

Financial Statements and Independent Auditors' Report

Foundation for Economic Development
“Horizonti”, Skopje

31 December 2009

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Independent Auditors' Report

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To the Management and Founders of
Foundation for Economic Development "Horizonti", Skopje

We have audited the accompanying financial statements of Foundation for Economic Development "Horizonti", Skopje, (the Foundation) which comprise of the Balance sheet as at 31 December 2009, and the Income Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 17.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions, developed in consultation with microfinance practitioners and the member donors of CGAP (the Consultative Group to Assist the Poor). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements of the Foundation present fairly, in all material respects, the financial position as of 31 December 2009, and its financial performance for the year then ended in accordance with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions, developed in consultation with microfinance practitioners and the member donors of CGAP (the Consultative Group to Assist the Poor).

Grant Thornton,

Skopje,
23 July 2010

Balance Sheet

		(000 mkd)	
		At 31 December	
	Notes	2009	2008
Assets			
Cash and deposits	3	15,068	9,980
Long-term deposits	4	30,587	30,706
Net loans outstanding	5	154,778	146,007
Property, plant and equipment	6	4,491	4,811
Intangible assets	6	1,981	2,220
Accrued interest and prepayments		2,878	1,334
Total assets		209,783	195,058
Equity and liabilities			
Equity	7		
Founders' fund		307	307
Donated funds		97,071	85,594
Reserves for future investments		2,000	2,000
Accumulated profits		3,179	6,182
Total equity		102,557	94,083
Liabilities			
Deferred grants	8	1,573	3,072
Liabilities for clients' deposits	9	9,742	11,593
Non – interest bearing borrowings	10	-	13,100
Interest bearing borrowings	10	92,971	70,182
Other liabilities		2,940	3,028
Total liabilities		107,226	100,975
Total equity and liabilities		209,783	195,058

These financial statements have been approved by the Board of Directors of the Foundation on 06 May 2010 and signed on his behalf by:

Mr. Vasil Davaliev
 Executive Director

See accompanying notes to the financial statements

Income Statement

		(000 mkd)	
	Notes	Year ended 31 December 2009	2008
Income			
Interest and fees on loans	11	37,561	38,002
Interest on bank deposits		1,883	533
Other operating income		1,302	381
Total income		40,746	38,916
Operating expenses			
Provision for loan losses	5	(10,358)	(4,597)
Depreciation	6	(1,008)	(233)
Administrative expenses	12	(29,423)	(29,537)
Interest expenses		(4,562)	(2,371)
Total operating expenses		(45,351)	(36,738)
Operating (loss) / profit before taxation		(4,605)	2,178
Taxation	13	(127)	(434)
Operating (loss) / profit after tax		(4,732)	1,744
Non – operating income and expense			
Grants and donations	8	1,665	1,875
Depreciation on assets donated	6	(1,499)	(1,347)
Foreign exchange gains / (losses), net		1,711	(77)
Non – operating profit		1,877	451
Total (loss) / profit for the year		(2,855)	2,195

Notes to the Financial Statements

1 General information

The Foundation for Economic Development “Horizonti”, Skopje (hereinafter referred to as “the Foundation”) was established and registered in the Republic of Macedonia in accordance with the Law on Associations of Citizens and Foundations (“Official Gazette of RM” No. 31/98) and the Decision on establishing dated 18 May 2005. Founder of the Foundation is the Subsidiary of the International charity organisation “Catholic Relief Services” - CRS” from the United States headquartered in Skopje, 10 Dane Krapev Str., represented by the President Sheron Elanie Maggard. The Foundation was registered at the First Instance Court I – under F. br. 89/05 dated 31 May 2005.

The head office of the Foundation is in Skopje, 14 Rampo Levkata Str. As of 31 December 2009, the Foundation has 37 employees (2008: 38 employees).

The objective of the Foundation is to provide financial assistance for economic and social development and their distribution to a specific category of users in the Republic of Macedonia. The Foundation will provide access to financial and non-financial services of entrepreneurs in the Republic of Macedonia as well as to the self-employed people, in order to improve and develop their business, create new jobs as well as to improve the living standard in general. The Foundation, through the financial support provided to businesses, will strive to improve the economic situation of the poorer and marginalized groups in the society that have no other ways of providing beneficial financial services in their businesses.

The Foundation accomplishes its abovementioned objectives through:

- Providing a constant access to short-term and long-term, one-time and continuous micro-entrepreneurial loans (individuals and legal entities) for the needs of their businesses in accordance with the objectives of the Foundation along with assistance of the financial institutions which have been founded, registered and operating in accordance with the prevailing law of the Republic of Macedonia;
- Organisation and implementation of business trainings and advisory services;
- Representation of the needs and businesses of micro-entrepreneurs to third parties;
- Other financial assistance.

Notes to the Financial Statements (continued)

2 Accounting policies

Following are the principal accounting policies adopted in the preparation of these financial statements:

2.1 Basis of preparation

These financial statements have been prepared in compliance with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions. These disclosure guidelines are voluntary norms and were developed in consultation with microfinance practitioners and the member donors of CGAP (the Consultative Group to Assist the Poor). In June 2000, CGAP member donors approved the distribution of a preliminary version of the guidelines. In July 2004, final version has been issued and is based on the results of field testing and input from the Financial Services Working Group (FSWG) of the Small Enterprise and Education and Promotion Network (SEEP).

The financial statements are prepared on an accrual basis, with exception related to recognition of interest income explained further within this Note.

These financial statements are prepared as of and for the year ended 31 December 2009. All data are expressed in thousands of Macedonian Denars (000 mkd) unless otherwise stated.

Income and expenses recognition

Interest income on loans is recorded on a cash basis - i.e., when it is received in cash. At the end of the year, adjustments are made to accrue interest income on late but performing loans. Other operating income is recognized in the period when realized (collected). Operating expenses are recognised upon utilisation of the service or at the date of the origin.

Foreign currency translation

Transactions denominated in foreign currencies have been translated into Macedonian Denars at the middle exchange rate at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Macedonian Denars (“Denars”) at the National Bank of the Republic of Macedonia middle exchange rate on the last day of the reporting period. All gains and losses resulting from foreign currency translation or exchange are included in the Income Statement as financial income or expenses in the period in which they arose. The middle exchange rates used for conversion of the balance sheet items denominated in foreign currencies are as follows:

	31 December 2009	31 December 2008
1 USD	42.6651 Denar	43.5610 Denar
1 EUR	61.1732 Denar	61.4123 Denar

Intangible assets***Computer software***

Costs associated with development or maintaining computer software programs are recognized as an expense as incurred. Costs directly associated with identifiable and unique software products controlled by the Company that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Computer software development costs recognized as assets are amortized using the straight-line method over a period of five years.

Other intangible assets

Expenditure to acquire rights and licenses is capitalized and amortized using the straight-line method over a period of five years.

Notes to the Financial Statements (continued)
Accounting policies (continued)

Basis of preparation (continued)

Property, plant and equipment

Property, plant and equipment, consisting of computers, office equipment and vehicles, donated by the founder at the moment of foundation are carried at revalued amounts, determined by external Court appraisers, less subsequent depreciation. All other assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property, plant and equipment are depreciated using the straight-line method, where an equal amount is amortized and charged against profit and loss in each period over the estimated useful life of the assets. Annual depreciation rates applied to the items of fixed assets are as follows:

Office equipment	10-20%
Computers and vehicles	15-25%

Financial assets and liabilities

Financial assets and liabilities include cash, short – term deposits with banks, loans and receivables, non - interest borrowings and other current liabilities. The accounting policies on recognition and measurement of the financial assets and liabilities are disclosed further in these Notes.

Cash and deposits

Cash and deposits are carried in the balance sheet at cost. Cash and deposits consist of cash on hand, Denar and foreign currency current accounts with local banks, as well as short – term local currency deposits with local banks, maturing within twelve months.

Loans and receivables

Loans and receivables are initially recognized at their cost, when cash is advanced to the borrowers. Subsequently, at each balance sheet date, they are carried at cost less loan loss reserve.

At each balance sheet date, the management determines the reasonableness of provision for loan losses to maintain an adequate allowance for doubtful loans. The allowance for loan loss is determined by applying expected loss percentages to past due loans, grouped by maturity of payments. A loan is classified as past due as soon as a scheduled instalment is not settled. The expected loss percentages are based on management's analysis of historical outcomes of past due loans and are as follows:

Loans in default:	Risk percentage %
- Up to 30 days	0%
- From 31 to 90 days	10%
- From 91 to 180 days	25%
- From 181 to 360 days	50%
- Over 360 days	100%

Borrowings

Borrowings are carried at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred.

Notes to the Financial Statements (continued)
Accounting policies (continued)

Basis of preparation (continued)

Grants

Grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Foundation will comply with all attached conditions. Grants relating to operating expenses and fixed assets are deferred and recognized in the income statement over the period necessary to match them with the expenses that they are intended to compensate. Grants intended for loan funds are recognized directly in the balance sheet as donated funds.

Founders' fund

Founders' fund which, entirely consists of cash contributed by the founder, is determined by Decision for registering of the Foundation with the Register of Associations of Citizens and Foundations.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

At 31 December 2008, the tax payable was calculated and paid in accordance with the Macedonian Tax Law, where final taxes on profit of 10 % were payable based on the annual profit presented in the statutory Income Statement as adjusted for items, which are non-deductible or disallowed.

In accordance with the new regulations valid as of 01 January 2009, the Foundation is not obliged to pay taxes on undistributed profit earned since 01 January 2009, until that profit is distributed as dividends or other forms of distribution. At the moment when dividends are actually paid out 10% income tax will be payable. Income tax is still payable at a rate of 10% on the non-deductible expenses recognized during the year less tax credits, regardless of distribution of dividends.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in determination of deferred income tax. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to income statement, in which case the deferred tax is also dealt with in income statement.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Foundation has not recognized any deferred tax liability or asset at 31 December 2009 and 2008, as there are no temporary differences existing at that date.

Events after the reporting date

Events after the reporting date that provide additional information about a Foundation's position at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes when material.

Notes to the Financial Statements (continued)
As of and for the year ended 31 December 2009
(All amounts are in Denar thousands, unless otherwise stated)

3 Cash and deposits

	2009	2008
Short – term deposits with local banks	12,000	6,000
Current accounts with local banks	1,831	3,763
Cash on hand	1,237	217
	15,068	9,980

At 31 December 2009, short – term deposits with local banks, totalling to Denar 12,000 thousand (2008: Denar 6,000 thousand), consist of local currency deposits maturing up to 12 months (2008: 12 months), earning annual interest at rate ranging from 7.25% to 8.75% (2008: from 6.25% to 6.5%).

4 Long-term deposits

	2009	2008
Long – term deposit with local banks	30,587	30,706
	30,587	30,706

At 31 December 2009, long – term deposit with local bank, totalling to Denar 30,587 thousand (2008: Denar 30,706 thousand), consist of currency deposit maturing at 19 September 2011, earning annual interest of 4.10 %. The deposit has been used as collateral for a loan granted from NLB Tutunska Banka AD Skopje.

5 Net loans outstanding

Loan beneficiaries and lending policy

The Foundation grants small short-term and long-term, one-time or continuous loans to local micro-entrepreneurs (individuals and legal entities) for the needs of their businesses, within trade, services and production activities. Financial loans are granted to the loan beneficiaries through NLB Tutunska Banka AD, Skopje and based on the Agreement for Commission Operations dated 28 June 2007, and extended with an Annex in 2009, between the Bank (acting as Commissioner) and the Foundation (acting as Customer). According to the provisions of the Agreement, the Foundation takes over the entire risk for each placement. The Bank charges fee at 2.5% per month on the amount of interest collected.

Loan products and lending terms

The Foundation provides the following loan products for its end-users:

Invest and AgroInvest loans – financial loans for individuals, intended for small business investments and non-current assets.

Lending terms:

Amount	From 120,000 - 300,000 Denars
Interest rate	18 - 19% annually
Repayment due	12 – 36 months
Terms of repayment	Monthly annuities
Fee	2% of the loan amount

Premium and AgroPremium loans – financial loans for individuals, intended for current assets.

Lending terms:

Amount	From 60,000 - 200,000 Denars
Interest rate	19 and 21% annually
Repayment due	12 - 24 months
Terms of repayment	Monthly annuities
Fee	2% of the loan amount

Notes to the Financial Statements (continued)

As of and for the year ended 31 December 2009

(All amounts are in Denar thousands, unless otherwise stated)

Net loans outstanding (continued)

Housing loans – financial loans for individuals, intended for carrying out sub-standard property renovations and reconstructions.

Lending terms:

Amount	From 50,000 - 150,000 Denars
Interest rate	18% annually
Repayment due	18 - 36 months
Terms of repayment	Monthly annuities
Fee	2.5% of the loan amount

Standard loans – financial loans granted to self-initiatively formed groups of entrepreneurs – women, the members of which secure the loans repayment.

Lending terms:

Amount	From 10,000 - 90,000 Denars
Interest rate	1.8 - 2.5% monthly
Repayment due	6 - 12 months
Repayment period	Monthly annuities
Fee	-

Agro loans – financial loans granted to self-initiatively formed groups of entrepreneurs – women, for the support of agricultural production.

Lending terms:

Amount	From 30,000 - 90,000 Denars
Interest rate	1.8% for groups on monthly base
Repayment due	12 months
Terms of repayment	Monthly annuities
Fee	-

Following is the movement of net loan portfolio for the years ended 31 December 2009 and 2008:

	2009	2008
Opening balance	146,007	113,287
Total loans placed during the year	163,105	191,645
Loans collected	(140,008)	(151,428)
Loan loss provision for the year	(10,358)	(4,597)
Loan write offs	(3,968)	(2,900)
Balance of loan portfolio as of 31 December	154,778	146,007

Notes to the Financial Statements (continued)
 As of and for the year ended 31 December 2009
 (All amounts are in Denar thousands, unless otherwise stated)

Net loans outstanding (continued)

Loan portfolio analysis

Following is the analysis of the loan portfolio as of 31 December 2009 and 2008:

	Principal		Loan loss reserve	
	Structure %	Amount	Risk percentage	Amount
At 31 December 2009				
Current	69.43%	114,971	0%	-
Due, uncollected				
Up to 30 days	15.39%	25,478	0%	-
From 31 to 90 days	2.35%	3,890	10%	389
From 91 to 180 days	4.59%	7,608	25%	1,902
From 181 to 360 days	6.19%	10,243	50%	5,121
Over 360 days	2.05%	3,388	100%	3,388
Total	100.0%	165,578		10,800

	Principal		Loan loss reserve	
	Structure %	Amount	Risk percentage	Amount
At 31 December 2008				
Current	81.2%	122,145	0%	-
Due, uncollected				
Up to 30 days	11.1%	16,616	0%	-
From 31 to 90 days	2.7%	4,074	10%	407
From 91 to 180 days	2.1%	3,138	25%	785
From 181 to 360 days	1.6%	2,452	50%	1,226
Over 360 days	1.3%	1,992	100%	1,992
Total	100.0%	150,417		4,410

The movement of the loan loss reserve account is as follows:

Opening balance at 01 January 2008	2,713
Loan loss expense for 2008	4,597
Write offs	(2,900)
At 31 December 2008 / 01 January 2009	4,410
Loan loss expense for 2009	10,358
Write offs	(3,968)
At 31 December 2009	10,800

Notes to the Financial Statements (continued)
As of and for the year ended 31 December 2009
(All amounts are in Denar thousands, unless otherwise stated)

6 Property, plant and equipment and intangible assets

Components of property, plant and equipment and intangible assets are as follows:

	Computers and Equipment	Vehicles	Total PPE	Intangible Assets
Cost				
At 01 January 2008	2,903	4,615	7,518	376
Additions during the year	567	970	1,537	2,042
At 31 December 2008/ 01 January 2009	3,470	5,585	9,055	2,418
Additions during the year	161	1,510	1,671	277
Disposals during the year	(129)	(431)	(560)	-
At 31 December 2009	3,502	6,664	10,166	2,695
Accumulated depreciation				
At 01 January 2008	1,019	1,720	2,739	123
Depreciation for the year	512	993	1,505	75
At 31 December 2008/ 01 January 2009	1,531	2,713	4,244	198
Depreciation for the year	614	1,377	1,991	516
Disposals during the year	(129)	(431)	(560)	-
At 31 December 2009	2,016	3,659	5,675	714
Net carrying amount				
At 01 January 2009	1,939	2,872	4,811	2,220
At 31 December 2009	1,486	3,005	4,491	1,981

Total additions of property, plant and equipment and intangible assets during 2009 in the amount of Denar 1,948 thousands are financed by own funds.

As of 31 December 2009, included into total net carrying amount of property, plant and equipment and intangible assets, Denar 1,573 thousands (2008: Denar 3,072 thousands) is the net carrying amount of assets donated or purchased by donated funds as follows:

	Catholic Relief Services	Caritas Norway	FOSIM	CEB Agro	Total
At 31 December 2008					
Cost or valuation	4,331	998	1,729	116	7,174
Accumulated (depreciation)	(2,503)	(524)	(1,045)	(30)	(4,102)
Net carrying amount	1,828	474	684	86	3,072
At 31 December 2009					
Cost or valuation	3,801	998	1,729	116	6,644
Accumulated (depreciation)	(2,825)	(716)	(1,477)	(53)	(5,071)
Net carrying amount	976	282	252	63	1,573

During the year ended 31 December 2009, the Foundation sold a vehicle with cost value of Denar 431 thousands and wrote off equipment with cost value of Denar 99 thousand, all donated from Catholic Relief Services.

All assets are Foundation's property and at 31 December 2009 and 2008 the Foundation has no assets under pledge to secure long-term liabilities.

Notes to the Financial Statements (continued)
As of and for the year ended 31 December 2009
(All amounts are in Denar thousands, unless otherwise stated)

7 Equity

Founders' funds

According to the Reg.no. 1985 from 2005, total founders' funds amount to Denar 307 thousands and were fully contributed by the Subsidiary of the international charity organization Catholic Relief Services CRS from USA, headquartered in Skopje, Republic of Macedonia.

Donated funds

Following are the components of donated funds as of 31 December 2008 and 2009:

	Catholic Relief Services	Caritas Norway	FOSIM	Total
At 01 January 2008	55,325	8,525	12,584	76,434
Donated funds for:				
- loan portfolio	6,098	-	3,062	9,160
At 31 December 2008	61,423	8,525	15,646	85,594
At 01 January 2009	61,423	8,525	15,646	85,594
Donated funds for:				
- loan portfolio	11,477	-	-	11,477
At 31 December 2009	72,900	8,525	15,646	97,071

Catholic Relief Services donation. At 30 June 2005, Foundation “Horizonti”, Skopje and Catholic Relief Services-United States Conference of Catholic Bishops Inv (Not – For - Profit Organization headquartered in Baltimore, Maryland, USA and represented by Mr. Mark Schnellbacher) entered into Agreement for donation of loan portfolio in the total amount of USD 1,139,650 equivalent to Denar 57,746 thousands. Related loan loss reserve, accounted for in the Foundation accounts, at the date of loan portfolio transfer, amounted to Denar 2,421 thousand.

During the year ended 31 December 2008 and with regard to certain conditions met under the terms of the loan agreement No.00278 signed with Catholic Relief Services, dated 19 September 2006, part of the loan received in the amount of Denar 6,098 thousand has been converted into a non-refundable grant and recognized in donated funds within equity account (Note 10).

During the year ended 31 December 2009 and with regard to certain conditions met under the terms of the loan agreement No.00278 signed with Catholic Relief Services, dated 14 September 2006, part of the loan received in the amount of Denar 11,477 thousand has been converted into a non-refundable grant and recognized in donated funds within equity account (Note 10).

Caritas Norway donation. During 2005, the Foundation entered into Agreement with Caritas Norway for the total of USD 214,355, equivalent to Denar 10,759 thousand. According to the Contract provisions, during 2005, 2006 and 2007 and up to the balance sheet date as of 31 December 2008, these funds were used as follows: Denar 8,525 thousand for increase of loan portfolio, Denar 1,067 thousand – for recovering of operating expenses and Denar 1,166 thousands – for purchase of equipment.

FOSIM donation. The amount of Denar 15,646 thousand represents funds used for the purpose of increasing the Foundation' loan portfolio from the FOSIM donation. During 2007, Foundation Open Society Institute –Macedonia (FOSIM) and Foundation “Horizonti” signed three agreements (no. 8388 dated 25 December 2007, no. 7915 dated 09 July 2007 and no.8343 dated 07 December 2007) in the total amount of Denar 4,078 thousands for the purpose of supporting the Foundation's business operations. During the year ending 31 December 2008, total amount of Denar 3,062 thousands were used for increase of the loan portfolio (Note 8).

Notes to the Financial Statements (continued)
As of and for the year ended 31 December 2009
(All amounts are in Denar thousands, unless otherwise stated)

8 Deferred grants

At 31 December 2009, the balance of deferred grants, amounting to Denar 1,573 thousands (2008: Denar 3,072 thousands), consists of the following:

	2009	2008
Non – spent cash donated	-	-
In – kind donations in fixed assets	1,573	3,072
	1,573	3,072

The movement of deferred grant account is as follows:

	2009	2008
At 01 January	3,072	7,868
<i>Additions:</i>		
Funds granted	166	141
<i>Released to:</i>		
Donated funds (increase of loan portfolio)	-	(3,062)
Release through P&L (see table below)	(1,665)	(1,875)
At 31 December	1,573	3,072

Following is the analysis of released grant amount, accounted for as income in the 2009 and 2008 profit and loss:

	2009	2008
Recovering part of operating expenses	166	528
Depreciation for the year of donated property, plant and equipment and intangible assets	1,499	1,347
	1,665	1,875

The balance of deferred grants as of 31 December 2009 and 2008 relates to following donors:

	2009	2008
Catholic Relief Services	976	1,828
Caritas Norway	282	474
FOSIM	315	770
	1,573	3,072

9 Liabilities for clients' deposits

At 31 December 2009, liabilities for clients' deposits, amounting to Denar 9,742 thousands (2008: Denar 11,593 thousands), consists of short – term funds, each of them representing 10 - 15% of the loan principal, deposited by the loan beneficiaries, as guarantees for the loans borrowed from the Foundation. As of 31 December 2009, these funds are deposited with NLB Tutunska Banka AD, Skopje – a local commercial Bank.

Notes to the Financial Statements (continued)
As of and for the year ended 31 December 2009
(All amounts are in Denar thousands, unless otherwise stated)

10 Borrowings

	Up to 1 year	Over 1 year	2009 Total	Up to 1 year	Over 1 year	2008 Total
<u>Non-interest bearing borrowings</u>						
Catholic Relief Services	-	-	-	13,100	-	13,100
	-	-	-	13,100	-	13,100
<u>Interest bearing borrowings</u>						
NLB Tutunska Banka	8,001	29,915	37,916	18,000	17,500	35,500
SEDF Soros Economic Development Foundation	-	30,586	30,586	-	30,706	30,706
	-	-	-	-	-	-
Habitat Macedonia	367	5,750	6,117	-	3,976	3,976
MEDF	-	18,352	18,352	-	-	-
	8,368	84,603	92,971	18,000	52,182	70,182
	8,368	84,603	92,971	31,100	52,182	83,282

Following is the loan repayable schedule according to contractual maturity:

	<u>Total</u>
Within 12 months	8,368
2011	62,428
2012	10,981
2013	10,124
Thereafter	1,070
	92,971

Non-interest bearing borrowings

At 31 December 2008, total non - interest bearing borrowings amounting to Denar 13,100 thousands, represent funds borrowed by the Catholic Relief Services, one of the Foundation donors for the purpose of supporting the lending activities. No interest has been charged on the loan payable. During the year ended 31 December 2009 and 2008 and with regard to certain conditions met under the terms of the loan agreements, part of the loan received in the amount of Denar 11,477 thousand and Denar 6,098 thousand respectively has been converted into a non-refundable grant and recognized in donated funds within equity account (Note 7).

Interest bearing borrowings

The Foundation and NLB Tutunska Banka AD, Skopje signed an agreement No.004100309201, dated 22 September 2008 for a long term loan in amount of EUR 500,000 thousand, with annual interest rate of 6.6% and maturity date as at 22 September 2011.

The Foundation and NLB Tutunska Banka AD, Skopje signed an agreement No.004100306571, dated 23 April 2008 for a long term loan in amount of EUR 200,000 thousand, with annual interest rate of 8% and maturity date as at 23 April 2010.

The Foundation and Soros Economic Development Fund signed an agreement No.00688, dated 11 August 2008 for a long term loan in amount of EUR 500,000 thousand, with annual interest rate of 4% and maturity date as at 15 December 2011.

The Foundation and Habitat Macedonia signed an agreement No.00414, dated 15 June 2007 for a long term loan in amount of EUR 30,000, with annual interest rate of 4%, grace period of 36 months and maturity date as at 31 December 2012.

The Foundation and Habitat Macedonia signed an agreement No.00640, dated 30 June 2008 for a long term loan in amount of EUR 35,000, with annual interest rate of 5%, grace period of 36 months and maturity date as at 31 December 2013.

Notes to the Financial Statements (continued)
As of and for the year ended 31 December 2009
(All amounts are in Denar thousands, unless otherwise stated)

Borrowings (continued)
Interest bearing borrowings (continued)

The Foundation and Habitat Macedonia signed an agreement No.00881, dated 30 September 2009 for a long term loan in amount of EUR 35,000, with annual interest rate of 6%, grace period of 36 months and maturity date as at 31 March 2015.

The Foundation and MEDF (Macedonian Enterprise Development Foundation) signed an agreement No.08-093/2-2009, dated 9 October 2009 for a long term loan in amount of EUR 100,000, with annual interest rate of 5.85%, grace period of 24 months and maturity date as at 31 August 2013.

The Foundation and MEDF (Macedonian Enterprise Development Foundation) signed an agreement No.08-104/2-2009, dated 1 December 2009 for a long term loan in amount of EUR 200,000, with annual interest rate of 5.85%, grace period of 24 months and maturity date as at 30 November 2013.

11 Interest and fees on loans

	2009	2008
Interest collected	35,780	35,668
Fees collected	1,781	1,954
Accrued interest income	-	380
	37,561	38,002

12 Administrative expenses

	2009	2008
Staff costs	17,660	17,290
Services rendered	4,112	3,426
Rent expenses	2,780	2,813
Supplies and maintenance	1,735	2,363
Communications	1,584	682
Intellectual services	582	1,987
Representation	506	492
Honoraria	464	484
	29,423	29,537

Total staff costs for the years ended 31 December 2009 and 2008, consist of the following:

	2009	2008
Net salaries	11,186	8,998
Personal tax and mandatory contribution on salaries	5,696	5,526
Business trips and travel charges	778	1,050
Food and travel allowances	-	1,716
	17,660	17,290

Notes to the Financial Statements (continued)
As of and for the year ended 31 December 2009
(All amounts are in Denar thousands, unless otherwise stated)

13 Taxation

The charge for the year can be reconciled to the profit per 2009 and 2008 income statement as follows:

	2009	2008
Operating (loss) / profit before tax	(2,855)	2,178
Adjusted for permanent differences due to local provisions	-	3,527
Profit tax base	-	5,705
Tax on profit at 0% (2008: 10%)	-	570
<u>Adjusted for:</u>		
Non – allowed expenses for income tax purposes	127	68
Non-taxable income	-	(4)
Re – invested profit	-	(200)
Income tax expense	127	434

14 Contingencies and commitments

Tax liabilities

The Foundation’s tax books and records for the years ended 31 December 2009 have not been completely inspected by the local tax authorities. Consequentially, the Foundation’s tax liabilities may not be considered finalized. Additional taxes that may arise in the event of tax audit cannot be determined with any reasonable accuracy.

Litigations

At 31 December 2009, there are no legal proceedings raised against the Foundation. No provision has been made as of the balance sheet date, as professional advice indicates that it is unlikely that any significant loss will arise. In addition, various legal actions and claims may be asserted in the future against the Foundation from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the management of the Foundation believes that no material liabilities are likely to result.

Capital commitments

There is no significant capital expenditure contracted at the balance sheet date that is not recognized in the financial statements.

15 Events after the reporting date

As of 18 March 2010 and according to the approved project from “Emergency Fund” of Open Society Institute (“OSI”), the Foundation and the Soros Economic Development Fund (“SEDF”) entered into a non-interest bearing loan Agreement amounting to Euro 200,000. Within the same project, as of 05 March 2010 the Foundation and Foundation Open Society Institute – Macedonia (“FOSIM”) entered into an Agreement for technical support’s donation in the amount of Euro 25,500.

After the reporting date, the Foundation initiated the procedure for complying with the provisions of the latest Law on Associations of citizens and Foundations (Official Gazette No. 52/2010) enforced at 16 April 2010.

