through the bank in behalf of the commission account;
- ◆ MDF has the obligation to follow up on the beneficiaries.

Since the Contract with Komercijalna banka AD has been concluded, the loans were issued through Meridian Banka AD , Novi Sad (after that only the repayments). MDF is in the process of termination of its loan operations with Meridian Banka AD. The loan operations were defined by the Agreement concluded on September 24, 2003. Operational problems associated with MDF loan activities performed through this bank caused unexpected additional costs to MDF.

All loans are disbursed only through the bank and all loan repayments have to be made in the bank. No cash transactions between loan officers and clients are allowed.

1.4. Description of Programs

1.4.1. The Micro Loan Program

Micro Loan Program provides financial support to entrepreneurs with skills and ideas for start up or development of existing business as to create or sustain jobs. The program provides clients with continued access to funding in order to enhance gradual businesses strengthening and secure its sustainability.

The Micro Loan Program includes the following product:

- ◆ Loans aimed at primarily creating opportunities for refugees, IDPs and local population financed by funds originating from UNHCR;
- ◆ Loans to financially active poor people in Serbia financed by funds originating from DANIDA;
- ◆ Loans aimed at primarily creating opportunities for economically vulnerable IDPs financed by funds originating from ICRC;

Loans aimed at primarily creating business opportunities for refugees, IDPs and local population financed by funds originating from UNHCR – disbursements of these loans is based on the Agreement concluded on February 02, 2005 between UNHCR and MDF. This Agreement includes Annex E which refers to the Agreement on the Hand - over of Grant pertaining to UNHCR Revolving Loan Funds. Based on this Agreement on the Hand - over of Grant MDF received entire right of ownership and use of the Revolving Fund. Responsibilities of MDF is to use the revolving fund for microcredit activities only and to report to UNHCR with a narrative and financial report on the status of the programme for next two full calendar years.

The total amount of the Revolving Fund that was transferred for ownership was equal to CSD 67,329,178 (equivalent to USD 1,100,510 with the applied exchange rate of 61.18). The amount of CSD 67,329,178 included funds which were already collected and maintained in the separate bank accounts (relating to UNHCR funds) of the MDF and other funds which were in the form of payments due from loans provided to the beneficiaries.

Loans to financially active poor people in Serbia financed by funds originating from DANIDA - disbursements of these loans is based on Asset Transfer Contract concluded on April 02, 2005 between DRC and MDF (this contract is effective from January 01, 2005). According to this Contract DRC transferred the ownership of assets (Loan Fund and Physical Assets) to MDF. The value of the Loan Fund transferred was EUR 745,461 (the figures were defined in EUR currency, by Contract). This amount includes in EUR 651,550 initial loan fund capital plus EUR 93,911 in retained interest and principal income from loan activity.

Loans aimed at primarily creating opportunities for economically vulnerable IDPs financed by funds originating from ICRC - disbursements of these loans is based on Agreement on the Transfer of Revolving Loans Funds concluded on May 31, 2005 between ICRC and MDF. Based on this Agreement on the Hand - over of Grant MDF received entire right of ownership and use of the Revolving Fund. Responsibilities of MDF is to use the revolving fund for microcredit activities only and to report quarterly to ICRC with a narrative and financial report on the status of the programme for the period from June of 2005 to May of 2008. The total amount of the funds that was transferred to MDF ownership was EUR 181,500 (the figure was defined in EUR currency, by Agreement)..

1.4.2. General Characteristics of the loan product

The loans were disbursed and repaid in CSD amounts by using EUR as index currency. MDF classifies its loan products in three group, as stated below:

a) Loan Product - CLASIC

Loans are approved for:

- ◆ already operating businesses
- ◆ developing new businesses

Loan amount

- ◆ minimum 200 EUR
- ◆ maximum 10,000 EUR

Loans granted are progressive – first loan can be 200EUR up to 1,200EUR while every repeated loan can be up to 50% higher than previous loan. Golden clients can be approved the higher amount than 4,050 EUR.

Loan term

- ◆ first loan up to 12 months
- ◆ repeated loans up to 24 months

Repayment - one -month deferment is granted to the borrowers. Repayment frequency is on a monthly basis

Collateral - repayments of the loans are secured through different collaterals offered by the clients an all areas of operations. The most of the collateral type that are commonly used are:

- ◆ promissory note signed by 2 endorsers
- ◆ administrative ban

b) Loan Product - LIGHT

In cooperation with ICRC, MDF is conducting micro-lending with special target group – extremely poor IDPs from Kosovo.

Loans are approved for:

- ◆ already operating businesses
- ◆ developing new businesses

Loan amount

- ◆ minimum 200 EUR
- ◆ maximum 1,000 EUR

According to the Decision made on July 19, 2005, repeated loan can be higher than 1,000 EUR.

Loan term - up to 12 months

According to the Decision made on July 19, 2005, loan term associated with repeated loan can be up to 18 months

Repayment - one -month deferment is granted to the borrowers. Repayment frequency is on a monthly basis

Collateral - in order to attract poor clients and make the process of application for the loan more easier, the special type of collateral requirements is used for this target group. Namely, soft collaterals are being used, which means that applicants do not have to present any evidence of possession of property, but only the Promissory note signed by 2 endorsers and administrative ban on salary.

c) Loan Product - SATELITTE

Loan amount – maximum 500 EUR

Loan term – 4 to 5 months

Collateral - promissory note signed by new endorsers and/or other administrative ban or Promissory note signed by company.

Beneficiaries – clients that repaid half or more of the existing loan and they are still in need for smaller amount to improve/extend the existing business.

1.4.3. Business Development Services - Vocational Trainings Program

The aim of the vocational training, funded by UNHCR was to upgrade the educational and/or apprenticeship skills of the trainees so enhancing their employment prospects in the local labor market or within their own business. Self-employment can be realized through the MDF loan program or within the private/public sectors, often within the companies where the trainees obtained their apprenticeship.

2. Basis of Preparation of the Financial Statements

2.1. Accounting Policy

The accompanying financial statements have been prepared in accordance with Disclosure Guidelines for Financial Reporting by Microcredit Institutions prepared by the Consultative Group to Assist the Poorest (CGAP). These guidelines are voluntary norms recommended by a consultative group of international donors. Thus an institution's failure to comply with the CGAP's guidelines would not necessarily imply that the institution or its financial statements are in violation of any legal or other authoritative accounting or reporting standard.

2.2. Basis of Accounting

The financial statements of the MDF have been prepared on a cash basis. Under this convention, transactions are recognized when cash is received (and recorded as revenue) or paid (and recorded as expenses), not when they occur.

MDF uses Loan Tracking System (LTS) which is MIS with the main purpose to provide information relevant to the administration of the portfolio, including:

- ◆ Identity of the client;
- ◆ Amount disbursed;
- ◆ Loan terms, such as interest rate, penalty, maturity;
- ◆ Repayment schedule-amounts and timing;
- ◆ Amount and timing of payments received;
- ◆ Amount and aging of delinquency;
- ◆ Outstanding balance.

Some of the data generated by LTS flow directly into the accounting system and financial statements- such as disbursements, repayments, interests, penalties, loans recovery, but some of them flow only indirectly- such as delinquency that is used to estimate provisions in the accounting system. This information feeds into the financial statements such as following positions: Loans Outstanding (Gross and Net), Financial Income, Provision for Loan Loss. EUR currency is the index currency of the LTS, used for calculation of all transaction connecting to micro loans.

2.3. Reporting and Accounting Currency

The financial statements of the MDF have been prepared in EUR currency whereas the functional currency was CSD. Accordingly these financial statements should not be considered as being fully consistent with the result of financial position, which would be shown if they have been presented in the functional currency.

According to MDF accounting policy, buying official exchange rate (EUR:CSD) prevailing on the date of transaction is used for calculating of all transactions denominated in CSD currency, during the year. This relates to the transactions recorded in LTS that are explained in the Note -2.2.

Some items of the Income Statement related to micro loans activities such as Operating Expenses, Financial Costs, as well as revenues and expenses related to Vocational Training activities which are denominated in CSD currency are expressed in EUR. The EUR amounts have been calculated by applying the average exchange rate of 1EUR:82.9425CSD, which was computed by MDF (the sum of the buying official exchange rates prevailing at the last day of each month was divided by twelve).

Some items of the Balance Sheet denominated in CSD are expressed in EUR at the buying official exchange rate prevailing at the balance sheet date – 1EUR:85.2425CSD. This exchange rate was also applied for transaction of CSD amounts relating to In-kind subsidy and Changes on Fees and Taxes by Meridian bank.

2.4. Comparative Information

The comparative numerical information in previous period has been disclosed in the Financial Statements and expressed in EUR currency. The comparative amounts relating to Balance Sheet were translated at the buying official rate at the date of that balance - 1EUR:CSD78.6473, whereas comparative amounts relating to Income Statement were translated at average exchange rate of 1EUR:72.7913CSD, which was computed by MDF (the sum of the buying official exchange rates prevailing at the last day of each month was divided by twelve)

3. Summary of Significant Accounting Policies

3.1. Financial Income

Financial income results from microcredit activities and includes: interest on loans, penalties, interest on current assets, cost recovery, and recovery from written off loans which has been recorded when received.

3.2. Provision for Loan Losses

Provision for loan losses represents expenses related to actual or anticipated loan losses. Provision for loan losses are shown separately from other expenses in the Income Statement. The MDF policy is to write off the loans with more than 180 days late, automatically. The loan portfolio is deducted and loan loss reserve is reduced for the value of write offs.

3.3. Operating Expenses and Financial Costs

Operating expenses and financial costs represent all expenses related to generating operating income, i.e. financial income and to the operation of the MDF. They consist of personnel expenses, office rent, communication costs, services, other administrative expenses, taxes, bank fees, incurred and paid in the current accounting period. Allocation of operating expenses relating to the donors is presented in the Income Statement.

3.4. Grant Revenues and Expenses related to Businesses Development Services

Income from grants received for Vocational Training program (non-micro-loan program) and expenses associated with them are segregated from income and expenses related to micro-loan activities in the Income Statement, so that the financial performance (profit or loss) from micro-loan operations can be determined.

3.5. Loans

Gross outstanding loan portfolio is the amount of loans that has been disbursed but has not been repaid or written off. Net outstanding loans are stated as the amount of principle outstanding less reserves for loan impairment. Provision for loan impairment is provided as described in Note 3.6.

Loans are disbursed in CSD as the equivalent of an agreed amount in foreign currency EUR by using buying official exchange rate prevailing on the date of transaction. Repayment of loans is in CSD and also is indexed to foreign currency EUR using buying official exchange rate prevailing on the date of transaction.

3.6. Provision for Loan Reserves

Provision for uncollectible loans is recognized as an expense, charged against income and deducted from the total amount of loans.

The main measure of loan delinquency is based on aging portfolio at risk ratio derived from the Loan Tracking System. From the Financial Statements it is seen that at the end of the fiscal year, MDF computes a provision for doubtful loans. The reserve is determined by applying predicted loss percentages to aged loans grouped by lateness of payments. A loan becomes late as soon as a scheduled installment is missed. The predicted loss percentages are based on management's analysis of historical outcomes of late loans.

Loan loss reserve is an amount set aside in the Balance Sheet to recognize probable future loan losses so that the true value of the loan portfolio is fairly stated. The amount of the loan loss reserve is shown, as a negative asset deducted from the loan portfolio.

The reserve is increased by additional loan loss provision expense. Expenses related to actual or anticipated loan losses are shown separately from other expenses in the Income Statement.

Loans are separated into classes depending on how many days overdue they are. MDF calculates loan loss reserve according to the following policy:

Days late	Percentage for reserve
1-30	5.00%
31-60	25.00%
61-90	50.00%
90-180	75.00%
>180	100.00%

Based on the experience from the previous periods MDF has defined the percentage stated in the above table as the basis for the calculation of the loan loss reserve.

A loan is first considered late after the first missed payment. Once a loan has been defined as late, for it to enter write-off status it has to be over 180 days late.

3.7. Fixed Assets

Purchased fixed assets are recorded at costs. Depreciation is calculated on a straight-line basis using the annual depreciation rate defined on the bases of the estimated useful life of an asset.

3.8. In-kind Subsidies

In-kind subsidies show an estimated of additional expenses that MDF would have if subsidies not given. MDF discloses in-kind subsidies in the Income Statement below net income from operations.

Balance Sheet

4. Bank Current Accounts

The Bank Current Accounts represent all cash available on December 31, 2005.

MDF has bank accounts in CSD currency held with Komercijalna banka AD, Beograd and Meridian banka AD Novi Sad.

Bank accounts	EUR
Bank accounts relating to loan activities	21,472
Bank account for disbursement and repayment of loans	8,876
UNHCR (held with Komercijalna bank)	6,992
DANIDA (held with Komercijalna bank)	1,346
ICRC (held with Komercijalna bank)	538
Other bank accounts relating to loan activities	1,324
UNHCR (held with Komercijalna bank)	266
DANIDA (held with Komercijalna bank)	96
ICRC (held with Komercijalna bank)	235
DANIDA (held with Meridian bank)	723
ICRC (held with Meridian bank)	4
Transfer bank account (held with Komercijalna bank)	11,272
Bank account relating to the Vocational Training activities	45
Total	21,517

Disclosed EUR amounts represent the equivalents of CSD amounts which were calculated by applying buying official exchange rate prevailing at the Balance Sheet date.

The amount of EUR 11,272 reported as Transfer bank account represents the amount of made loan repayments in four last days of 2005 (as stated in payment deposit slips), but recorded in the bank statements issued in 2006.

5. Loans Outstanding

The balance of the net loans outstanding disclosed in the Balance Sheet amounts EUR 2,003,653 and relates to the following:

Donor	Gross value	Loan loss reserves	Net value
	EUR	EUR	EUR
UNHCR	1,071,265	(17,020)	1,054,245
DANIDA	756,105	(8,621)	747,484
ICRC	204,468	(2,544)	201,924
Total	2,031,838	(28,185)	2,003,653

Gross Loans Outstanding represents outstanding principal with MDF clients as of December 31, 2005. MDF is using Loan Tracking System (LTS) and EUR as index currency for calculation of outstanding principle, as well as for all transaction connecting to micro loans. All contracts with MDF clients from January 1, 2004 provided EUR as index currency.

Loan loss reserve is the calculated category representing the funds allocated to cover written off loans.

Disclosed EUR amounts were generated by LTS, and fed into Financial Statements.

5.1. Changes on Outstanding Principal during 2005

Descriptions	UNHCR	DANIDA	ICRC	Total
	EUR	EUR	EUR	EUR
Opening balance	994,600	578,291	147,694	1,720,585
Adjustment of the opening balance of LTS	(4,778)	(9,070)	(502)	(14,350)
Opening balance after adjustment	989,822	569,221	147,192	1,706,235
Disbursements	1,594,590	1,099,060	308,800	3,002,450
Returned principal	165	-	-	165
Transfer out	15	-	50	65
Cash over	1,091	393	293	1,777
Subtotal	1,595,861	1,099,453	309,143	3,004,457
Repayment	(1,504,940)	(907,763)	(251,085)	(2,663,788)
Total write off	(5,856)	(4,680)	(410)	(10,946)
Transfer in	(36)	(98)	(35)	(169)
Penalties transfer	(4,360)	(3,004)	(205)	(7,569)
Cash short	(659)	(391)	(145)	(1,195)
Subtotal	(1,515,851)	(915,936)	(251,880)	(2,683,667)
Outstanding principal as per Transaction Summary	1,069,832	752,738	204,455	2,027,025
Outstanding principal as per LTS	1,071,265	756,105	204,468	2,031,838
Difference resulting from reconciliation of LTS	1,433	3,367	13	4.813

5.2. Calculation of Loan Loss Reserves Per donors During 2005

As of December 31, 2005 the total amount of Loan Loss Reserves disclosed in the Balance Sheet was EUR 28,185. The accounting policy for calculation of loan loss reserves is explained in Note 3.6.

The table below shows loan delinquency based on aged portfolio at risk. The loans are separated into classes depending on how many days overdue they are.

Non-Governmental Organization Micro Development Fund, Belgrade
Notes to the Financial Statements

Description	Outstanding principal	Loss Reserves	
	Amount	Percent	Amount
	EUR	%	EUR
UNHCR	1,071,265	-	6,965
Current	982,490	-	-
1-30 days late	80,952	5	4,048
31-60 days late	5,562	25	1,390
61-90 days late	674	50	337
91-180 days late	1,587	75	1,190
DANIDA	756,105		6,515
Current	702,940	-	-
1-30 days late	43,199	5	2,160
31-60 days late	6,136	25	1,534
61-90 days late	205	50	102
91-180 days late	3,625	75	2,719
ICRC	204,468		1,234
Current	188,303	-	-
1-30 days late	15,214	5	761
31-60 days late	440	25	110
61-90 days late	78	50	39
91-180 days late	433	75	324
TOTAL	2,031,838		14,714
Current	1,873,733	-	-
1-30 days late	139,365	5	6,969
31-60 days late	12,138	25	3,034
61-90 days late	957	50	478
91-180 days late	5,645	75	4,233

The following table shows the reconciliation of loan loss reserve and write-offs:

	UHHCR	DANIDA	ICRC	Total
	EUR	EUR	EUR	EUR
At the beginning of the period	22,876	13,301	2,954	39,131
Loans written off during the year	(5,856)	(4,680)	(410)	(10,946)
Decrease	(10,055)	(2,106)	(1,310)	(13,471)
At the end of the period	6,965	6,515	1,234	14,714
Disclosed in Balance Sheet	17,020	8,621	2,544	28,185
Provision for loan loss	-	-	-	-

The amount of loans written off during the year was EUR 10,946. The loan portfolio was deducted and loan loss reserve was reduced for the value of write offs, as stated in the table above and in the table in Note 5.1.

The calculated value of loan loss reserve as of December 31, 2005 was EUR 14,714. The result of reconciliation between the value of loan loss reserve at the beginning of the period after writing off and the calculated value of loan loss reserve at the end of the period was a decrease of value for EUR 13,471. The loan loss reserve and income were not affected for the amount of decrease, because of that the loan loss reserve was disclosed in the amount of EUR 28,185. The amount of decrease is not material regarding Auditor's opinion.

6. Fixed Assets

Fixed Assets consist of vehicles and equipment that are owned by MDF. In 2005, DANIDA granted to MDF the equipment and vehicle with the net value of EUR 11,190 what is also disclosed as -Donations for fixed assets within item Donated Equity.

Description	Costs	Accumulated Depreciation	Net Fixed Assets
	EUR	EUR	EUR
Purchased by MDF	2,225	(162)	2,063
Granted by DANIDA	11,190	(2,160)	9,030
Total	13,415	(2,322)	11,093

7. Other Long Term Assets – Deposit in Meridian Bank

Disclosed amount of Other Long-term assets as of December 31, 2005 consists of:

Descriptions	EUR
DANIDA – deposit in Meridian bank	8,780
DANIDA – deposit on Meridian bank account	34,321
DANIDA reserve for disputable assets related to Meridian bank	(34,321)
Total	8,780

The method of the loans issuing to the MDF clients defined by the Contract with Meridian Bank was: Bank disbursed loans from its own funds (sources) on the bases of the value of the MDF mandatory guarantee fund deposited at bank. This method of the loans issuing to the MDF clients was not used in 2005, only the repayments of the loans issued have been performed.

The amount of EUR 8,780 represents the value of the funds at MDF disposal on December 31, 2005. This amount was confirmed by bank.

The amount of EUR 34,321 was determined as disputable assets by MDF. It resulted from following: During 2005, Meridian bank made some transactions related to transfers of MDF funds which affecting the mandatory guarantee fund, MDF bank accounts used for loans transaction and accounts owned by Meridian bank. Made transfers caused MDF funds to decrease for EUR 34,321. These transactions were not documented, therefore the concerning explanations were requested by MDF. The obtained explanations did not satisfied MDF because of that it entered into process of negotiation with bank relating to the available funds and also made loss reserve for them in whole amount.

8. Net Worth

Net Worth represents the aggregate of accumulated donations and retained earnings. As of December 31, 2005 it consists of:

Descriptions	EUR
Equity	
Donated Equity	-
Donations for fixed assets (DANIDA)	11,190
Cumulative Grants for Operations (UNHCR)	595,776
Cumulative Grants for Operations (DANIDA)	651,550
Cumulative Grants for Operations (ICRC)	181,150
Retained Net Surplus (Deficit)	
Prior Periods	543,159
Current Periods	62,173
Total	2,044,998

8.1. Donated Equity

Donations for fixed assets - the amount of EUR 11,190 represents the net value of of equipment and vehicle granted by DANIDA in 2005.

Cumulative Grants for Operations – disclosed amounts represent the value of the initial loan fund made available by donors (mentioned in table above) in the prior periods. In 2005, each of three donors transferred the ownership of revolving loan funds to the MDF (defined by Agreements concluded between MDF and each donor separately, details in Note 1.4.1.). Revolving loan fund includes the initial loan fund made available by donors and retained earnings from prior periods what is disclosed separately as item – Retained net surplus from prior period.

8.2. Retained Net Surplus

Retained Net Surplus represents all funds accumulated by MDF from the micro loan activities.

As of December 31, 2005 the total amount of retained net surplus from the prior periods was EUR 543,159.

Retained Net Surplus from the current period amounted to EUR 62,173 what is also disclosed in the Income Statement as Excess of Revenues over Expenses.

Income Statement

9. Financial Income

The total amount of financial income disclosed in Income Statement for the year ended on December 31,2005 amounts to EUR 489,442 and consists of:

Descriptions	UNHCR	DANIDA	ICRC	Total
	EUR	EUR	EUR	EUR
Interest on loans	258,488	156,774	41,154	456,416
Penalties	11,093	6,981	1,786	19,860
Loans recovery	1,026	3,409	-	4,435
Interest on current assets	-	10	2	12
Cost recovery	-	8,719	-	8,719
Total	270,607	175,893	42,942	489,442

Interest on loans represents the most significant part of financial income, it was generated from micro loan activity. Interest on loans is collected with monthly loan repayment.

Penalties are charges for late payments - 0.2% per day.

Loans Recovery is the result of collecting loans that were written off.

Cost recovery represents the refund for paid salaries to employee who was on maternity leave, made by Authorities.

Disclosed EUR amounts except for Cost Recovery were generated by LTS, and fed into Income Statements.

10. Financial Costs

The total amount of financial costs disclosed in Income Statement for the year ended on December 31,2005 amounts to EUR 3,902 and consist of:

Descriptions	EUR
Taxes	3,203
Bank fees	699
Total	3,902

11. Operating Expenses

The total amount of operating expenses disclosed in Income Statement for the year ended on December 31, 2005 amounts to EUR 343,061 and consists of:

Descriptions	EUR
Depreciation	2,322
Salaries and benefits	242,753
Travel Costs	13,867
Office Rent	21,823
Communication Costs	8,410
Services	13,292
Local Staff Training	10,818
Office Supplies	5,658
Vehicle Maintenance	7,336
Office Utilities	3,020
Audit Costs	8,236
Promo-activities	2,609
Representation	2,917
Total	343,061

The amount of EUR 343,061 includes all operating expenses relating to microcredit activities which were covered from financial income during the year.

12. Costs related to Vocational Training Program

Cost related to Vocational Training activities disclosed in Income Statement for the year ended on December 31, 2005 amounts to EUR 75,604 and consists of:

Descriptions	EUR
Salaries relating to common staff (CEO, Finance & Office Manager, Finance Assistant)	2,927
Salaries relating to VT staff (VT manager and VT officer)	17,891
Transportation costs	847
Vocational Trainings Capital	45,140
Curriculum Trainings Capital	4,247
Operating costs (office – utilities/supplies/rent, communication)	4,462
Bank charges	90
Total	75,604

The amount of EUR 75,604 includes all expenses relating to vocational training activities which are covered by grants received from UNHCR.

13. Grant Revenues from UNHCR to Vocational Training Program

In 2005, UNHCR granted funds in the amount of EUR 75,649 for running of vocational training program and covering of MDF operating expenses. In the Income Statement the Grant Revenues was reported in the amount of EUR 75,604 what represents the amount of made disbursements, since the remaining funds of EUR 45 were disclosed as deferred revenue in the Balance Sheet.

14. In-kind Subsidy

In 2005, MDF received the fuel coupons from UNHCR. MDF estimated the additional expense that would be incurred in fuel coupons absence in the amount of EUR 11,067, as disclosed in Income Statement.

15. Charges on Fees and Taxes by Meridian Bank

MDF is in the process of termination of its loan operations performed through Meridian bank that had directly implications for incurring of expenses in 2005 associated with transactions made during previous period. The transactions and relating cash flow movements were not recorded in a similar way by bank and by MDF, therefore MDF adjusted its records to bank records by charging expenses for EUR 45,985.