

REPORT
ON AUDIT OF FINANCIAL STATEMENTS
OF THE MCO «WOMEN FOR WOMEN INTERNATIONAL»
FROM SARAJEVO
FOR THE YEAR 2003

Audit Report

MCO “WOMEN FOR WOMEN INTERNATIONAL” Sarajevo To the founders and the management team

We have audited the balance sheets of the Microcredit Organization „WOMEN FOR WOMEN INTERNATIONAL“ as of 31 December 2003, and profit and loss statement, cash flow and changes in capital for the past year. These financial statements are the responsibility of the management of the legal entity. Our responsibility is to provide an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with the Federation Bosnia and Herzegovina auditing standards. These standards require that we plan and perform an audit in order to obtain reasonable assurance that there are no significantly wrong presentations of facts. An audit includes reviewing, on a test basis, of the evidence supporting the amounts and the disclosures in the financial statements. An audit also includes the evaluation of accounting principles used, key projections made by the management, as well as the overall presentation of financial reports. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present a truthful and fair overview of the financial position of the legal entity as of 31 December 2003, the results of its business activities, cash flow and changes in capital for the past year, and are in accordance with audit and accounting standards of the Federation Bosnia and Herzegovina.

Auditor

“Spectrum” d.o.o. Zenica
Audit and Tax Consultancy Company

Ekrem Duranović

Zenica, 24 April, 2004

PROFIT AND LOSS STATEMENT FOR THE YEAR 2003

	DESCRIPTION	Note	2002	2003
1.	Interest income	1	569.578	719.840
2.	Other interest income and similar types of income	2	166.547	13.194
3.	Total interest income and similar types of income (1+2)		736.125	733.034
4.	Interest expenses	3	2.169	704
5.	Net interest income and similar types of income (3 - 4)		733.956	732.330
6.	Income from fees for services provided	4	38.195	45.148
7.	Other operational income	5	4.542	4.498
8.	Operational income (6+7)		42.737	49.646
9.	General loan loss and other potential loan and other loss reserves	6	8.304	57.795
10.	Other business and direct expenses	7	26.812	11.945
11.	Total business and direct expenses (9+10)		35.116	69.740
12.	Salaries and contributions	8	264.323	274.987
13.	Rent, other fixed assets and utilities costs	9	44.221	59.488
14.	Other operational costs	10	115.811	128.150
15.	Total operative expenses (12 do 14)		424.355	462.625
16.	Total non-interest expenses (11+15)		459.471	532.365
17.	Profit (5+8-16)		317.222	249.611

BALANCE SHEET AS OF 31 DECEMBER 2003

	ITEMS	Note	2002	2003
	ASSETS			
1.	Monetary funds	11	321.859	421.569
2.	Loans	12	2.086.218	2.334.923
3.	Fixed assets	13	117.833	104.799
4.	Other assets	14	3.000	30.992
5.	Potential loss reserves		(41.724)	
6.	TOTAL ASSETS		2.487.186	2.892.283
	LIABILITIES			
7.	Liabilities – microcredit portfolio sources	15	1.648.401	1.358.529
8.	Other liabilities	16	13.427	8.785
9.	Total liabilities		1.661.828	1.367.314
	CAPITAL			
10.	Retained earnings		418.740	668.351
11.	Other capital		406.618	856.618
12.	Total capital	17	825.358	1.524.969
13.	TOTAL CAPITAL AND LIABILITIES		2.487.186	2.892.283

CASH FLOW REPORT FOR 2003

Br	Description		Amount KM
	Cash flow from business activities		
1.	Profit		249.611
	Adjustments for:		
2.	Depreciation/value of intangible assets adjustment	+	426
3.	Depreciation/value of tangible assets adjustment	+	40.292
4.	Expenses (income) from alienation of tangible assets	+(-)	1.244
5.	Total adjustment 2 to 4		41.962
6.	Increase (decrease) in disbursed micro loans	-(+)	-248.705
7.	Increase (decrease) in other assets	-(+)	-27.992
8.	(Increase) decrease in other liabilities	(+)-	-4.642
9.	(Increase) decrease in accrued expenses which are not invoiced	(+)-	-41.724
10.	Total 6 to 9		-323.063
11.	A.Net cash from business activities (1+5+10)		-31.490
	Cash flow from investment activities		
12.	Purchase (sale) of intangible assets	-(+)	-3.650
13.	Purchase (sale) of tangible assets	-(+)	-25.278
14.	B.Net cash used in investment activities (12+13)		-28.928
	Cash flow from financial activities		
15.	Increase (decrease) in microcredit portfolio sources	+(-)	-289.872
16.	Other forms of capital increase	+	+450.000
17.	C. Net cash used in financial activities (15+16)		+160.128
18.	Net increase (decrease) in cash on the account and in cash box (A+B+C)		99.710
19.	Opening balance of cash on the account and in cash box		321.859
20.	Closing balance of cash on the account and in cash box		421.569
21.	Net increase in cash on the account and in cash box (20-19)		99.710

CHANGES IN CAPITAL FOR 2003

No	Description	Authorised equity	Accumulated profit (loss)	Total
1	2	3	4	6
1	Balance as of 31/12/2001	388.427	119.709	508.136
2	Issue of shares and other forms of capital increase			
3	Tangible assets re-valuation			
4	Net profit for the period		317.222	317.222
5	Profit distribution	18.191	-18.191	
6	Other decrease in equity			
7	Balance as of 31/12/2002	406.618	418.740	825.358
8	Issue of shares and other forms of capital increase	450.000		450.000
9	Tangible assets re-valuation			
10	Net profit for the period		249.611	249.611
11	Net loss for the period			
12	Profit distribution			
13	Loss distribution			
14	Other decrease in equity			
15	Balance as of 31/12/2003	856.618	668.351	1.524.969

Notes to Financial Statements**General Information**

Microcredit organization "WOMEN FOR WOMEN INTERNATIONAL" was registered at the Microcredit Organizations Register on 5 February, 2002 under the number R1M-10/01, at the Ministry of Social Affairs, Displaced Persons and Refugees of Federation Bosnia and Herzegovina (Decision no. 05-4-35-M1-627/01).

The main activity of the microcredit organization as a non-deposit and non-profit organization is to provide microcredit services to socially endangered population with the aim to further develop micro-entrepreneurship.

The director of the organization is Ms. Seida Sarić.

The Board of Directors consists of 3 members – Ms. Vesna Vukmanić, Mr. Ekrem Gacić and Mr. Sabit Bašić.

Accounting Policies

These financial reports are prepared in accordance with the Law on Accounting and Accounting Standards of the Federation Bosnia and Herzegovina.

Recognition of Income

The income is recognized based on the services provided, per the fair value of compensation received.

Fixed Assets

Fixed tangible and intangible assets are valued at the corrected historical cost decreased by accumulated depreciation and other value adjustments.

Depreciation of tangible assets is calculated according to the linear method at the rate of 33% for computer equipment and at the rate of 20% for other fixed assets

Investments

Investments, i.e. distribution of loans to population are valued at cost, in accordance with the accounting standards of the Federation Bosnia and Herzegovina.

Reserves

Reserves for general loan loss and potential losses is established in accordance with the Decision on the Method of Calculation of Reserves for Loan Losses and Write-off.

Bookkeeping System

Bookkeeping is conducted in new software introduced during the year, which consists of five modules: credit activities, fixed assets, salary calculation, cash box and financial activities.

The organization uses the system of accounts and forms which are stipulated for non-profit associations of organizations and associations of citizens.

Notes to Individual Items of Financial Statements**1) Interest income**

	DESCRIPTION	2003
a)	Interest income ŽŽI	51.850,50
b)	Interest income GB I (Gramen Trust, Bangladesh)	63.719,00
c)	Interest income GB II (Gramen Trust, Bangladesh)	34.009,00
d)	Interest income UNHCR (Revolving fund)	105.573,00
e)	Interest income BWI (Foundation New Bosnia, USA)	165.770,50
f)	Interest income WWI (USA)	19.146,00
g)	Interest income USAID	121.440,50
h)	Interest income SD/PRM (State Department USA)	152.864,50
i)	Interest income ŽŽI new	5.467,00
	Total	719.840,00

The abovementioned interest income is classified by the criteria of the sources of funds used for loans disbursement (see note 15). The interest rate for all microcredits is 1,5% per month.

2) Other interest income and similar income

	DESCRIPTION	2003
a)	Donation income for costs covering (USAID)	5.974,80
b)	Income from interest on ordinary deposits	2.809,13
c)	Income from penalty interest	2.933,50
d)	Income from services –administrative costs	1.476,90
	Total	13.194,33

The part of the funds for salary expenses of the staff working on loans disbursement was also agreed upon in accordance with the agreement on the allocation of funds for financing of microcredits provided by the USAID (see note 15). The amount of KM 5,974.80 (Euro 3,054.87) was paid for salary expenses during 2003.

3) Interest expenses

The amount of KM 704.10 is related to the interests that need to be calculated for funds received under the GB II contract –at the rate of 2% annually.

4) Income from services provided

	Description	2003
a)	Service fee	45.147,60
	Total	45.147,60

This income represents income from collected loan administration fees, which is 1% of the loan amount.

5) Other operational income

	Description	2003
a)	Income from positive exchange differences	3.447,09
b)	Extraordinary income	723,00
c)	Other income	328,00
	Total	4.498,09

- a) Income from positive exchange differences is income calculated by a bank based on the fluctuation of exchange rate of USD during 2003.
- b) Extraordinary income consists of collected claim write offs of disbursed loans.
- c) Other income is income from the damage compensation for the insured motor vehicle type VW Golf.

6) Expenses for general loan loss reserves and potential loan and other losses

The amount of KM 57,794.95 is related to expenses of general loan loss reserves. The amount was calculated by subtracting the previously reserved amount of KM 41,724.36 from the total reserves for potential losses in the amount of KM 99.519,31.

The total potential loss reserve in the amount of KM 99,519.31 KM is calculated by applying the rate of reserve pursuant to the Decision on the Method of Calculation of Reserves for Loan Losses and Write-off to the past-due capital amount depending on the delay time of repayment of the loans.

Days of delay	Past-due capital amount	Reserve rate	Total reserve amount
Up to 30 days	7.038	5%	351,90
31 to 60 days	26.990	25%	6.747,50
61 to 90 days	17.376	50%	8.688,00
91 to 120 days	9.450	75%	7.087,50
121 to 150 days	11.116	90%	10.004,40
151 to 270 days	16.301	100%	16.301,00

Total up to 270 days	88.271		49.180,30
More than 271 days	50.339	100%	50.339,00
TOTAL	138.610		99.519,30

7) Other business and direct costs

	Description	2003
a)	Membership	5.610,93
b)	Insurance costs	1.734,41
c)	Negative exchange differences	4.599,88
	Total	11.945,22

- a) MCO is member of the Association of Micro-financial Institutions in Bosnia and Herzegovina, as well as member of Microfinance Centre for Central and Eastern Europe based in Warsaw.
- b) Insurance costs are related to the insurance of fixed assets and staff.
- c) Negative exchange differences are the result of dollar exchange rate fluctuations.

8) Salaries and contribution costs

	Description	2003
a)	Net salaries	148.400,00
b)	Tax and salary contributions	101.232,91
c)	Compensation for meals	25.353,80
	Total	274.986,71

As of December 2003, the MCO employs the total of 12 employees.

9) Rent and other fixed assets and utilities costs

	Description	2003
a)	Depreciation	40.718,12
b)	Fixed assets maintenance costs	3.721,65
c)	Rent	15.048,00
	Total	59.487,77

The costs are related to rent of the office premises in Džemala Bijedića Street no. 130 in Sarajevo, and occasional rent of other premises for the activities of the microcredit organization.

10) Other operational costs

These costs are other costs which were not mentioned above, and which occurred as a result of performance of main activities. These costs are comprised of:

	Description	2003
a)	Office supplies and cleaning	12.080,19
b)	Material for fixed assets maintenance	6.755,36
d)	Assets maintenance services	3.545,30
f)	Small inventory	2.087,80
g)	Fuel	11.483,46
h)	Banking services	7.612,65

i)	Electricity	2.109,10
j)	Telephone and post office services	14.450,78
k)	Representation	3.671,85
l)	Vocational training costs and books	7.490,32
m)	Business travel and hotel accommodation costs	8.741,80
n)	Temporary and occasional jobs	9.001,85
o)	Legal services	3.025,00
p)	Accounting services	13.200,00
r)	Audit services	4.500,00
s)	Holiday cash grants for employees	5.750,00
t)	Promotion and advertising costs	3.514,12
u)	Expenses from fixed assets sale	1.244,00
v)	Other costs	7.886,52
	Total	128.150,10

11) Monetary assets

Monetary assets, i.e. cash and cash equivalents consist of:

	Description	2003
	Cash box	
a)	Operational costs cash box	226,37
b)	Cash box microcredits GB I	0,00
c)	Cash box microcredits GB II	0,00
d)	Cash box microcredits UNHCR	74,00
e)	Cash box microcredits ŽŽI	0,00
f)	Cash box microcredits WWI/BWI	0,00
g)	Cash box microcredits USAID	0,00
h)	Cash box microcredits SD/PRM	100,00
i)	Total cash box	400,37
	Accounts at banks	
j)	Account 683971 Operational costs	890,01
k)	Account 684208 GB I	45.874,36
l)	Account 684305 GB II	43.071,91
m)	Account 684014 UNHCR	36.138,84
n)	Account 684111 ŽŽI	65.704,50
o)	Account 684402 WWI	26.590,72
p)	Account 684596 SD/PRM	85.679,72
r)	Account 1001398 USAID	117.218,36
s)	Foreign currency account ŽŽI	0,00
t)	Total accounts at banks	421.168,42
	Total cash (i + t)	421.568,79

All accounts are with the Central Profit Banka d.d. Sarajevo.

12) Loans

Portfolio of disbursed loans is classified according to the funding sources:

	Description	2003
a)	Microcredits ŽŽI	140.552,50
b)	Microcredits GB I	192.032,50
c)	Microcredits GB II	97.727,00
d)	Microcredits UNHCR	439.984,50
e)	Microcredits BWI	531.718,00
f)	Microcredits WWI	74.382,50
g)	Microcredits SD/PRM	488.237,00
h)	Microcredits USAID	396.555,50
i)	Microcredits ŽŽI new	22.914,00
A	Total	2.384.103,50
j)	Value adjustment -microcredits ŽŽI	6.101,13
k)	Value adjustment -microcredits GB II	120,00
l)	Value adjustment -microcredits UNHCR	14.945,55
m)	Value adjustment -microcredits BWI	7.309,50
n)	Value adjustment -microcredits WWI	325,00
o)	Value adjustment -microcredits USAID	7.453,00
p)	Value adjustment -microcredits SD/PRM	12.926,13
B	Total	49.180,31
	Total (A – B)	2.334.923,19

The organization is disbursing loans in 25 municipalities in 5 cantons and in the region of Dobož, with the total of 121 centres.

Value adjustment consists of claims which are past-due up to 270 days. The claims which are past-due more than 270 are written off. (see note 6).

13) Fixed assets

The microcredit organization has the following equipment needed for performance of its activities: transportation vehicles, computers and office furniture. The changes in its bookkeeping value during the 2003 are as follows:

Purchase value -cost

	Intangibles	Equipment	Total
Balance as of 31/12/2002		147.281	147.281
Purchase and value increase	3.650	26.778	30.428
Sales and other alienations		5.488	5.488
Balance as of 31/12/2003	3.650	168.571	172.221

Accumulated depreciation and value adjustments:

	Intangibles	Equipment	Total
Balance as of 31/12/2002		29.448	29.448
Depreciation in 2003	426	40.292	40.718
Sales and other alienations		2.744	2.744
Balance as of 31/12/2003	426	66.996	67.422

Net bookkeeping value:

	Intangibles	Equipment	Total
Purchase value 31/12/2003.	3.650	168.571	172.221

Accumulated depreciation 31/12/2003	426	66.996	67.422
Net bookkeeping value 31/12/2003	3.224	101.575	104.799

The financial accounting software was purchased in 2003, and so were the computer equipment, furniture, air conditioner, etc. At the same time one vehicle was sold for KM 1,500. Its non-depreciated value was KM 2,744 (purchase value KM 5,488 minus accumulated depreciation KM 2,744), and the difference between non-depreciated value and sales value was presented as a cost in the note 10 (u).

14) Other assets

Other assets consist of:

	Description	2003
a)	Deferrals for insurance premium	3.792,00
b)	Advance payments for audit services and software	17.200,00
c)	Deposit for business card	10.000,00
	Total	30.992.00

15) Liabilities – microcredit funding sources

The microcredit sources of financing have the following structure:

	Description	2003
a)	Long term liabilities GB I	104.444,60
b)	Long term liabilities GB II	82.160,00
c)	Long term liabilities WWI	52.316,30
d)	Long term liabilities SD/PRM	576.821,02
e)	Long term liabilities USAID	542.787,32
	Total	1.358.529,24

In comparison to the previous year, the long term liabilities are different due to the following:

- b) In accordance with the GB II agreement, a new amount of USD 15,000 (KM 27,664.34) was received during 2003, and USD 10,000 (KM 18,107.59) was repaid.
- e) In accordance with the USAID agreement, a new amount of USD 86,429.73 (KM 153,019.94) was received during 2003.

With the Agreement of 09/10/2003 the UNHCR had transferred the ownership of the Revolving Fund in the amount of KM 450,000.00 KM to MCO “Women for Women International”, therefore the Fund was booked as permanent source (see note 17).

There is a prescribed obligatory calculation of passive interest rate of 2% annually for the funds received under the agreement GB II, while other assets are interest-free.

16) Other liabilities

Other liabilities are comprised of:

	Description	2003
a)	Accounts payable	7.528,85
b)	Accounts payable for tax on services	2,70
c)	Accounts payable for interest	1.253,35
	Total	8.784,90

- a) Accounts payable consist of the debt towards “Sarajevo osiguranje” (Insurance company) in the amount of KM 3,029.04, BH Telecom in the amount of KM 1,349.99, SARS Sarajevo in the amount of KM 1,882.87, Fazlic Trade Sarajevo in the amount of KM 534.00 and other suppliers for their merchandise and services.
- c) Interest liabilities have occurred under the GB II agreement (see notes 3 and 15).

17) Capital

The final capital structure is as follows:

	Description	Amount
a)	Other capital	856.618
b)	Retained earnings	668.351
	Total capital	1.524.969

- a) Other capital in the amount of KM 856,618 was formed out of the capital determined by the court expert’s findings on 31/12/2000 in the amount of KM 388,427, the profit made through microcredit activities within non-resident for the period of 1 January – 5 March, 2001 in the amount of KM 18,191 and the funds in the amount of KM 450,000 which were, in accordance with the Agreement with the UNHCR of 09/10/2003 transferred to the ownership of the Microcredit Organization.
- b) Retained earnings consist of profit realised in 2001, which the organization made as the official local MCO after 5 March 2001 (KM 101,518), the profit from 2002 (KM 317,222) and the profit from 2003 (KM 249,611).