

Itgelt Audit

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AUDITORS' REPORT

To: Robert Cater
 Programme Manager
 Project MicroStart-Mongolia

We have audited Project MicroStart Mongolia which are the project implementing unit of X.A.C./Sant Maral, MWF and LEOS of that contracted between Government of Mongolia and UNDP's MOH 97/202/A/01/99 the accompanying Balance sheet of as of 31 January 1999, and the related statements of Income and Cash flows, all prepared in accordance with International Accounting Standards and accounting principles of Mongolia for the year then ended. These financial statements are the responsibility of the institutions implementing and managing to project. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standard on Auditing and Mongolian Law. Those Standards require that we plan and perform the audit to option reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Project MicroStart Mongolia which are the project implementing unit of X.A.C./Sant Maral, MWF and LEOS as of 31 January 1999, and of the results of its operations and its cash flows for the year ended in accordance with International and Mongolian Accounting Standards, under the contract between the Government of Mongolia and UNDP's MON 97/202/A/01/99.

To the best of our knowledge, no major mismanagement and funds reporting errors were detected.

Ulaanbaatar, Mongolia
 15 March 1999.



Robert Cater
 Itgelt Audit Co. Ltd.

Itgelt Audit

Audited financial statement

MicroStart-Mongolia Project
“Golden Fund for Development”

Ulaanbaatar 1999

MicroStart-Mongolia Project
 "Golden Fund for Development"
Balance sheet
 As of 31 January 1999

<u>A.Assets</u>	<u>Notes</u>	<u>Audited balance</u>
1.Current assets		
Cash and cash equivalents	3.a	9,487,730.50
Other current assets	3.b	4,643,645.00
Total current assets		<u>14,131,375.50</u>
 2.Non-current assets		
Fixed assets	2.b. 3.c	15,025,114.00
Accumulated depreciation	2.b. 3.c	(1,578,295.77)
Fixed assets, net		<u>13,344,990.00</u>
Total non-current assets		<u>13,446,818.23</u>
 Total assets		 <u>27,578,193.73</u>
 <u>B.Liabilities</u>		
3.Short-term liabilities		
Liabilities	3.d	1,915,230.00
Social insurance payable		274,984.00
Total short-term liabilities		<u>2,190,214.00</u>
 Total liabilities		 <u>2,190,214.00</u>
 C.Capital funds		
UNDP's fund	3.e	38,777,211.60
Retained loss		(13,389,231.87)
Total capital funds		<u>25,387,979.73</u>
 Total liabilities and capital funds		 <u>27,578,193.73</u>

The accompanying notes are an integral part of this financial statement.

MicroStart-Mongolia Project
 "Golden Fund for Development"
Statement of Income
 For the year ended 31 January 1999

	<u>Notes</u>	<u>Audited balance</u>
Interest income		
Interest expense		
Non operating Income		
1. Gain on foreign currency exchange, net	4. a.	210,803.00
2. Foreign exchange income, net	4. a.	2,004,500.62
3. Other income	4. a.	432,050.00
Total non-operating income		<u>2647353.62</u>
Other operating expense		
1. Commissions		2739159.72
Total other operating expense		<u>2739159.72</u>
Operating loss		<u>(91,806.10)</u>
3. Administrative expense		
1. Administrative expense		
Salaries and compensations	4. b-1	5,679,970.00
Social Insurance expense	4. b-1	1,079,075.00
Business trip expense		1,030,559.00
2. Rental of premises		1,919,582.00
3. Transportation expense		610,860.00
4. Depreciation expense	2. b 3. c	1,578,295.77
5. Office expense		1,052,049.00
6. Other expense	4. b-2	347,035.00
Total operating expense		<u>13,297,425.77</u>
Net loss		<u>(13,389,231.87)</u>

The accompanying notes are an integral part of this financial statement.

MicroStart-Mongolia Project
 "Golden Fund for Development"
Cash flow statement
 For the year ended 31 January 1999

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1. Cash flow from operating activities	
Net Loss	(13,389,231.87)
Adjustment:	
Depreciation expense	<u>1,578,295.77</u>
Operating profit before working capital changes:	<u>(11,810,936.10)</u>
(Increase) decrease in operating assets :	
Other operating assets	(4,643,645.00)
Increase (decrease) in operating liabilities	
Other liabilities	<u>2,190,214.00</u>
Cash generated from operations	<u>(2,453,431.00)</u>
Net cash flow from operating activities	<u>(14,264,367.10)</u>
2. Cash flow from investing activities	
Purchase of fixed assets	<u>(15,025,114.00)</u>
Net cash flow from investing activities	<u>(15,025,114.00)</u>
3. Cash flow from financing activities	
UNDP's fund	38,777,211.60
Net cash flow from financing activities	<u>38,777,211.60</u>
Total net cash flow	<u>9,487,730.50</u>
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u>9,487,730.50</u>

The accompanying notes are an integral part of this financial statement.

MicroStart-Mongolia Project
'Golden Fund for Development'
Notes to the financial statements

1. ORGANIZATION AND OPERATION

The MicroStart project, first part been financed by the UNDP was commenced according to the three-year Contract between Government of Mongolia and UNDP which has the main objective of developing microfinance financial sector and adding value to the poverty alleviation programme in Mongolia.

International non-profit development agency "ACDI/VOCA" signed a professional service agreement with the UNDP/Mongolia as the international technical service provider for the MicroStart-Mongolia Program. Under the Work Plan approved by the UNDP, ACDI/VOCA will implement the project in cooperation with four different existing Local Mongolian institutions.

In order to assure the operational sustainability of the program and provide training and advisory services to the institutions and the project implementing units, second tier stand-alone institution Golden Fund for Development (X.A.C) was established. The XAC is the specialized institution which has the functions to provide wholesale lending, establish performance standards for non-bank financial institution and serve as an intermediary between Central Bank and small financial sectors.

This institution has not been conducting wholesale and retail lending activities according to the laws and regulations of Mongolia. However, during the testing period in cooperation with the Mongolian Women's Federation (MWF) and Liberal Women's Brain Pool (LEOS) it provides the small loan to low-income families to increase their living status and has established small local financial institutions of project implementation which are the project implementing units of MWF and LEOS.

The testing period has covered 5 months from August 01,1998 to January 31,1999.

XAC, MWF and LEOS each separately presented and got approval of their Work Plan and Expenditure budget for the testing period. These institutions are funded and reports according to the contract entered into with the representative of UNDP.

MicroStart-Mongolia Project
'Golden Fund for Development'
 Notes to the financial statements
 /Continued/

2. ACCOUNTING POLICY

a. Principal policy

UNDP has not provided with any requirements regarding the what accounting policies and procedures or international practices are to be applied by the non-bank financial institutions. The XAC prepares its financial statements in accordance with the Accounting Guidelines issued by the Ministry of Finance, which is based on International Accounting Standards and Accounting Guidelines for the banks and financial institutions issued by the Bank of Mongolia.

b. Fixed asset and depreciation

Fixed assets are recorded at the initial acquisition costs and depreciated on monthly basis over the useful lives of the assets. Useful life of furniture and fixtures is 5 years and 3 years for computer equipment.

c. Payroll tax

Any settlement of payroll tax liability has not been made with tax authority because of the status of legal entity is not clearly defined yet. However special provision stating that the employees will be responsible for their payroll payment to the relevant tax authority was included in the job contract.

3. BALANCE SHEET ACCOUNT

a. Cash.

Most operating expenses are paid in cash.

The Cash balance of January 1, 1999 as follows,

<u>Accounts</u>	<u>31/01/99</u>	
	<u>MNT</u>	<u>Foreign currency</u>
Cash on hand- MNT	1,012,048.00	-
Petty cash	100,000.00	-
Cash on hand – foreign currency	-	-
Bank account – MNT	14,120.00	
Bank account – foreign currency	<u>8,361,472.00</u>	<u>8,801.55</u>
Total	<u>9,487,730.50</u>	<u>8,801.55</u>

MicroStart-Mongolia Project
'Golden Fund for Development'
 Notes to the financial statements
 /Continued/

b. Other current asset

Balances other current assets as of January 31, 1999 are as follow

<u>Account name</u>	<u>31/01/99</u>
Receivable	1,520.00
Advance	3,939,710.00
Inventories	<u>701,415.00</u>
Total	<u>4,634,645.00</u>

c. Fixed assets

Fixed assets were acquired according to the budget provision under the contract made with UNDP. Fixed asset accounts had the following balances as of January 1, 1999

<u>Account</u>	<u>Cost</u>	<u>Depreciation</u>
Furniture and fixtures	2,511,526.00	161,510.59
Computer and equipment	<u>12,513,588.00</u>	<u>1,518,613.07</u>
Total	<u>14,131,375.50</u>	<u>1,680,124.00</u>

d. Payable

Accounts payable as of January 31, 1999 had balances of 125,680 MNT to be paid to the ACDI/VOCA and 1,789,370 MNT of accrued expenses

e. Funding

The funding for the first 5 months amounted to as much as USD45,660 was made on August 27, 1998 and restated to MNT at the exchange rate of 849.26 MNT prevailing on the date of transactions.

MicroStart-Mongolia Project
'Golden Fund for Development'
 Notes to the financial statements
 /Continued/

4. INCOME STATEMENT

a. Revenue

Because the project is implemented through the project implementing units of MWF and LEOS as stated in the Note 1, XAC does not have an operating incomes such as interest income, service charges and fees.

Revenue for the period covered of gain on exchange differences resulted at the time of conversion of foreign currencies into MNT and the exchange rate differences resulted from the revaluation of foreign currency balance using official rate at the end of accounting period and other non operating incomes.

b. Expenditures

Approved Expenditure budget is provided as an appendix to the contract made with UNDP. Expenditures are incurred according to the limit provided in the Budget.

- Other expenses

Other expenses for the period are as follow

<u>Account name</u>	<u>Total</u>
Subscription	28,650.00
Other	<u>318,385.00</u>
Total	<u>347,035.00</u>

5. SUBSEQUENT EVENT

New branch was opened on March 1 , 1999

Mongolian Women's Federation Project
implementing agency
MicroStart-Mongolia Project
Balance sheet
As of 31 January 1999

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<u>A.Assets</u>	<u>Notes</u>	<u>Audited balance</u>
1.Current assets		
Cash and cash equivalents	3	4,605,998.32
Loan	4	18,054,500.00
Provision for Loan losses	4	(180,545.00)
Loan, net		17,873,955.00
Other current assets	4.b	543,400.50
Total current assets		<u>23,023,353.82</u>
 2.Non-current assets		
Fixed assets	2.c 4.c	6,873,183.00
Accumulated deprecation	2.c 4.c	(761,095.82)
Total non-current assets		<u>6,112,087.18</u>
Total assets		<u><u>29,135,441.00</u></u>
 B.Liabilities		
3.Short-term liabilities		
Liabilities	4.d	2,803,048.00
Other liabilities	4.e	722,224.00
Total short-term liabilities		<u>3,525,272.00</u>
 C.Capital funds		
UNDP's fund	4.f	30,879,422.00
Retained loss		(5,269,253.00)
Total capital funds		<u>25,610,169.00</u>
Total liabilities and capital funds		<u><u>29,135,441.00</u></u>

The accompanying notes are an integral part of this financial statement.

Itgelt Audit

Audited financial statement

“Mongolian Women’s Federation”
Project implementing agency
MicroStart-Mongolia Project

Ulaanbaatar 1999

Mongolian Women's Federation Project
implementing agency
MicroStart-Mongolia Project
Statement of income
for the year ended 31 January 1999

	<u>Notes</u>	<u>Audited balance</u>
1. Interest income		
1. Loan interest income		3,196,669.00
2. Other interest income		7,574.00
Total interest income		<u>3,204,243.00</u>
Net interest income	5.a	<u>3,204,243.00</u>
2. Other operating income		
2.1. Revaluation income -foreign exchange		449,420.66
2.2. Commission, service charges		109,250.00
2.3. Other income		83,865.00
Total other operating income		<u>642,535.66</u>
3. Other operating expense		
3.1. Contingency expense		194,920.00
Total other operating expense		<u>194,920.00</u>
Operating losses		<u>3,651,858.66</u>
4. Administrative expense	5.b.	
4.1. Administrative expense		
Salaries and compensations		1,658,770.00
Social insurance expense		354,457.66
Business trip expense		1,094,594.00
Compensation paid		504,292.00
4.2. Rental of premises		624,639.00
4.3. Management expense		775,957.02
4.4. Fee to be pay to the central office	2.c 4d	2,803,048.00
4.5. Depreciation expense	4.c	761,095.82
4.6. Other expense		344,258.16
Total administrative expense		<u>8,921,111.66</u>
Net loss		<u>(5,269,253.00)</u>

The accompanying notes are an integral part of this financial statement.

Mongolian Women's Federation Project
 implementing agency
 MicroStart-Mongolia Project
Cash flow Statement
 for the year ended 31 January 1999

	<u>Audited balance</u>
1. Cash flow from operating activities	
Net Loss	(5,269,253.00)
Adjustment:	
Depreciation expense	761,095.82
Loss on disposal of fixed assets	15,290.00
Interest income	(3,204,243.00)
	<hr/>
Operating profit before working capital changes	(7,697,110.18)
(Increase) decrease in operating assets:	
Loans and advances	(17,873,955.00)
Other assets	(543,400.50)
Increase (decrease) in operating liabilities	
Other liabilities	3,525,272.00
Cash generated from operations	(14,892,083.50)
Interest received	3,204,243.00
Loss on disposal of fixed assets	(15,290.00)
	<hr/>
Net cash flow from operating activities	(11,703,130.50)
2. Cash flow from investing activities	
Purchase of fixed assets	(6,873,183.00)
	<hr/>
Net cash flow from investing activities	(6,873,183.00)
3. Cash flow from financing activities	
UNDP's fund	30,879,422.00
	<hr/>
Net cash flow from financing activities	30,879,422.00
	<hr/>
Total net cash flow	4,605,998.32
	<hr/>
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	4,605,998.32
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The accompanying notes are an integral part of this financial statement.

1. ORGANIZATION AND OPERATION

The Mongolian Women's Federation (MWF), an implementing agency of MicroStart Mongolia (MSM) program has been implementing the project according to the contract between UNDP and MSM in cooperation with the Golden Development Fund (X.A.C.), through its branches in Saynshand city and Ayrag sum, Dornogovi aimag since January 1, 1998.

The key goal of the project is to deliver sustainable financial services to the low-income families with a maximum outreach and to increase opportunities for self-employment.

2. ACCOUNTING POLICY

a. Principal policy

Project implementing agency of MWF prepares its Financial Statements using the accounting procedures approved by the X.A.C in accordance with the accounting practices accepted in Mongolia and International Accounting Standards.

b. Revenue recognition

The revenue of the project consists of interest income and other income. Revenue is recognized on cash basis of accounting.

c. Fixed asset and depreciation

Fixed assets are recorded at the initial acquisition costs and depreciated on monthly basis over the useful lives of the assets. Useful life of furniture and fixtures is 5 years and 3 years for computer equipments.

d. Payroll tax

Any settlement of payroll tax liability has not been made with tax authority because of the status of taxpayers or legal entity is not clearly defined yet. However the labor contract is entered into with employees, providing that employees will be responsible for the payment of their tax liabilities to the relevant tax authority.

MWF IMPLEMENTING AGENCY OF
MICROSTART-MONGOLIA PROJECT
NOTES TO THE FINANCIAL STATEMENTS
/CONTINUED/

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3. CASH

The Cash balance of January 1, 1999 as follows,

<u>Branch</u>	<u>31/01/99</u>
Central office of MWF	1,635,397.32
Saynshand branch	2,692,734.00
Ayragsan branch	<u>277,867.00</u>
Total	<u>4,605,998.32</u>

4. LOAN

a. Under the MSM project, small loans are provided to the individuals and group of individuals for the purpose of improving the living standard of low income-families.

Reserve for possible loan loss is established on the basis of outstanding loans according to the procedures on classification of loan and establishment and disposition of loan loss reserve approved by the Bank of Mongolia.

As of January 31, 1999 no uncorrectable balance exist and the balances of outstanding loans are as follow:

<u>Branch</u>	<u>Number of borrower</u>	<u>Balance</u>	<u>Amount of reserve</u>
Saynshand	116	9,223,000.00	92,230.00
Ayragsan sum	114	<u>8,821,500.00</u>	<u>88,215.00</u>
Total		<u>18,054,500.00</u>	<u>180,545.00</u>

b. Other current assets

Account Balances as of January 31, 1999 as follow:

<u>Account name</u>	<u>31/01/99</u>
Receivable	68,660.00
Prepaid expenses	347,384.00
Inventories	<u>127,356.50</u>
Total	<u>543,400.00</u>

MWF IMPLEMENTING AGENCY OF
 MICROSTART-MONGOLIA PROJECT
 NOTES TO THE FINANCIAL STATEMENTS
 /CONTINUED/

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c. Fixed asset

Fixed asset were acquired according to the budget approved under the contract made with UNDP. Fixed asset accounts have the following balances as of January 1, 1999

<u>Account</u>	<u>Amount</u>	<u>Depreciation</u>
Furniture and fixtures	2,949,863.00	221,148.59
Computer and equipment	<u>3,923,320.00</u>	<u>539,947.23</u>
Total	<u>6,873,183.00</u>	<u>761,095.82</u>

d. Payable

According to the contract between UNDP and MWF, the 60 percent of interest income from loans provided are to be transferred to the MWF. Accrued payables to the MWF by the branches as of January 31 are determined according to this contract and as follow,

<u>Branch</u>	<u>13/01/99</u>
Saynshand branch	1,578,360.74
Ayrag branch	<u>1,224,687.26</u>
Total	<u>2,803,048.00</u>

e. Other payable

	<u>31/01/99</u>
Compensation	504,292.00
Salaries and wages	106,000.00
Social and health insurance	59,432.00
Rent	52,500.00
Total	<u>722,224.00</u>

f. Funding

The funding for the first 5 months amounted to USD36,032 /USD 18,016 on September 07, 1998 and USD 18,016 on October 27, 1998/ was restated to Togrog at the exchange rate on the date of transactions. Details are as follow

MWF IMPLEMENTING AGENCY OF
 MICROSTART-MONGOLIA PROJECT
 NOTES TO THE FINANCIAL STATEMENTS
 /CONTINUED/

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	31/01/99
Central office of project implementation	7,265,773.00
Syanshand branch	14,356,650.00
Ayrags branch	<u>9,256,999.00</u>
Total	<u>30,879,422.00</u>

5. INCOME STATEMENT

a. Revenue

Loan Interest is calculated by using the exchange rate provided in the contract, according to the procedures approved by the Bank of Mongolia and recorded in accordance with the accounting policies stated Note 2 b.

Interest rate is determined jointly by X.A.C and Project Implementing Unit. Uniform interest rate is applied by all branches.

- Interest income

	Amount
Prime interest income	3,196,669.00
Other interest income	7,574.00
Total	<u>3,204,243.00</u>

6. Expenditure

Approved Expenditure budget is provided as an appendix to the contract made with UNDP. Expenditures are incurred according to the limit provided in the Budget.

Itgelt Audit

Audited financial statement

“Liberal Women’s Brain Pool”
Project implementing agency
MicroStart-Mongolia Project

Ulaanbaatar 1999

Cash flow statement
For the year ended 31 January 1999

1. Cash flow from operating activities

Net loss	(3,812,629.12)
Adjustment:	
Depreciation	843,470.90
Interest income	(2,205,739.96)
Interest expense	51,526.00
Operating profit before working capital changes	<u>(5,123,372.18)</u>
(Increase) decrease in current assets:	
Loans and advances	(23,148,952.00)
Other current	(203,375.00)
Increase (decrease) in operating liabilities	
Other liabilities	<u>1,848,339.00</u>
Cash generated from operations	<u>(21,503,988.00)</u>
Interest received	2,205,739.96
Interest paid	(51,526.00)
	<u>2,154,213.96</u>
Net cash flow from operating activities	<u>(24,473,146.22)</u>

2. Cash flow from investing activities

Purchase of fixed assets	<u>(8,967,175.00)</u>
Net cash flow from investing activities	<u>(8,967,175.00)</u>

3. Cash flow from financing activities

UNDP's fund	<u>45,183,020.93</u>
Net cash flow from financing activities	<u>45,183,020.93</u>

Total net cash flow 6,619,327.53

Cash and cash equivalents, beginning of year -

Cash and cash equivalents, end of year 6,619,327.53

The accompanying notes are an integral part of this financial statement.

Liberal Women's Brain Pool Project implementing agency
 MicroStart-Mongolia Project
Statement of Income
 For the year ended 31 January 1999

	<u>Notes</u>	<u>Audited balance</u>
Interest incomes		
Loan interest income	2.b 4.a	2,196,745.00
Other interest income		8994.96
Total interest income		<u>2,205,739.96</u>
Interest expenses		
Interest rebate		51,526.00
Total interest expense		<u>51,526.00</u>
Interest income		<u>2,154,213.96</u>
Other operating income		
Net income from financial activities:		
Income from foreign exchange currency conversion		843597.54
Income from foreign exchange revaluation	4.a	272,044.28
Commissions and service charges	4.a	161,483.00
Other income	4.a	77,574.00
Total other operating income		<u>1354698.82</u>
Other operating expense		
Expense for probable loan losses	3.b	233373.00
Commissions, service charges expense		389375.00
Total other operating expense		<u>622748.00</u>
Operating losses		<u>2886164.78</u>
Administrative expenses	4.b	
Administrative expenses		
Salaries and compensations		1,826,500.00
Social insurance expense		327,180.00
Business trip expense		222,720.00
Printing expense		88,300.00
Rental utilities		809,987.00
Transportation		120,285.00
Depreciation	2.c 3.d	843,470.90
Repair expense		388,119.00
Fee to be paid to the center office		1,430,969.00
Office supplies		368,182.50
Miscellaneous		273,080.50
Total administrative expense		<u>6698793.90</u>
Net loss		<u>(3,812,629.12)</u>

The accompanying notes are an integral part of this financial statement.

Liberal Women's Brain Pool Project implementing agency
 MicroStart-Mongolia Project
Balance sheet
 As of 31 January 1999

<u>A.Assets</u>	<u>NOTES</u>	<u>AUDITED</u>
1.Current assets		
Cash and cash equivalents	3.a	11,742,699.71
Loan	3.b	23,382,325.00
Provision for loan losses	3.b	(233,373.00)
Net loan		23,148,952.00
Other current assets	3.c	203,375.00
Total current assets		<u>35,095,026.71</u>
2.Non-current assets		
Fixed assets	2.c,3.d	8,967,175.00
Accumulated depreciation	2.c,3.d	(843,470.90)
Total non-current assets		<u>8,123,704.10</u>
Total assets		<u>43,218,730.81</u>
B.Liabilities		
3.Short-term liabilities		
Social insurance payable		387,480.00
Personal income tax payable		19,890.00
Other liabilities	3.e	1,440,969.00
Total short-term liabilities		<u>1,848,339.00</u>
Total liabilities		<u>1,848,339.00</u>
C.Capital funds		
UNDP's fund	3.f	45,183,020.93
Retained loss		(3,812,629.12)
Total capital funds		<u>41,370,391.81</u>
Total liabilities and capital funds		<u>43,218,730.81</u>

The accompanying notes are an integral part of this financial statement.

1. ORGANIZATION AND OPERATION

The Liberal Women's Brain Pool (LEOS)'s project implementor MicroStart Mongolia (MSM) program has been implementing the project according to the contract between UNDP and MSM in cooperation with the Golden Development Fund (X.A.C.), through its branches in Chingeltei, and Herlen sum, Henti aimag since January 1, 1998.

The key goal of the project is to deliver sustainable financial services to low-income families with a maximum outreach and to increase opportunities for self-employment.

2. ACCOUNTING POLICY

a. Principal policy

Project implementing agency of LEOS prepares its Financial Statements using the accounting procedures approved by the X.A.C in accordance with the accounting practices accepted in Mongolia and International Accounting Standards.

b. Revenue recognition

The revenue of the project consists of interest income and other income. Revenue is recognized on cash basis of accounting.

c. Fixed assets and depreciation

Fixed assets are recorded at the initial acquisition costs and depreciated on monthly basis over the useful lives of the assets. Useful life of furniture and fixtures is 5 years and 3 years for computer equipments.

d. Payroll tax

Any settlement of payroll tax liability has not been made with tax authority because of the legal status of taxpayers is not clearly defined yet. However the job contract is entered into with employees, providing that employees will be responsible for the payment of their tax liabilities to the relevant tax authority.

LEOS IMPLEMENTING AGENCY OF
MICROSTART-MONGOLIA PROJECT
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3. CASH

Most operating expenses and branch's fund are paid in cash.

The Cash balance of January 1, 1999 as follows,

<u>Branch</u>	<u>31/01/99</u>	
	<u>MNT</u>	<u>Foreign currency</u>
Cash in local currency	1,578,199.00	-
Local currency current accounts	7,941,643.20	-
Current accounts in foreign currency	<u>2,222,857.51</u>	<u>2339.85</u>
Total	<u>11,742,699.71</u>	<u>2,339.85</u>

b. Loan

Under the MSM project, small loans are provided to the individuals and group of individuals for the purpose of improving the living standard of low income-families.

Reserve for possible loan loss is established on the basis of outstanding loans according to the procedures on classification of loan and establishment and disposition of loan loss reserve approved by the Bank of Mongolia.

As of January 31, 1999 no uncorrectable balance exist and the balances of outstanding loans are as follow:

<u>Branch</u>	<u>Number of borrowers</u>	<u>Balance</u>	<u>Amount of reserve</u>
Chingeltei	75	9,519,425.00	95,194.00
Ayragsum	93	13,862,900.00	138,179.00
Total	168	23,382,325.00	233,373.00

b. Other current assets

Account Balances as of January 31, 1999 as follow:

<u>Account name</u>	<u>31/01/99</u>
Receivable	10,000.00
Prepaid expenses	113,000.00
Inventories	80,375.00
Total	<u>203,375.00</u>

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c. Fixed assets

Fixed assets was acquired according to the budget approved under the contract made with UNDP. Fixed asset accounts have the following balances as of January 1, 1999

<u>Account</u>	<u>Amount</u>	<u>Depreciation</u>
Furniture and fixtures	2,773,645.00	(155,300.57)
Computer and equipment	6,193,530.00	(688,170.33)
Total	<u>8,967,175.00</u>	<u>(843,470.90)</u>

d. Payable

According to the contract between UNDP and LEOS, the 60 percent of interest income from loans provided are to be transferred to the LEOS. Accrued payables of branches to the LEOS as of January 31 are determined according to this contract and as follow,

<u>Branch</u>	<u>13/01/99</u>
Total	1,440,969.00

e. Funding

The funding for the first 5 months amounted to USD 51,735 /USD 25,867.50 on September 24, 1998 and USD 25,867.50 on December 16, 1998/ was restated to MNT at the exchange rate on the date of transactions.

4. INCOME STATEMENT

a. Revenue

Loan Interest is calculated by using the percentage provided in the contract, according to the procedures approved by the Bank of Mongolia and recorded in accordance with the accounting policies stated Note 2 b.

Interest rate is determined jointly by X.A.C and Project Implementing Units. All branches apply uniform interest rate.

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b. Expenditure

Approved Expenditure budget is provided as an appendix to the contract made with UNDP. Expenditures are incurred according to the limit provided in the Budget.

Salaries

Salaries were according to the budget provision under the contract made with UNDP.

Other expenses

Other expenses for the period are as follow

<u>Account name</u>	<u>Total</u>
Advertising	15,000.00
Other	258,080.50

Total	<u>273,080.00</u>