

**INDEPENDENT AUDITOR'S REPORT**

**ON FINANCIAL STATEMENTS**  
**OF THE**  
**MCO «WOMEN FOR WOMEN INTERNATIONAL»**  
**FROM SARAJEVO**

**FOR THE YEAR 2004**

## AUDIT REPORT

### MCO “WOMEN FOR WOMEN INTERNATIONAL” Sarajevo

#### To the founders and the management team:

We have audited statements of financial position of the microcredit organization “Women for Women International” for the period as of December 31, 2004, income statement, cash flow and changes in capital for the past year. These financial statements are the responsibility of the “Women for Women’s” management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the Federation of Bosnia and Herzegovina auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of significant material misstatements. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as assessing the overall presentation on the organization’s financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly the financial position as a result on financial statements, cash flow and changes in equity of the “Women for Women International” as of December 31, 2004, and are in accordance with the Federation of Bosnia and Herzegovina Accounting Standards.

Auditor

“Spectrum” d.o.o. Zenica  
Company for auditing and tax consulting

Ekrem Duranović

Zenica, March 31, 2005

**INCOME STATEMENT FOR 2004**

	<b>DESCRIPTION</b>	<b>Note</b>	<b>2003</b>	<b>2004</b>
1.	Interest income	1	719.840	714.330
2.	Other interest income and similar types of income	2	13.194	17.682
<b>3.</b>	<b>Total interest income and similar types of income (1+2)</b>		<b>733.034</b>	<b>732.012</b>
<b>4.</b>	<b>Interest expenses</b>	3	<b>704</b>	<b>232</b>
<b>5.</b>	<b>Net interest income and similar types of income (3 - 4)</b>		<b>732.330</b>	<b>731.780</b>
6.	Income from fees for provided services	4	45.148	38.882
7.	Other operational income	5	4.498	42.753
<b>8.</b>	<b>Operational income (6+7)</b>		<b>49.646</b>	<b>81.635</b>
9.	General loan loss and other potential loss reserves	6	57.795	69.157
10.	Other business and direct expenses	7	11.945	14.860
<b>11.</b>	<b>Total business and direct expenses (9+10)</b>		<b>69.740</b>	<b>84.017</b>
12.	Salaries and contributions	8	274.987	344.014
13.	Rent, utilities and other fixed assets expenses	9	59.488	67.591
14.	Other operational expenses	10	128.150	124.539
<b>15.</b>	<b>Total operational expenses (12 do 14)</b>		<b>462.625</b>	<b>536.144</b>
<b>16.</b>	<b>Total non-interest expenses (11+15)</b>		<b>532.365</b>	<b>620.161</b>
<b>17.</b>	<b>Profit (5+8-16)</b>		<b>249.611</b>	<b>193.254</b>

**BALANCE SHEET AS OF 12.31.2004**

	<b>ITEM</b>	<b>Note</b>	<b>2003</b>	<b>2004</b>
	<b>ASSETS</b>			
1.	Cash and cash equivalents	11	421.569	326.477
2.	Loans	12	2.384.103	2.147.206
3.	Fixed assets	13	104.799	108.834
4.	Other assets	14	30.992	891.717
5.	Loan loss reserves	12	-49.180	-34.450
<b>6.</b>	<b>TOTAL ASSETS</b>		<b>2.892.283</b>	<b>3.439.784</b>
	<b>LIABILITIES</b>			
7.	Liability – microcredit portfolio sources	15	1.358.529	1.708.681
8.	Other liabilities	16	8.785	12.879
<b>9.</b>	<b>Total liabilities</b>		<b>1.367.314</b>	<b>1.721.560</b>
	<b>EQUITY</b>			
10.	Unallocated profit and capital reserve		668.351	861.606
11.	Other equity		856.618	856.618
<b>12.</b>	<b>Total equity</b>	17	<b>1.524.969</b>	<b>1.718.224</b>
<b>13.</b>	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2.892.283</b>	<b>3.439.784</b>

**CASH FLOW REPORT FOR THE YEAR 2004**

#	Description		Amount
			KM
	<b>Cash flow from the business activities</b>		
<b>1.</b>	<b>Profit</b>		<b>193.254</b>
	<b>Adjustments for:</b>		
2.	Depreciation/value of intangible assets adjustment	+	2.800
3.	Depreciation/value of tangible assets adjustment	+	39.935
4.	Expenses (income) from alienation of tangible assets	+(-)	145
5.	Other adjustments for non-cash items		-22.008
<b>6.</b>	<b>Total adjustment 2 through 5</b>		<b>20.872</b>
7.	Increase (decrease) in disbursed loans	-(+)	222.167
8.	Increase (decrease) in other assets	-(+)	-857.068
9.	Increase (decrease) in prepaid expenses	-(+)	-3.707
10.	(Increase) decrease in other liabilities	(+)-	4.094
<b>11.</b>	<b>Total 7 through 10</b>		<b>-634.514</b>
<b>12.</b>	<b>Net cash from the business activities (1+6+11)</b>		<b>-420.388</b>
	<b>Cash flow from investment activities</b>		
13.	Purchase (sale) of intangible assets	-(+)	-21.000
14.	Purchase (sale) of tangible assets	-(+)	-25.910
<b>15.</b>	<b>Net cash used in investment activities (13+14)</b>		<b>-46.910</b>
	<b>Cash flow from financial activity</b>		
16.	Increase (decrease) in microcredit portfolio financing source	+(-)	400.000
17.	Return of assets		-27.794
<b>18.</b>	<b>Net cash used in financial activities (16-17)</b>		<b>372.206</b>
<b>19.</b>	<b>Net increase (decrease) in cash (12+15+18)</b>		<b>-95.092</b>
<b>20.</b>	<b>Initial balance of cash in the account and petty-cash</b>		<b>421.569</b>
<b>21.</b>	<b>Ending balance of cash in the account and petty-cash</b>		<b>326.477</b>
<b>22.</b>	<b>Net increase in cash in the account and petty-cash (21-20)</b>		<b>-95.092</b>

**CHANGES IN EQUITY FOR THE YEAR 2004**

#	Description	Subscribed equity	Accumul. profit/loss	Total
1	2	3	4	6
1.	<b>Balance as of 12.31.2002</b>	<b>406.618</b>	<b>418.740</b>	<b>825.358</b>
2.	Issuing shares and other forms of equity increase	450.000		450.000
3.	Tangible assets revalorization			
4.	Net profit for the period		249.611	249.611
5.	Profit distribution			
6.	Other decreases in equity			
7.	<b>Balance as of 12.31.2003</b>	<b>856.618</b>	<b>668.351</b>	<b>1.524.969</b>
8.	Issuing shares and other forms of equity increase			
9.	Tangible assets revalorization			
10.	Net profit for the period		193.255	193.255
11.	Net loss for the period			
12.	Profit distribution			
13.	Loss distribution			
14.	Other decreases in equity			
15.	<b>Balance as of 12.31.2004</b>	<b>856.618</b>	<b>861.606</b>	<b>1.718.224</b>

**Notes to financial statements****General information**

The microcredit organization « Women for Women International » was registered in the Microcredit organization register on February 02, 2002 under the number R1M-10/01, at the Ministry of social affairs, displaced persons and refugees of Federation of Bosnia and Herzegovina (decision number 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 endanger categories of population, with a goal of further microentrepreneurship development.

Ms. Seida Sarić is the director of the organization.

The Board of Directors consists of three members:

Mrs. Vesna Vukmanić, Mr. Ekrem Gacić (President) and Mr. Sabit Bašić.

**Accounting policies**

These financial reports are prepared in accordance with the Law on accounting and accounting standards of the Federation of Bosnia and Herzegovina

### **Income**

Income from interest is recognized based on calculated interest belonging to the reporting period. Other income is recognized based on a performed service, per the fair value of compensation, which has been or will be received.

### **Fixed assets**

Fixed tangible and intangible assets are valued at a historical cost, adjusted by the amount of accumulated depreciation and other value adjustments.

Depreciation of tangible assets is calculated by the straight-line method, at the rate of 33% for computer equipment and 20% for other fixed assets.

### **Investments**

Investments (distributions of loans) to clients are valued at cost, in accordance with the accounting standards of Federation of Bosnia and Herzegovina.

### **Reserving**

Reserving for general credit risk and potential loan losses is set according to the Decision on calculating the loan loss reserves and loans write off. According to the Decision, certain percentage are being applied to loans in arrears depending on number of days loans are falling behind schedule, which is shown in the following table:

Loan in arrear	% of reserve on the amount of the original debt
1-30 days	5%
31-60 days	25%
61-90 days	50%
91-120 days	75%
121-150 days	90%
151-270 days	100%
Over 271 days	100%

Loans are being written off if they are 270 days past due, only after 60 days from the day the last payment was due. Write offs are done against loan loss reserves.

### **Bookkeeping system**

Bookkeeping recording is done with the help of new software, which was activated in 2003 and it has five modules: credit operations, fixed assets, payroll accounts, petty cash and financial operations.

Organization is using the chart of account and reporting forms prescribed for nonprofit associations of organizations and associations of citizens.

**Notes to certain items of financial reports****1) Interest income**

#	DESCRIPTION	2004
1.	Interest income WWI	51.234,00
2.	Interest income GB I (Grameen Trust, Bangladesh)	54.278,50
3.	Interest income GB II (Grameen Trust, Bangladesh)	34.886,00
4.	Interest income UNHCR (Revolving fund)	115.268,00
5.	Interest income BWI (Foundation New Bosnia, USA)	138.391,50
6.	Interest income WWI (USA)	18.273,00
7.	Interest income USAID	118.917,00
8.	Interest income SD/PRM (State Department USA)	148.971,00
9.	Interest income WWI-new	8.283,00
10.	Interest income UMCOR	5.212,00
11.	Interest income WWI individual	1.200,00
12.	Income from accrued interest	19.416,00
	<b>Total</b>	<b>714.330,00</b>

The above stated interest income is classified by the source of funds used for loans distribution (portfolio financing sources) (refer to a note number 15). Interest rate for all microcredits is 1,5% per month, except for loans from the UMCOR fund (1,45%) and incentive loans (2,20%). Interest collected at the beginning of 2005 in the amount of 19.416 KM is related to 2004.

**2) Other interest income and similar income**

#	DESCRIPTION	2004
1.	Income from fixed term deposits	9.334,28
2.	Income from a-vista deposits interest	4.823,50
3.	Income from penalty interest	2.217,00
4.	Income from administrative services	1.306,80
	<b>Total</b>	<b>17.681,58</b>

Based on the agreement number 2316/04 dated August 10, 2004 the amount of 501.000 KM was deposited on ABS bank for a fixed term of 6 months with an annual interest rate of 4,2 %. Amount of 350.000,00 KM was deposited on ProCredit bank with an annual interest rate of 3,5%. Interest earned on basis of two fixed term deposit was 9.334,28 KM on December 31, 2004.

**3) Interest expenses**

This item contains interest calculated for assets received based on agreement with Grameen Trust from Bangladesh (GB II)-at annual interest rate of 2% and other interest (5,13 KM).

**4) Income from fees for provided services**

#	Description	2004.
1.	Service fees	38.882,25
	<b>Total</b>	<b>38.882,25</b>

This income represents income from collected loan servicing fees, which is 1% of the approved loan amount (it is collected for all loans except incentive loans).

**5) Other operational income**

#	Description	2004
1.	Income from positive exchange rate differences	22.120,62
2.	Income-from collected write-offs receivables	19.908,50
3.	Other income	723,96
	<b>Total</b>	<b>42.753,08</b>

- 1) Income from positive exchange rate differences represents income earned on basis on liability decrease based on agreement with Grameen Trust from Bangladesh (GB II) due to change in exchange rate during 2004
- 2) Income from collected written-off receivables (microcredits) contains principle and interest
- 3) Other income is income from donation from Washington, in the amount of 468 USD

**6) Expenses for general loan risk reserves, potential loan losses, and other losses**

The amount of 69.157,02 KM is related to calculated general reserves for the loan losses risk. Movement of reserves is shown in the following table:

#	Description	Amount
1.	Initial balance of reserves	49.180,30
2.	Write-offs during 2004	-83.887,00
3.	Loan loss reserve expenses during 2004	69.157,03
4.	Final balance of loan loss reserving at the end of 2004	34.450,33

The amount of 83.887,00 KM was written off during 2004. Adequate measures were undertaken towards collection of these loans.

Final balance of reserving is related to principle amount in arrears to which reserve rate is being applied according to the Decision on calculating the loan loss reserves and loans write off depending on number of days loans are falling behind schedule.

Days past due	Amount of principle in arrear	Reserve rate	Total amount of reserves
Up to 30 days	6.909,00	5%	345,45
31 to 60 days	6.831,50	25%	1.707,88
61 to 90 days	3.350,00	50%	1.675,00
91 to 120 days	4.780,00	75%	3.585,00
121 to 150 days	915,00	90%	823,50
151 to 270 days	19.137,50	100%	19.137,50
over 271 days	7.176,00	100%	7.176,00
<b>TOTAL</b>	<b>49.099,00</b>		<b>34.450,33</b>

Loan in the amount of 7.176 KM is in arrear over 271 days but was not written off because on the date of the statement 60 days from the last payment's due date did not pass.

**7) Other business and direct expenses**

#	Description	2004
1.	Membership	5.967,41
2.	Insurance expenses	8.780,49
3.	Negative exchange rate differences	112,43
	<b>Total</b>	<b>14.860,33</b>

- 1) The MCO is a member of the Association of B&H microcredit institutions and member of the Microfinance Center for Central and Eastern Europe. The headquarters of the Center are in Warsaw).
- 2) The insurance is in related to insurance of fixed assets and employees.
- 3) The negative exchange rate differences are the result of dollar exchange fluctuations.

**8) Salaries and contributions expenses**

#	Description	2004
1.	Net salaries	184.092,90
2.	Tax and contributions	126.969,15
3.	Compensation for meals	32.952,00
	<b>Total</b>	<b>344.014,05</b>

As of December 2004, the mirocredit organization has the total of 19 employees.

**9) Office, other fixed assets and utilities expenses**

#	Description	2004
1.	Depreciation	42.734,84
2.	Fixed assets maintenance expenses	11.008,01
3.	Rent	13.848,00
	<b>Total</b>	<b>67.590,85</b>

Expenses are related to renting an office space in Džemala Bijedića street #130c and occasional rent of spaces for needs of the microcredit organization.

**10) Other operating expenses**

These expenses represent other unmentioned expenses, which developed during the process of performing the main business activities, and they are:

#	Description	2004
1.	Office supplies and cleaning	13.634,80
2.	Material for fixed assets maintenance	2.183,45
3.	Assets maintenance services	2.130,70
4.	Small inventory	340,00
5.	Gas	12.597,67
6.	Bank services	6.562,86
7.	Electric energy costs	2.392,60
8.	Telephone	17.724,02

9.	Representation	5.271,92
10.	Training and professional	6.335,29
11.	Travel expenses and hotel expenses	12.514,01
12.	Temporary and occasional jobs	1.830,40
13.	Lawyer's services	3.300,00
14.	Accounting services	5.775,00
15.	Auditing services	5.500,00
16.	Advertisement and promotion	1.805,71
17.	Compensation for use of private vehicles and private cellular phones in official business purposes	8.320,87
18.	Other expenses	16.318,98
	<b>Total</b>	<b>124.538,28</b>

### 11) Cash

Cash assets, (cash and cash equivalents) are comprised of the following:

	Description	2004
#	<b>Patty cash</b>	
1.	Operating expenses-petty cash	181,00
2.	Microcredits GB I – petty-cash	0,00
3.	Microcredits GB II – petty-cash	0,00
4.	Microcredits UNHCR – petty-cash	0,00
5.	Microcredits WWI – petty-cash	0,00
6.	Microcredits WWI/BWI – petty-cash	0,00
7.	Microcredits USAID – petty-cash	0,00
8.	Microcredits SD/PRM – petty-cash	30,00
<b>9.</b>	<b>Total patty-cash</b>	<b>211,00</b>
	<b>Bank accounts</b>	
10.	Account 683971 operating expenses	3.460,84
11.	Account 684208 GB I	2.801,46
12.	Account 684305 GB II	1.875,44
13.	Account 684014 UNHCR	1.520,20
14.	Account 684111 WWI	3.336,97
15.	Account 684402 WWI	2.049,27
16.	Account 684596 SD/PRM	9.424,68
17.	Account 1001398 USAID	27.972,45
18.	Account 5828971 WWI-ABS	533,06
19.	Account 5828987 UMCOR	264.568,91
20.	Account 39190048 RFB	45,06
21.	Account 5828906 UMCOR-income	6.897,71
22.	Account 1662162 WWI individual	112,21
23.	Account 6800147 WWI ProCredit	1.004,10
24.	Foreign currency account WWI	663,48
<b>25.</b>	<b>Total bank accounts</b>	<b>326.265,84</b>
<b>26.</b>	<b>Total cash (9+25)</b>	<b>326.476,84</b>

Bank accounts are opened with the Central Profit Bank d.d. Sarajevo, ABS bank d.d. Sarajevo, Raiffeisen bank d.d. Sarajevo and ProCredit bank d.d. Sarajevo.

**12) Loans**

Portfolio of disbursed loans is classified according the portfolio source of financing:

#	Description	2004
1.	Microcredits WWI	216.854,50
2.	Microcredits GB I	126.214,00
3.	Microcredits GB II	130.640,50
4.	Microcredits UNHCR	483.371,50
5.	Microcredits BWI	209.771,00
6.	Microcredits WWI	47.952,00
7.	Microcredits SD/PRM	509.186,00
8.	Microcredits USAID	218.223,50
9.	Microcredits WWI new	26.675,50
10.	Microcredits WWI individual	43.332,00
11.	Microcredits UMCOR	134.986,00
<b>12.</b>	<b>Total (1 do 11)</b>	<b>2.147.206,50</b>
13.	Microcredits value adjustment WWI	2.530,65
14.	Microcredits value adjustment GB II	
15.	Microcredits value adjustment UNHCR	3.992,00
16.	Microcredits value adjustment BWI	12.199,50
17.	Microcredits value adjustment WWI	
18.	Microcredits value adjustment USAID	5.513,50
19.	Microcredits value adjustment SD/PRM	10.214,68
<b>20.</b>	<b>Total (13 do 19)</b>	<b>34.450,33</b>
<b>21.</b>	<b>Total (12-20)</b>	<b>2.112.756,17</b>

The organization is covering 32 municipalities in 6 cantons and Dobož region with its microcredit services. The organization has the total of 153 centers.–

Portfolio value adjustment represents receivables, which are pass due and is calculated according to criteria from the Decision on calculating the loan loss reserves and writing off of loans.

Written off loans are shown in off balance recording in which they is value of 133.807 KM written off loans from this and previous period.

**13) Fixed assets**

The organization has various equipment needed for its operations-transportation vehicles, computer, and furniture. The movement in their book value during 2004 is as it follows:

Acquisition value-cost

	Intangible goods	Equipment	Total
<b>Balance as of 12.31.2003</b>	<b>3.650</b>	<b>168.571</b>	<b>172.221</b>
Purchases and value increase	21.000	25.910	46.910
Adjustment of recording	- 3.650	3.650	0
Sale and other alienations		- 692	692
<b>Balance as of 12.31. 2004</b>	<b>21.000</b>	<b>197.439</b>	<b>218.439</b>

Accumulated depreciation and value adjustment:

	Intangible goods	Equipment	Total
<b>Balance as of 12.31.2003</b>		<b>67.422</b>	<b>67.422</b>
Depreciation in 2004	2.800	39.930	42.730
Sale and other alienations		547	547
<b>Balance as of 12.31. 2004</b>	<b>2.800</b>	<b>106.805</b>	<b>109.605</b>

Net book value:

	Intangible goods	Equipment	Total
Acquisition value on 12.31.2004	21.000	197.439	218.439
Accumulated depreciation as of 12.31.2004	2.800	106.805	109.605
<b>Net bookkeeping value as of 12.31.2004</b>	<b>18.200</b>	<b>90.634</b>	<b>108.834</b>

During 2004 the organization acquired the software for financial accounting. In term of equipment the organization acquired a vehicle, computer equipment, furniture and other. At the same time the equipment with book value was written off in the value of 145,28 KM (cost 692,08 KM minus accumulated depreciation 546,80 KM), so the difference between book and selling value is shown as an expense in a note 10(18).

#### 14) Other assets

Other assets are comprised of:

#	Description	2004
1.	Defferals of insurance premium	7.498,78
2.	Advance payments for audit services	2.500,00
3.	Deposit for business cards	10.000,00
4.	Fixed term deposits with banks	851.000,00
5.	Receivables-calculated interest	19.416,10
6.	Receivables-calculated interest on fixed term deposits	1.301,84
	<b>Total</b>	<b>891.716,72</b>

During the year the organization made two fixed term deposits, one 6 months deposit, in the amount of 501.000 KM with ABS bank and second in the amount of 350.000 KM with ProCredit bank.

#### 15) Liabilities – microcredit sources of financing

The microcredit sources of financing have the following structure:

#	Description	2004
1.	Long-term liabilities GB I	104.444,60
2.	Long-term liabilities GB II	32.312,02
3.	Long-term liabilities WWI	52.316,30
4.	Long-term liabilities SD/PRM	576.821,02
5.	Long-term liabilities USAID	542.787,32
6.	Long-term liabilities UMCOR	400.000,00
	<b>Total</b>	<b>1.708.681,26</b>

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

- 2) Based on agreement with Grameen Trust from Bangladesh (GB II) the organization repaid 17.500 USD (27.794,13 KM) during 2004, and adjustment of liability based on change in dollar exchange rate was made (22.053,85 KM)
- 6) According to an agreement signed on July 15, 2004, the organization received 400.000 KM from UMCOR for financing the project «Support for returnees in rural areas and areas with intensive return».

There is a prescribed passive interest rate of 2% annually for the assets received in accordance with agreement with Grameen Trust from Bangladesh (GB II), while the other assets are interest-free.

## 16) Other liabilities

Other liabilities are comprised of:

#	Description	2004
1.	Accounts payable towards suppliers	11.012,17
2.	Accounts payable for salaries and contributions	1.039,17
3.	Accounts payable for interest	827,63
	<b>Total</b>	<b>12.878,97</b>

- 1) Liabilities towards suppliers are comprised of debt towards Sarajevo insurance company in the amount of 6.737,54 KM, BH Telecom in the amount of 1.222,30 KM, Foundation for sustainable development Sarajevo 2.411,00 KM and other supplier of goods and services.
- 3) Interest liabilities have occurred based on agreement with Grameen Trust from Bangladesh (GB II) (refer to notes 3 and 15)

## 17) Equity

The final equity structure is as it follows:

#	Description	Amount
1.	Other equity	856.618
2.	Unappropriated profit	861.606
	<b>Total equity</b>	<b>1.718.224</b>

- 1) Other equity in the amount of 856.618 KM was established out of the equity determined by the court-appointed expert on 12.31.2000 in the amount of 388.427 KM and profit in the amount of 18.191 KM, which has been realized by microcredit activities within nonresident for the period 01.01 - 03.05.2001, and assets in the amount of 450.000 KM, which according to the agreement with UNHCR were transferred to ownership of the microcredit organization on October 09, 2003.
- 2) Unallocated profit is comprised of profit from 2001, which the organization realized as the official local MCO after March 5, 2001 (101.518 KM), profit from 2002 (317.222 KM), profit from 2003 (249.611 KM) and profit from 2004 (193.254 KM).