

**INDEPENDENT AUDITOR'S REPORT**

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

**FOR THE YEAR 2005**

## 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, 2005, 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, financial statements present fair and truth view of the financial position of the “Women for Women International” as of December 31, 2005, the results of its operations, its cash flows and changes in equity for the year ended in accordance with FBH Auditing and Accounting standards.

Auditor

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

Ekrem Duranović

Zenica, February 28, 2006

**INCOME STATEMENT FOR 2005**

	<b>DESCRIPTION</b>	<b>Note</b>	<b>2004</b>	<b>2005</b>
1.	Interest income	1	714.330	983.814
2.	Other interest income and similar types of income	2	17.682	10.952
<b>3.</b>	<b>Total interest income and similar types of income (1+2)</b>		<b>732.012</b>	<b>994.766</b>
<b>4.</b>	<b>Interest expenses</b>	3	<b>232</b>	<b>45.335</b>
<b>5.</b>	<b>Net interest income and similar types of income (3 - 4)</b>		<b>731.780</b>	<b>949.431</b>
6.	Income from fees for provided services	4	38.882	27.896
7.	Other operational income	5	42.753	39.602
<b>8.</b>	<b>Operational income (6+7)</b>		<b>81.635</b>	<b>67.498</b>
9.	General loan loss and other potential loss reserves	6	69.157	51.912
10.	Other business and direct expenses	7	14.860	20.594
<b>11.</b>	<b>Total business and direct expenses (9+10)</b>		<b>84.017</b>	<b>72.506</b>
12.	Salaries and contributions	8	344.014	463.843
13.	Rent, utilities and other fixed assets expenses	9	67.591	80.001
14.	Other operational expenses	10	124.539	216.778
<b>15.</b>	<b>Total operational expenses (12 do 14)</b>		<b>536.144</b>	<b>760.622</b>
<b>16.</b>	<b>Total non-interest expenses (11+15)</b>		<b>620.161</b>	<b>833.128</b>
<b>17.</b>	<b>Profit (5+8-16)</b>		<b>193.254</b>	<b>183.801</b>

**BALANCE SHEET AS OF 12.31.2005**

	<b>ITEM</b>	<b>Note</b>	<b>2004</b>	<b>2005</b>
	<b>ASSETS</b>			
1.	Cash and cash equivalents	11	326.477	62.395
2.	Loans	12	2.147.206	4.475.357
3.	Fixed assets	13	108.834	92.955
4.	Other assets	14	891.717	178.060
5.	Loan loss reserves	12	-34.450	-55.993
<b>6.</b>	<b>TOTAL ASSETS</b>		<b>3.439.784</b>	<b>4.752.774</b>
	<b>LIABILITIES</b>			
7.	Liability – microcredit portfolio sources	15	1.708.681	95.288
8.	Other liabilities	16	12.879	1.183.537
<b>9.</b>	<b>Total liabilities</b>		<b>1.721.560</b>	<b>1.278.825</b>
	<b>EQUITY</b>			
<b>10.</b>	<b>Total equity</b>	17	<b>1.718.224</b>	<b>3.473.949</b>
<b>11.</b>	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3.439.784</b>	<b>4.752.774+</b>

**CASH FLOW REPORT FOR THE YEAR 2005**

#	Description		Amount KM
	<b>Cash flow from the business activities</b>		
<b>1.</b>	<b>Profit</b>		<b>183.801</b>
	<b>Adjustments for:</b>		
2.	Depreciation/value of intangible assets adjustment	+	4.200
3.	Depreciation/value of tangible assets adjustment	+	41.001
4.	Expenses (income) from alienation of tangible assets	+(-)	138
5.	Other adjustments for non-cash items		-17.893
<b>6.</b>	<b>Total adjustment 2 through 5</b>		<b>27.446</b>
7.	Increase (decrease) in disbursed loans	-(+)	-2.306.608
8.	Increase (decrease) in other assets	-(+)	708.042
9.	Increase (decrease) in prepaid expenses	-(+)	5.616
10.	(Increase) decrease in other liabilities	(+)-	5.382
<b>11.</b>	<b>Total 7 through 10</b>		<b>-1.587.568</b>
<b>12.</b>	<b>Net cash from the business activities (1+6+11)</b>		<b>-1.376.321</b>
	<b>Cash flow from investment activities</b>		
13.	Purchase (sale) of tangible assets	-(+)	-29.460
<b>14.</b>	<b>Net cash used in investment activities (13)</b>		<b>-29.460</b>
	<b>Cash flow from financial activity</b>		
15.	Receipt of borrowed assets	+	1.193.000
16.	Return of borrowed assets	-	-51.301
<b>17.</b>	<b>Net cash used in financial activities (15+16)</b>		<b>1.141.699</b>
<b>18.</b>	<b>Net increase (decrease) in cash (12+14+17)</b>		<b>-264.082</b>
<b>19.</b>	<b>Initial balance of cash in the account and petty-cash</b>		<b>326.477</b>
<b>20.</b>	<b>Ending balance of cash in the account and petty-cash</b>		<b>62.395</b>
<b>21.</b>	<b>Net increase in cash in the account and petty-cash (20-19)</b>		<b>-264.082</b>

**CHANGES IN EQUITY FOR THE YEAR 2005**

#	Description	Subscribed equity	Accumul. profit/loss	Total
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>6</b>
<b>1.</b>	<b>Balance as of 12.31.2003</b>	<b>856.618</b>	<b>668.351</b>	<b>1.524.969</b>
2.	Issuing shares and other forms of equity increase			
4.	Net profit for the period		193.255	193.255
<b>7.</b>	<b>Balance as of 12.31.2004</b>	<b>856.618</b>	<b>861.606</b>	<b>1.718.224</b>
8.	Issuing shares and other forms of equity increase	1.571.924		1.571.924
10.	Net profit for the period		183.801.	183.801
<b>15.</b>	<b>Balance as of 12.31.2005</b>	<b>2.428.542</b>	<b>1.045.407</b>	<b>3.473.949</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 (note 6):

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 2004 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	2005
1.	Interest income WWI	123.870,00
2.	Interest income GB I (Grameen Trust, Bangladesh)	51.201,00
3.	Interest income GB II (Grameen Trust, Bangladesh)	30.773,00
4.	Interest income UNHCR (Revolving fund)	119.215,00
5.	Interest income BWI (Foundation New Bosnia, USA)	85.609,00
6.	Interest income WWI (USA)	25.306,00
7.	Interest income USAID	100.097,00
8.	Interest income SD/PRM (State Department USA)	189.284,00
9.	Interest income WWI-new	14.146,00
10.	Interest income UMCOR	76.60600
11.	Interest income WWI individual	62.617,00
12.	Interest income –ABS bank	69.890,00
13.	Interest income –UniCredit bank	10.204,00
14.	Income from accrued interest	24.974,00
	<b>Total:</b>	<b>983.814,00</b>

The above stated interest income is classified by the source of funds used for loans distribution.

Interest collected at the beginning of 2006 in the amount of 24.974 KM is related to 2005.

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

#	DESCRIPTION	2005
1.	Income from fixed term deposits	5.660
2.	Income from a-vista deposits interest	2.150
3.	Income from penalty interest	1.552
4.	Income from services-administrative expenses	1.590
	<b>Total</b>	<b>10.952</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 based on agreement dated November 11,2004 for fixed term of 6 month with an annual interest rate of 3,5%. This fixed term deposit has been cancelled before expire date , on May 9, 2005.

**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% ,interest on ABS bank loan (39.238 KM) and UniCredit Zagrebačka bank (5.559 KM).

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

#	Description	2005.
1.	Service fees	27.896
	<b>Total</b>	<b>27.896</b>

This income represents income from collected loan servicing fees, which is 1% of the approved loan amount. Up to April 10,2005 has been collected for all loans except incentive loans and since than for individual loans only.

**5) Other operational income**

#	Description	2005
1.	Income from positive exchange rate differences	21.651
2.	Income-from collected write-offs receivables	17.951
	<b>Total</b>	<b>39.602</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 I) on amount of 50.000 USD due to change in exchange rate during 2005.
- 2) Income from collected written-off receivables (microcredits) contains principle and interest.

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

The amount of 51.912 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	34.450
2.	Write-offs during 2005	30.369
3.	Loan loss reserve expenses during 2005	51.912
4.	Final balance of loan loss reserving at the end of 2005	55.993

The amount of 30.369 KM was written off during 2005.

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 depending on length of arrears.

Days past due	Amount of principle in arrear	Reserve rate	Total amount of reserves
Up to 30 days	76.384	5%	3.819
31 to 60 days	5.640	25%	1.410
61 to 90 days	10.880	50%	5.440
91 to 120 days	4.325	75%	3.224

121 to 150 days	4.190	90%	3.771
151 to 270 days	23.158	100%	23.158
over 271 days	15.151	100%	15.151
<b>TOTAL</b>	<b>139.728</b>		<b>55.993</b>

#### 7) Other business and direct expenses

#	Description	2005
1.	Membership	4.569
2.	Insurance expenses	12.324
3.	Negative exchange rate differences	3.701
	<b>Total</b>	<b>21.494</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	2005
1.	Net salaries	242.962
2.	Tax and contributions	167.106
3.	Compensation for meals	44.025
4.	Bonus	9.750
	<b>Total</b>	<b>463.843</b>

As of December 2004, the microcredit organization has the total of 19 employees, as the same number as of the end of December 2005 was 24 employees.

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

#	Description	2005
1.	Depreciation	45.201
2.	Fixed assets maintenance expenses	17.197
3.	Rent	17.603
	<b>Total</b>	<b>80.001</b>

Expenses are related to renting an office space in Džemala Bijedića Street #130 in Sarajevo 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	2005
1.	Office supplies and cleaning	18.538
2.	Small inventory and tires	3.142

3.	Fuel and Gas	20.487
4.	Bank services	24.938
5.	Electric energy costs	3.030
6.	Telephone	18.607
7.	Representation	4.087
8.	Training and professional literature	26.881
9.	Travel expenses and hotel expenses	10.079
10.	Temporary and occasional jobs	14.806
11.	Lawyer's services	9.350
12.	Utilities	2.605
13.	Auditing services	6.250
14.	Advertisement and promotion	5.367
15.	Compensation for use of private vehicles and private cellular phones in official business purposes	29.721
16.	Taxes and Fees	6.330
17.	Protection of building	2.992
18.	Other expenses	9.571
	<b>Total</b>	<b>216.778</b>

### 11) Cash

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

	Description	2005
#	<b>Patty cash</b>	
1.	Operating expenses-petty cash	78,70
<b>2.</b>	<b>Total patty-cash</b>	<b>78,70</b>
	<b>Bank accounts</b>	
3.	Account 683971 operating expenses	13.393,60
4.	Account 684208 GB I	0,00
5.	Account 684305 GB II	345,07
6.	Account 684014 UNHCR	0,00
7.	Account 684111 WWI	3.168,11
8.	Account 684402 WWI	0,00
9.	Account 684596 SD/PRM	0,00
10.	Account 1001398 USAID	0,00
11.	Account 5828971 WWI-ABS	39.063,57
12.	Account 5828987 UMCOR	1,85
13.	Account 39190048 RFB	1.168,33
14.	Account 5828906 UMCOR-income	0,00
15.	Account 1662162 WWI individual	0,00
16.	Account 6800147 WWI ProCredit	4.092,21
17.	Account 658896 WWI UniCredit	318,35
18.	Foreign currency account WWI	765,11
<b>19.</b>	<b>Total bank accounts</b>	<b>62.316,20</b>
<b>20.</b>	<b>Total cash (2+19)</b>	<b>62.394,90</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 and UniCredit Zagrebačka bank d.d. Sarajevo.

**12) Loans**

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

#	Description	2005
1.	Microcredits WWI	1.298.579
2.	Microcredits GB I	88.770
3.	Microcredits GB II	47.974
4.	Microcredits UNHCR	98.213
5.	Microcredits BWI	102.118
6.	Microcredits WWI	78.062
7.	Microcredits SD/PRM	543.876
8.	Microcredits USAID	549.774
9.	Microcredits WWI new	41.706
10.	Microcredits WWI individual	551.141
11.	Microcredits UMCOR	104.575
12.	Microcredits WWI individual	631.758
13.	Microcredits UniCred bank	338.811
<b>14.</b>	<b>Total (1 do 13)</b>	<b>4.475.357</b>
15.	Microcredits value adjustment WWI	13.253
16.	Microcredits value adjustment GB II	0
17.	Microcredits value adjustment UNHCR	3.263
18.	Microcredits value adjustment BWI	0
19.	Microcredits value adjustment WWI	23
20.	Microcredits value adjustment USAID	1.955
21.	Microcredits value adjustment SD/PRM	14.373
22.	Microcredits value adjustment WWI new	483
23.	Microcredits value adjustment UMCOR	2.512
24.	Microcredits value adjustment WWI individual	15.325
25.	Microcredits value adjustment WWI individual	4.802
<b>26.</b>	<b>Total (15 do 25)</b>	<b>55.993</b>
<b>21.</b>	<b>Total (14-26)</b>	<b>4.419.364</b>

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 150.904 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 2005 is as it follows:

Acquisition value-cost

	Intangible goods	Equipment	Total
<b>Balance as of 12.31.2004</b>	<b>21.000</b>	<b>197.439</b>	<b>218.439</b>
Purchases and value increase		29.460	29.460
Sale and other alienations		160	160
<b>Balance as of 12.31. 2005</b>	<b>21.000</b>	<b>226.739</b>	<b>247.739</b>

Accumulated depreciation and value adjustment:

	Intangible goods	Equipment	Total
<b>Balance as of 12.31.2004</b>	<b>2.800</b>	<b>106.805</b>	<b>109.605</b>
Depreciation in 2004	4.200	41.001	45.201
Sale and other alienations		22	22
<b>Balance as of 12.31. 2005</b>	<b>7.000</b>	<b>147.784</b>	<b>154.784</b>

Net book value:

	Intangible goods	Equipment	Total
Acquisition value on 12.31.2005	21.000	226.739	247.739
Accumulated depreciation as of 12.31.2005	7.000	147.784	154.784
<b>Net bookkeeping value as of 12.31.2005</b>	<b>14.000</b>	<b>78.955</b>	<b>92.955</b>

During 2005 the organization acquired the server with operating system (17.698KM), furniture (1.455KM), computer equipment and other.

#### 14) Other assets

Other assets are comprised of:

#	Description	2005
1.	Deferrals of insurance premium	1883
2.	Receivables from employees	1.463
3.	Advance payment	324
4.	Deposits with banks	130.000
5.	Receivables-calculated interest	44.390
	<b>Total</b>	<b>178.060</b>

Deposits are related to deposit with UniCredit Zagrebačka bankd.d. In amount of 80.000 KM (note 16-received short term loan) and with ABS bank D.D. Sarajevo in amount of 50.000 KM on the occasion of insurance a short term loan (note 16).

Receivables for calculated interest are related to interest at the end of accrued period and collected in the next period.

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

The microcredit sources of financing have the following structure:

#	Description	2005
1.	Long-term liabilities GB I	82.895
2.	Long-term liabilities GB II	12.393
	<b>Total</b>	<b>95.288</b>

In comparison to the previous year, long-term liabilities are repayed in amount of 23.576 KM (15.000 USD).

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.

Other long term liabilities were in essence donations –grants and they are based on Decision of Board of Directors moved to permanent sources.

## 16) Other liabilities

Other liabilities are comprised of:

#	Description	2005
1.	Accounts payable for short term loans	1.165.275
2.	Accounts payable towards suppliers	13.393
3.	Accounts payable for interest GB II	446
4.	Accounts payable for salaries and contributions	1.149
5.	Accounts payable for reimbursement of fuel to employees	2.947
6.	Other accounts payable	327
	<b>Total</b>	<b>1.183.537</b>

- 1) Liabilities for short term loans are comprised of liabilities towards ABS bank d.d. Sarajevo in the amount of 800.000 KM (has taken two loans –in amount of 450 000 KM and 350 000 KM , both with 9,5 % interest and on 12 months) and liabilities towards UniCredit Zagrebačka bank d.d. Mostar in amount of 365.275 KM ( approved revolving loan on total amount of 400 000 Km with 8,5 % interest used 393 000 KM and repayed 27 725 KM)
- 2) Liabilities towards suppliers are comprised of debt towards ABS bank (4 492 KM), Hotel Halved (1 186 KM), Sarajevo insurance company (1 650 KM) ,UniCredit Bank (2 247 KM).
- 3) Interest liabilities have occurred based on agreement with Grameen Trust from Bangladesh (GB II).

## 17) Equity

The final equity structure is as it follows:

#	Description	Amount
1.	Other equity	856.618
2.	Unappropriated profit from previous period	861.606
3.	Capitalized donations-grants	1.571.924
4.	Profit from current period-2005	183.801
	<b>Total equity</b>	<b>3.473.949</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) Donations-grant were transferred to equity and based on decision of Board of directors were transferred to permanent sources. They are :
  - a) liabilities towards PRM/USA State Department in amount of 576 821 KM
  - b) liabilities towards USAID in amount of 542 787 KM

- c) liabilities towards WWI Washington D.C. in amount of 52 316 KM
- d) liabilities towards UMCOR in amount of 400 000KM.