

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

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**FOR THE YEAR ENDED 31 DECEMBER 2000**

**CONTENTS**

	<b>Pages</b>
Auditors' report	1 - 2
Balance sheet	3
Statements of income and retained earnings	4
Cash flow statement	5
Notes to the financial statements	6 - 14

**REPORT OF THE AUDITORS TO THE DONORS OF  
HATTHA KAKSEKAR  
(Rural Credit and Savings Institution)**

We have audited the financial statements of Hattha Kaksekar (“the Organisation”) on pages 3 to 14 which are expressed in United States Dollars and which have been prepared in accordance with the accounting policies set out in note 2 to the financial statements.

**Respective responsibilities of the Directors and the Auditors**

The Organisation’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 Organisation’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 Organisation’s policy is to prepare the financial statements under the historical cost convention using the accrual basis of accounting and following the accounting policies set out in the note. The accompanying financial statements are not intended to present the financial position, 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 utilised 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 Organisation as at 31 December 2000, and of its results of operations and cash flows for the year then ended, in accordance with the accounting policies set out in note 2 to the financial statements.

PRICEWATERHOUSECOOPERS (CAMBODIA) LIMITED  
Phnom Penh, Cambodia  
Date: 23 January 2001

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2000**

	Note	2000 US\$	1999 US\$
<b>ASSETS</b>			
Cash on hand and in banks	3	69,817	116,574
Loans receivable, net	4	1,072,967	605,115
Fixed assets	5	77,235	58,140
Other assets		<u>13,522</u>	<u>4,359</u>
<b>TOTAL ASSETS</b>		<u><u>1,233,541</u></u>	<u><u>784,188</u></u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Bank loan	6	415,000	70,000
Subordinated loan	7	162,726	-
Deposits of members	8	51,085	31,866
Advances received	9	25,320	-
Other liabilities	10	<u>28,881</u>	<u>13,379</u>
		<u>683,012</u>	<u>115,245</u>
<b>EQUITY</b>			
Accumulated funds	11	370,065	504,547
Retained earnings		<u>180,464</u>	<u>164,396</u>
		<u>550,529</u>	<u>668,943</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><u>1,233,541</u></u>	<u><u>784,188</u></u>

\_\_\_\_\_  
Mr. Hout Ieng Tong  
Director

\_\_\_\_\_  
Date

The accompanying notes on pages 6 to 14 form an integral part of these financial statements.

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

	Note	2000 US\$	1999 US\$
Interest income	12	310,584	162,889
Interest expense	13	<u>(37,859)</u>	<u>(7,059)</u>
Net interest income		272,725	155,830
Grants received	14	67,695	98,289
Other operating income		<u>7,078</u>	<u>678</u>
<b>NET OPERATING INCOME</b>		<u>347,498</u>	<u>254,797</u>
<b>OPERATING EXPENSES</b>			
Administrative expenses	15	253,146	139,532
Depreciation	5	<u>16,402</u>	<u>12,684</u>
<b>TOTAL OPERATING EXPENSES</b>		269,548	152,216
Provision for doubtful loans	4	<u>61,882</u>	<u>7,750</u>
<b>TOTAL EXPENSES</b>		<u>331,430</u>	<u>159,966</u>
<b>NET INCOME FOR THE YEAR</b>		16,068	94,831
<b>RETAINED EARNINGS AT BEGINNING OF THE YEAR</b>		<u>164,396</u>	<u>69,565</u>
<b>RETAINED EARNINGS AT END OF THE YEAR</b>		<u>180,464</u>	<u>164,396</u>

\_\_\_\_\_  
Mr. Hout Ieng Tong  
Director

\_\_\_\_\_  
Date

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**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

	Note	2000 US\$	1999 US\$
<b>OPERATING ACTIVITIES</b>			
Net income for the year		16,068	94,831
Adjustments for:			
Provision for doubtful loans	4	61,882	7,750
Depreciation of fixed assets	5	16,402	12,684
Loss on disposal of fixed assets		1,793	1,664
Increases in operating assets and liabilities:			
Loans receivable, net		(529,733)	(267,601)
Other assets		(9,163)	(4,359)
Deposits of members		19,219	11,291
Other liabilities		15,503	7,367
Net cash outflow from operating activities		<u>(408,029)</u>	<u>(136,373)</u>
<b>INVESTING ACTIVITY</b>			
Purchases of fixed assets		<u>(37,292)</u>	<u>(20,046)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from bank loan		345,000	70,000
Donations and grants received		28,244	137,743
Advances received		25,320	-
Net cash inflow from financing activities		<u>398,564</u>	<u>207,743</u>
<b>NET INCREASE/(DECREASE) IN CASH ON HAND AND IN BANKS</b>		<b>(46,757)</b>	<b>51,324</b>
<b>CASH ON HAND AND IN BANKS AT BEGINNING OF THE YEAR</b>		<u>116,574</u>	<u>65,250</u>
<b>CASH ON HAND AND IN BANKS AT END OF THE YEAR</b>	3	<u>69,817</u>	<u>116,574</u>

\_\_\_\_\_  
Mr. Hout Ieng Tong  
Director

\_\_\_\_\_  
Date

The accompanying notes on pages 6 to 14 form an integral part of these financial statements.

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

**1. General**

Hattha Kaksekar (“the Organisation”) was established as a non-governmental organisation in November 1996. The Organisation operates in four branches located in the provinces of Pursat, Kampong Thom and Siem Reap, with primary source of revenue derived from interest income earned on providing loans to clients. It also provides voluntary savings accounts service to its clients, business training courses for its female borrowers and other non-financial related services.

The Organisation receives donations, grants and other contributions in kind from the following donors: OCSD – Oxfam Quebec (“OCSD”), Deutsche Gesellschaft für Technische Zusammenarbeit (“GTZ”) and Agence Française de Développement (“AFD”).

The Organisation started in 1999 to make the necessary preparation for its transformation into a licensed micro-finance institution (MFI), and expects to be able to submit all requirements for registration to the Ministry of Commerce within the first quarter of 2001. Negotiations and discussions are ongoing between management and prospective shareholders of the MFI for the planned transformation.

**2. Significant accounting policies**

*Basis of accounting*

The financial statements are prepared under the historical cost convention using the accrual basis of accounting and following the accounting policies set forth below.

The financial statements are not intended to present the financial position, 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 utilised in Cambodia may differ from those generally accepted in countries and jurisdiction other than Cambodia.

*Basis of aggregation*

The financial statements include the financial statements of the Head Office, two branches in Pursat Province and one branch each in Kampong Thom and Siem Reap. On aggregation of balances, all significant inter-branch balances and transactions are eliminated in full.

*Loans*

Loans are stated net of provision for doubtful loans.

The adequacy of the provision for doubtful loans is evaluated monthly by management. Factors considered in evaluating the adequacy of the provision include the size of the loan portfolio, previous loss experience, current economic conditions and their effect on clients, the financial condition of individual clients, and the performance of individual loans in relation to contract terms. The provision for doubtful loans charged to expense is based on management’s judgment of the amount necessary to maintain the provision balance at a level adequate to absorb losses.

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

*Loans (continued)*

Management then provides monthly provision for loan losses in order that the provision is maintained at adequate level. The provision for doubtful loans is determined by applying defined percentages to the outstanding balances in various aging categories, as follows:

	2000*	1999
	Percentage (%)	
<b>Loan status/classification</b>		
Sub standard loans (where repayments are more than 30 days overdue)	50	
Doubtful loans (where repayments are more than 60 days overdue)	75	
Loss (where repayments are more than 90 days overdue)	100	
In arrears (where monthly repayments are late starting from the months they become due)		
91-180 days		2
181-240 days		5
241-300 days		10
Past due (where the overdue monthly repayments have Accumulated up to the end of the loan term)		
1-30 days		15
31-60 days		35
61-90 days		55
91-120 days		75
Over 120 days		100

In its preparation to become a licensed financial intermediary, the Organisation has adopted, with effect from December 2000\*, the National Bank of Cambodia's (NBC) regulations for MFIs based on an NBC circular issued in 1999 with respect to provisioning for bad and doubtful loans, thus the revised rates and manner of loan classification as disclosed above. The effect of the change in provisioning rates is to increase the provision for doubtful debts and consequently reduce the net income by US\$ 39,908 for the year ended 31 December 2000.

Loan losses (write-offs) are charged against the provision for doubtful loans when management believes that the principal is unlikely to be collected.

The Organisation accrues interest on its loans as it is earned. If a loan is restructured and the client has a valid reason for asking not to be charged with interest, the Organisation reverses from income any unpaid interest that may have accrued. If a loan is written-off, any related unpaid accrued interest recognised is reversed against income. If a loan becomes doubtful, a penalty is charged to the borrower on a monthly basis based on the outstanding loan balance. Such penalty is recognised in the accounts on a cash basis. No penalty is charged in cases of natural calamities, accident on the part of the borrower and other justifiable causes.

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

*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 based on the following annual rates:

	Percentage (%)
Communication and transportation equipment	16.67
Furniture and fixtures	12.5
Office equipment	25

Expenditures for maintenance and repairs that do not extend the useful lives of assets are charged to the statement of income. Gains or losses on sale of fixed assets are recognised upon disposal of such assets.

Donated fixed assets are included in the balance sheet at their fair values. Fair value is determined based on the depreciated replacement cost and actual cost has been taken as an approximation of replacement cost. Donated assets are depreciated based on their estimated remaining useful lives.

*Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals paid under operating leases are charged to the statement of income on a straight-line basis over the term of the lease.

*Interest and fee income and expense recognition*

Interest earned on loans is recognised on an accrual basis. Fee income is recognised in the statement of income when the transaction occurs.

Interest expense on deposits from members is recognised on an accrual basis calculated based on outstanding deposit balances as at month-end. Fee expense is recognised in the statement of income when the transaction occurs.

*Grants and donations*

Grants and donations received by the Organisation from donors to finance its lending operations and/or in the form of fixed assets or funds received to purchase fixed assets are recognised as direct additions to the related asset account, and accumulated funds shown under the Equity section of the balance sheet, whereas those received to subsidise for the Organisation's operating expenses are recognised as grant income on the year received.

*Foreign currency translation*

The financial statements are expressed in United States Dollars ("US\$"). 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 currency are converted into US\$ at the respective rates of exchange prevailing on the transaction dates. All exchange difference are recognised in the statement of income.

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

**3. Cash on hand and in banks**

	<b>2000</b>	<b>1999</b>
	<b>US\$</b>	<b>US\$</b>
Cash on hand	40,297	64,658
Cash in banks	29,520	51,916
	<u>69,817</u>	<u>116,574</u>

**4. Loans receivable, net**

All loans were provided to Cambodian rural residents. Details of loans receivable by location are as follows:

	<b>2000</b>	<b>1999</b>
	<b>US\$</b>	<b>US\$</b>
Sampov Meas, Pursat	381,507	252,996
Kampong Thom	373,386	242,854
Siem Reap	252,341	-
Phnum Kravaanh, Pursat	136,661	120,152
	<u>1,143,895</u>	<u>616,002</u>
Gross loans receivable	1,143,895	616,002
Provision for doubtful loans	(70,928)	(10,887)
	<u>1,072,967</u>	<u>605,115</u>

Further details of gross loans receivable are as follows:

Small business loans	1,066,500	553,629
Agricultural loans	77,395	62,373
	<u>1,143,895</u>	<u>616,002</u>

Small business and agricultural loans are being granted to farmers or group of farmers at annual interest rates of 3% and 4%, respectively. Loan terms range from 1 – 10 months and 1 – 12 months, respectively, with maximum actual amounts disbursed by the Organisation to date of US\$ 1,500 and US\$ 450, respectively. For small business loans, principal and interest repayments are due on a monthly basis whereas for agricultural loans, principal repayment is made at the end of the term while interest is due on a monthly basis.

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

**4. Loans receivable, net (continued)**

Movements in provision for doubtful loans are as follows:

	<b>2000</b>	<b>1999</b>
	<b>US\$</b>	<b>US\$</b>
Balance at beginning of the year	10,887	3,834
Provision for doubtful loans	61,882	7,750
Loans written off	<u>(1,841)</u>	<u>(697)</u>
Balance at end of the year	<u>70,928</u>	<u>10,887</u>

**HATTHA KAKSEKAR**  
(Rural Credit and Savings Institution)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2000**

**5. Fixed assets**

<b>Cost</b>	<b>Transportation equipment US\$</b>	<b>Office equipment US\$</b>	<b>Communication equipment US\$</b>	<b>Furniture and fixtures US\$</b>	<b>Others US\$</b>	<b>Total US\$</b>
As at 1 January 2000	41,238	24,500	8,851	8,122	-	82,711
Additions	31,223	-	2,879	2,860	330	37,292
Disposals	(2,130)	(640)	(222)	-	-	(2,992)
As at 31 December 2000	70,331	23,860	11,508	10,982	330	117,011
<b>Depreciation</b>						
As at 1 January 2000	12,760	7,025	2,676	2,110	-	24,571
Charge for the year	7,370	5,941	1,635	1,126	330	16,402
Disposals	(732)	(413)	(52)	-	-	(1,197)
As at 31 December 2000	19,398	12,553	4,259	3,236	330	39,776
<b>Net book value</b>						
As at 31 December 2000	50,933	11,313	7,248	7,741	-	77,235
As at 31 December 1999	28,478	17,481	6,174	6,007	-	58,140

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

**6. Bank loan**

This account represents proceeds received to date of the US\$ 500,000 loan obtained from Rural Development Bank in 1999. The loan bears interest at 12% a year and is secured by all assets of the Organisation. Principal and interest repayments are due after two years from the respective dates the loan proceeds were received by the Organisation. A 0.5% commission fee of the proceeds received is charged to and paid by the Organisation.

**7. Subordinated loan**

Based on the subordinated loan agreement dated 27 December 2000, the Ministry of Economy and Finance (MEF) of the Royal Government of Cambodia (RGOC) finally decided that the accumulated funds from AFD of US\$ 162,726 (see note 11) as at 31 December 2000 shall be recorded as a subordinated loan in the Organisation's accounts. The Organisation accepts the liability for repaying the total value of the loan to the RGOC under the terms and conditions embodied in the agreement, most notably, that the loan will not be repayable to the RGOC unless the Organisation ceases to provide credit to the rural population of Cambodia or unless it elects at its own discretion to repay all or part of the loan.

**8. Deposits of members**

	<b>2000</b>	<b>1999</b>
	<b>US\$</b>	<b>US\$</b>
Sampov Meas	20,363	15,360
Kampong Thom	17,383	9,950
Phnum Kravaanh	7,698	6,556
Siem Reap	5,641	-
	<u>51,085</u>	<u>31,866</u>

The Organisation encourages its borrowers to establish savings accounts on a voluntary basis. These savings accounts earn interest at 6% per annum and are due on demand by the borrowers.

In August 2000, a pilot savings scheme developed under the assistance of GTZ – Provincial Development Program in Kampong Thom province called “Demand Savings Deposit” was introduced in the same province and opened to the general public. Deposits received under this scheme amounted to US\$ 357 in 2000, with interest rates as follows:

<u>US\$</u>	Interest rate per annum		Interest rate per annum	
	%	<u>Riel</u>	%	
1.00 – 5.00	0	4,000 – 20,000	0	
6.00 – 30.00	1	20,100 – 100,000	3	
31.00 – 150.00	3	100,100 – 600,000	5	
More than 150.00	4	More than 600,000	7	

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

**9. Advances received**

This account represents advances received from the Organisation's staff and employees who have formed an informal staff association with the intention to be among the initial shareholders of the licensed MFI (see note 1). An aggregate amount of US\$ 25,320 was received for the 844 shares initially allocated to the staff and employees at US\$30 per share. The share allocation also considers the number of years a staff has worked with the Organisation together with a "buy 3 shares, get 1 free" scheme granted as an incentive.

**10. Other liabilities**

Other liabilities comprise accrued interest on deposits of members, and provisions for 13th month pay and audit fee.

**11. Accumulated funds**

	<b>OCSD US\$</b>	<b>GTZ US\$</b>	<b>AFD US\$</b>	<b>Total US\$</b>
<b>Loan funds</b>				
As at 1 January 2000	112,200	155,000	162,182	429,382
Receipts during the year	5,000	-	544	5,544
Transfer to subordinated loan (see note 7)	-	-	(162,726)	(162,726)
As at 31 December 2000	<u>117,200</u>	<u>155,000</u>	<u>-</u>	<u>272,200</u>
<b>Fixed assets</b>				
As at 1 January 2000	38,282	17,260	19,623	75,165
Receipts during the year	-	-	22,700	22,700
As at 31 December 2000	<u>38,282</u>	<u>17,260</u>	<u>42,323</u>	<u>97,865</u>
<b>Accumulated funds</b>				
As at 31 December 2000	<u>155,482</u>	<u>172,260</u>	<u>42,323</u>	<u>370,065</u>
As at 31 December 1999	<u>150,482</u>	<u>172,260</u>	<u>181,805</u>	<u>504,547</u>

**12. Interest income**

	<b>2000 US\$</b>	<b>1999 US\$</b>
Loans receivable	309,775	162,749
Cash in banks	<u>809</u>	<u>140</u>
	<u>310,584</u>	<u>162,889</u>

**HATTHA KAKSEKAR**  
**(Rural Credit and Savings Institution)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2000**

**13. Interest expense**

	<b>2000</b>	<b>1999</b>
	<b>US\$</b>	<b>US\$</b>
Bank loan	34,390	5,110
Deposits of members	1,211	1,541
Others	2,258	408
	<u>37,859</u>	<u>7,059</u>

**14. Grants received**

	<b>2000</b>	<b>1999</b>
	<b>US\$</b>	<b>US\$</b>
AFD	62,323	61,577
GTZ	5,372	34,712
OCSD	-	2,000
	<u>67,695</u>	<u>98,289</u>

**15. Administrative expenses**

	<b>2000</b>	<b>1999</b>
	<b>US\$</b>	<b>US\$</b>
Salaries and staff benefits	123,283	68,259
Consultants and professional fee	83,286	47,574
Office supplies	14,629	5,240
Training costs	9,890	6,660
Transportation	7,294	4,031
Rental	6,496	3,270
Communication	2,716	721
Insurance	635	-
Others	4,917	3,777
	<u>253,146</u>	<u>139,532</u>

**16. Reclassification of balances**

Certain balances in the 1999 financial statements were reclassified to conform with this year's presentation.