

**WORLD RELIEF CAMBODIA
CREDIT (CAMBODIA RURAL ECONOMIC DEVELOPMENT
INITIATIVES FOR TRANSFORMATION) PROJECT**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

**WORLD RELIEF CAMBODIA
CREDIT (CAMBODIA RURAL ECONOMIC DEVELOPMENT
INITIATIVES FOR TRANSFORMATION) PROJECT**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

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**REPORT OF THE AUDITORS TO THE DONORS OF
WORLD RELIEF CAMBODIA - CREDIT PROJECT**

We have audited the financial statements of World Relief Cambodia - CREDIT (Cambodia Rural Economic Development Initiatives for Transformation) Project ("the Project") as at 30 September 2002 and for the year then ended, as set out on pages 2 to 11. These financial statements have been prepared in accordance with the accounting policies set out in note 3 to the financial statements.

Respective responsibilities of the Director and the auditors

The Project's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit of those financial statements, and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Project's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free of material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

As indicated in Note 2 to the financial statements, the accompanying financial statements are not intended to present the financial position and results of operations, and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Cambodia. The accounting principles and practices utilized in Cambodia may differ from those generally accepted in countries and jurisdictions other than Cambodia.

Opinion

In our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of the Project as at 30 September 2002, and of the results of its operations and cash flows for the year then ended, in accordance with the accounting policies set out in note 3 to the financial statements.

PricewaterhouseCoopers (Cambodia) Limited

PRICEWATERHOUSECOOPERS (CAMBODIA) LIMITED
Phnom Penh, Kingdom of Cambodia
Date: 20 December 2002



**WORLD RELIEF CAMBODIA
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**BALANCE SHEET
AS AT 30 SEPTEMBER 2002**

	Note	2002 US\$	2001 US\$
ASSETS			
Cash on hand and in banks	4	639,212	250,973
Loans receivable, net	5	553,620	662,108
Fixed assets	6	32,931	46,739
Other assets	7	9,552	87,238
TOTAL ASSETS		<u>1,235,315</u>	<u>1,047,058</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits	8	111,242	104,764
Other liabilities	9	40,699	44,572
Total Liabilities		<u>151,941</u>	<u>149,336</u>
EQUITY			
Loan fund capital	10	981,082	753,383
Retained earnings		102,292	144,339
Total Equity		<u>1,083,374</u>	<u>897,722</u>
TOTAL LIABILITIES AND EQUITY		<u>1,235,315</u>	<u>1,047,058</u>

By: _____

Ms. Karen Lewin
Project Director

Date: 20 December 2002

The accompanying notes on pages 5 to 11 form an integral part of these financial statements.

**WORLD RELIEF CAMBODIA
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

5. LOANS RECEIVABLE, NET (Continued)

Movements in the allowance for doubtful debts are summarized as follows:

	2002 US\$	2001 US\$
Balance at the beginning of the year	50,386	11,421
Provision for doubtful debts	83,035	38,965
Loans written off	(54,589)	-
Bad debts recovered	(845)	-
	<u>77,987</u>	<u>50,386</u>
Balance at end of the year	<u>77,987</u>	<u>50,386</u>

6. FIXED ASSETS

	Computer US\$	Vehicles US\$	Equipment US\$	Total US\$
Cost				
As at 1 October 2001	32,632	46,086	14,288	93,006
Additions	2,402	-	-	2,402
Disposals	-	(1,350)	-	(1,350)
As at 30 September 2002	<u>35,034</u>	<u>44,736</u>	<u>14,288</u>	<u>94,058</u>
Accumulated depreciation				
As at 1 October 2001	10,497	31,205	4,565	46,267
Charge for the year	7,868	5,840	1,692	15,400
Disposals	-	(540)	-	(540)
As at 30 September 2002	<u>18,365</u>	<u>36,505</u>	<u>6,257</u>	<u>61,127</u>
Net book value				
As at 30 September 2002	<u>16,669</u>	<u>8,231</u>	<u>8,031</u>	<u>32,931</u>
As at 30 September 2001	<u>22,135</u>	<u>14,881</u>	<u>9,723</u>	<u>46,739</u>

**WORLD RELIEF CAMBODIA
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

7. OTHER ASSETS

	2002	2001
	US\$	US\$
Prepayments	8,214	6,884
Grant receivable from USAID	-	63,953
Grant receivable from World Relief Canada	-	15,627
Staff advances	-	440
Others	1,338	334
	<u>9,552</u>	<u>87,238</u>

8. CUSTOMERS' DEPOSITS

	2002	2001
	US\$	US\$
By Branch:		
Phnom Penh	52,131	34,701
Kompong Cham	47,877	50,026
Kompong Chhang	11,234	20,037
	<u>111,242</u>	<u>104,764</u>
 By Type:		
Compulsory	101,581	104,764
Voluntary	9,661	-
	<u>111,242</u>	<u>104,764</u>

Voluntary savings bear annual interest at 2% and 5% for US\$ and Riel respectively whereas compulsory savings bear annual interest at 3% and 12% for US\$ and Riel respectively.

9. OTHER LIABILITIES

	2002	2001
	US\$	US\$
Provision for staff accident and disability insurance	30,641	20,473
Provision for severance pay	7,385	7,914
Others	2,673	16,185
	<u>40,699</u>	<u>44,572</u>

**WORLD RELIEF CAMBODIA
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

10. DONATIONS AND GRANTS

	USAID US\$	World Relief US\$	Other Donors US\$	Total US\$
Loan fund capital				
As at 1 October 2001	135,623	468,918	148,842	753,383
Receipts during the year	<u>139,669</u>	<u>34,049</u>	<u>53,981</u>	<u>227,699</u>
As at 30 September 2002	<u>275,292</u>	<u>502,967</u>	<u>202,823</u>	<u>981,082</u>
Grant income				
As at 1 October 2001	336,794	269,721	54,561	661,076
Grants during the year	<u>80,330</u>	<u>73,939</u>	<u>11,204</u>	<u>165,473</u>
As at 30 September 2002	<u>417,124</u>	<u>343,660</u>	<u>65,765</u>	<u>826,549</u>
Accumulated donations and grants				
As at 30 September 2002	<u>692,416</u>	<u>846,627</u>	<u>268,588</u>	<u>1,807,631</u>
As at 1 October 2001	<u>472,417</u>	<u>738,639</u>	<u>203,403</u>	<u>1,414,459</u>

11. INTEREST INCOME

	2002 US\$	2001 US\$
Loans receivable	315,346	398,863
Cash in banks	<u>4,417</u>	<u>5,401</u>
	<u>319,763</u>	<u>404,264</u>

12. INTEREST EXPENSE

Interest expense represents interest paid on customer deposits.

**WORLD RELIEF CAMBODIA
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

13. ADMINISTRATIVE EXPENSES

	2002	2001
	US\$	US\$
Salaries and staff benefits	278,497	318,508
Professional fees	29,942	95,192
Office rental	27,870	22,400
Office expenses	24,414	45,771
Repairs and maintenance	20,409	30,548
Personnel expenses	15,540	29,976
Rebates	12,175	47,242
Travel and business meeting	8,830	16,949
Communication	7,281	8,300
Others	2,255	6,561
	<u>427,213</u>	<u>621,447</u>

**WORLD RELIEF CAMBODIA
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**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

	Note	2002 US\$	2001 US\$
Interest income	11	319,763	404,264
Interest expense	12	<u>10,251</u>	<u>9,474</u>
Net interest income		309,512	394,790
Provision for doubtful debts	5	<u>83,035</u>	<u>38,965</u>
Net interest income after provision for doubtful debts		226,477	355,825
Other operating income		<u>8,926</u>	<u>4,411</u>
		<u>235,403</u>	<u>360,236</u>
Administrative expenses	13	427,213	621,447
Depreciation		15,400	12,714
Loss on disposal of fixed assets		<u>310</u>	<u>54</u>
		<u>442,923</u>	<u>634,215</u>
Loss before grant income		207,520	273,979
Grant income	10	<u>165,473</u>	<u>397,117</u>
Net income (loss) for the year		(42,047)	123,138
Retained earnings at the beginning of the year		<u>144,339</u>	<u>21,201</u>
Retained earnings at the end of the year		<u>102,292</u>	<u>144,339</u>

The accompanying notes on pages 5 to 11 form an integral part of these financial statements.

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**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

	Note	2002 US\$	2001 US\$
OPERATING ACTIVITIES			
Net income (loss) for the year		(42,047)	123,138
Adjustments to reconcile net income (loss) with funds provided by operations:			
Provision for doubtful debts		83,035	38,965
Depreciation of fixed assets		15,400	12,714
Loss on disposal of fixed assets		310	54
Changes in operating assets and liabilities:			
Loans receivable		25,453	(345,435)
Other assets		77,686	(77,742)
Customers' deposits		6,478	42,954
Other liabilities		(3,873)	20,019
		<u>162,442</u>	<u>(185,333)</u>
Net cash inflow (outflow) from operating activities			
INVESTING ACTIVITIES			
Purchases of fixed assets		(2,402)	(32,539)
Proceeds from disposal of fixed assets		500	965
		<u>(1,902)</u>	<u>(31,574)</u>
Net cash outflow from investing activities			
FINANCING ACTIVITY			
Loan fund capital received		<u>227,699</u>	<u>226,690</u>
NET INCREASE IN CASH ON HAND AND IN BANKS		388,239	9,783
CASH ON HAND AND IN BANKS			
At the beginning of the year		<u>250,973</u>	<u>241,190</u>
At the end of the year	4	<u>639,212</u>	<u>250,973</u>

The accompanying notes on pages 5 to 11 form an integral part of these financial statements.

**WORLD RELIEF CAMBODIA
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

1. GENERAL

World Relief Cambodia – CREDIT (Cambodia Rural Economic Development Initiatives for Transformation) Project (the “Project”) is managed by and funded through World Relief Cambodia, an international non-profit organisation registered with the Ministry of Foreign Affairs in Cambodia. The Project started on 1 October 1999 upon assignment to World Relief Cambodia of a segment of the activities of World Relief/Cambodia Community Building (“WR/CCB”), a micro-finance organization supported by World Relief.

The Project operates through three branches located in Phnom Penh and in the provinces of Kompong Cham and Kompong Chhnang. The Project’s primary source of revenue is interest derived from providing loans to clients.

2. BASIS OF PREPARATION

The financial statements of the Project, which are expressed in United States Dollars (US\$), are prepared under the historical cost convention.

The financial statements are not intended to present the financial position and results of operations, and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Cambodia. The accounting principles and practices utilized in Cambodia may differ from those generally accepted in countries and jurisdictions other than Cambodia.

3. SIGNIFICANT ACCOUNTING POLICIES

Loans

Loans are stated net of provision for doubtful debts.

Interest on loans is calculated using the declining balance method based on the loan principal amount outstanding.

The adequacy of the allowance for doubtful debts is evaluated monthly by management. The amount of allowance charged to expense is based on management’s judgment of the amount necessary to maintain the allowance at a level adequate to absorb losses.

Management provides for loan losses every month in order to maintain the allowance for doubtful debts at adequate levels. The adequacy of the allowance balance is determined by applying defined percentages to the outstanding balances in various aging categories, as follows:

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**NOTES TO THE FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan aging status	Percentage of provision applied
1 – 30 days	-
31 – 60 days	10
61 – 90 days	50
91 – 120 days	75
Over 120 days	100

Fixed assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the fixed assets at the following annual rates:

Computer	33.3 %
Vehicles	20.0 %
Machinery	12.5 %

Maintenance and repairs that do not extend the useful lives of assets are expensed in the year in which they are incurred.

Donations and grants

Donations or funds received by the Project to finance its lending operations are shown as direct additions to equity as 'Loan fund capital' and to the corresponding asset account in the balance sheet.

Donations or grants received to subsidize for the Project's operating and administrative expenses are recorded in the profit and loss account as grant income. The portion of grants that will be collected after the end of the year is shown as 'Grants receivable' under Other Assets in the balance sheet.

Interest and fee income and expense recognition

Interest earned on loans and fee income, and interest expense on deposits from members and fee expenses are recognized in the profit and loss account on a cash basis.

Expenses other than interest are recognised on cash basis.

Foreign currency translation

Assets and liabilities denominated in foreign currency are converted into US\$ at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies arising during the period are converted into US\$ at the rates of exchange prevailing on the transaction dates. All exchange differences are recognised in the profit and loss account.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

4. CASH ON HAND AND IN BANKS

	2002	2001
	US\$	US\$
Cash on hand	62,013	79,727
Cash in banks	<u>577,199</u>	<u>171,246</u>
	<u>639,212</u>	<u>250,973</u>

5. LOANS RECEIVABLE, NET

An analysis of the loans provided to Cambodian women residents follows:

	2002	2001
	US\$	US\$
Gross loans outstanding	631,607	712,494
Allowance for doubtful debts	<u>(77,987)</u>	<u>(50,386)</u>
Net	<u>553,620</u>	<u>662,108</u>
By Branch:		
Kompong Cham	287,443	329,321
Phnom Penh/Kandal	281,866	247,967
Kompong Chhnang	<u>62,298</u>	<u>135,206</u>
	<u>631,607</u>	<u>712,494</u>
By Type:		
Solidarity loans (group of 2 to 12 women)	325,105	390,580
Individual loans	208,576	171,692
Bank loans (group of more than 12 women)	<u>97,926</u>	<u>150,222</u>
	<u>631,607</u>	<u>712,494</u>
By Currency:		
Cambodian Riel, earning interest at 4% a month	442,418	519,476
United States Dollars, earning interest at 3% a month	<u>189,189</u>	<u>193,018</u>
	<u>631,607</u>	<u>712,494</u>