

# Itgelt Audit

GOLDEN FUND FOR DEVELOPMENT (XAC-HAS) CO., LTD

FINANCIAL STATEMENTS AS OF 31 DECEMBER 1999  
(Together with Independent Auditors' Report)

Ulaanbaatar 2000

**GOLDEN FUND FOR DEVELOPMENT (X.A.C-H.A.S) CO., LTD**  
**BALANCE SHEET**  
**AS OF 31 DECEMBER 1999**  
**(In Mongolian Togrogs)**

	Note	31 Dec 1999	31 Aug 1999
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	192,569,752.12	103,879,437.94
Loan and advance	5	258,773,639.00	195,104,321.00
Provision for loan losses	5	(5,098,946.74)	(2,856,451.30)
Other real estate owned	6	270,000.00	465,000.00
Provision for loss - OREO	6	(270,000.00)	(465,000.00)
Other current assets	7	14,167,701.14	2,343,727.41
<b>Total current assets</b>		<b>460,412,145.52</b>	<b>298,471,035.05</b>
<b>Non current assets</b>			
Fixed assets	8	52,044,300.00	46,165,678.00
Accumulated depreciation	8	(14,387,924.62)	(9,588,422.07)
Intangible asset		852,788.00	852,788.00
<b>Total Non Current Assets</b>		<b>38,509,163.38</b>	<b>37,430,043.93</b>
<b>Total assets</b>		<b>498,921,308.90</b>	<b>335,901,078.98</b>
<b>Liabilities</b>			
Accounts payable	9	2,398,981.04	683,959.90
Social Insurance payable	9	1,738,313.27	1,936,684.97
Other tax payable		456,898.78	494,503.16
Income taxes payable	14	1,600,054.29	-
Deferred tax	14	1,732,444.03	-
Deferred revenue- due to donors	10	254,820,911.16	228,611,911.16
<b>Total liabilities</b>		<b>262,747,602.57</b>	<b>231,727,059.19</b>
<b>Equity</b>			
Share capital	11	180,000,000.00	60,000,000.00
Donated equities		44,174,019.79	44,174,019.79
Retained earnings		11,999,686.54	-
<b>Total equity</b>		<b>236,173,706.33</b>	<b>104,174,019.79</b>
<b>Total liabilities and equity</b>		<b>498,921,308.90</b>	<b>335,901,078.98</b>

# Itgelt Audit

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## AUDITORS' REPORT

the shareholders of Golden fund for Development (X.A.C-H.A.S) Co., LTD.

We have audited the accompanying balance sheet of X.A.C-H.A.S Co., LTD as of 31 December 1999, and the related profit and loss accounts, statements of changes in equity and cash flows from 31 August to 31 December 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants and laws or regulations of Mongolia. Those standards require that we plan and perform the audit to obtain 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 referred to above present fairly, in material respects, the financial position of the XAC Co., LTD as of 31 December 1999 and of the results of its operations and its cash flows for the period then ended in accordance with International Accounting Standards issued by the International Accounting Standards Committee and related laws and regulations which are effective in Mongolia.

Ulaanbaatar, Mongolia  
April 2000



**GOLDEN FUND FOR DEVELOPMENT (X.A.C-H.A.S) CO., LTD**  
**PROFIT AND LOSS ACCOUNTS**  
**FOR THE PERIOD FROM 31 AUGUST TO 31 DECEMBER 1999**  
(In Mongolian Togrogs)

	Note	1999
Net interest revenue		
Commissions and fees	12	63,675,439.66
Loss on foreign currency revaluation and trading		1,101,100.00
Other revenue	12	(431,934.23)
	12	<u>1,307,978.77</u>
<b>Total operating revenue</b>		<b>65,652,584.20</b>
Operating expenses	13	<u>(46,714,908.90)</u>
<b>Income before Provision for loan losses</b>		<b>18,937,675.30</b>
Provisions loan losses	5	<u>(2,642,790.44)</u>
Profit before tax		16,294,884.86
Tax expenses:		
Tax for the period	14	(2,562,754.29)
Deferred tax		<u>(1,732,444.03)</u>
<b>Net profit</b>		<b><u>11,999,686.54</u></b>

**STATEMENT OF CHANGE IN EQUITY**  
**FOR THE PERIOD FROM 31 AUGUST TO 31 DECEMBER 1999**  
(In Mongolian Togrog)

	Note	Share		Other equities	Retained earnings	UNDP grants or deferred revenue
		Unit	In MNT			
Balance as of 31 August 1999		6,000	60,000,000.00	44,174,019.79	-	228,611,911.14
Additional Shares	11	12,000	120,000,000.00	-	-	-
Financing	10	-	-	-	-	-
Expenditure for share purchase	10,11	-	-	-	-	(150,000,000.00)
Transferred to payable account	9	-	-	-	-	(120,000,000.00)
Net profit for the current period		-	-	-	-	(3,791,000.00)
Balance as of 31 December 1999					11,999,686.54	
		18,000	180,000,000.00	44,174,019.79	11,999,686.54	254,820,911.14

**GOLDEN FUND FOR DEVELOPMENT (X.A.C-H.A.S) CO., LTD**  
**STATEMENTS OF CASH FLOW**  
**FOR THE PERIOD FROM 31 AUGUST TO 31 DECEMBER 1999**  
**(In Mongolian Togrogs)**

	Sub Total	Total
<i>Cash flows from operating activities:</i>		
<b>Profit before tax</b>	<b>16,294,884.86</b>	
<i>Adjustments for:</i>		
Interest revenue	(63,700,044.66)	
Provisions	2,642,790.44	
Depreciation expenses	4,799,502.55	
	<u>(56,257,751.67)</u>	
Operating income before working capital changes	(39,962,866.81)	
Increase in Loan and advance	(64,264,613.00)	
Decrease in Other Real State Owned	195,000.00	
Increase in other current assets	(3,399,715.59)	
Decrease in short term payable	(43,754.94)	
Interest received	55,275,786.52	
Payment of income tax	(962,700.00)	
	<u>(13,199,997.01)</u>	
<b>Net cash flow from Operating activities</b>		<b>(53,162,863.82)</b>
<i>Cash flows from investing activities</i>		
Purchase of Fixed assets	(5,878,622.00)	
<b>Net cash flow from Investing Activities</b>		<b>(5,878,622.00)</b>
<i>Cash flows from financing activities</i>		
Financing received	30,000,000.00	
Expenditure for University Programme	(2,268,200.00)	
Additional Issue of shares	120,000,000.00	
<b>Net cash flow from Financing activities</b>		<b>147,731,800.00</b>
<b>Total Net cash flow</b>		<b>88,690,314.18</b>
Cash and cash equivalents at the beginning of the period	103,879,437.94	
Cash and cash equivalents at the ending of the period	192,569,752.12	

## BASIC ACCOUNTING POLICIES

The financial statements of XAC Co., Ltd for the period from 1 September to 31 December 1999 have been prepared on historical cost assumption using the following accounting policies.

### 1) Interest revenue and expense

Interest revenues and expenses are accrued on straight-line basis.

### 2) Commissions and fees

Service commissions and fees are recorded as revenue when they are paid in cash.

### 3) Penalty income

The penalty of 0.2 percent is levied on past due loan principle when the loan repayment schedule is violated, and revenue is recognized when the cash is received.

### 4) Loan

Loans are of 3 types in their designated purpose: working capital loan, investment loan, and employee loan. Loans are made with the terms from 3 to 12 months.

Loans are classified in accordance with the rules on loan classification approved by the Bank of Mongolia.

The net amount of loans outstanding reported on the balance sheet subtracts the loss provision from the gross amount.

Interest on loans made is accrued on the outstanding principles at the balance sheet date.

Interests on loans are calculated at the date of repayment based on the outstanding principle amount of the loan, using simple interest method. Interest on loan is not accrued during the accounting period.

The provision for probable loan loss is determined in accordance with the rules and procedures issued by the management.

Percentages of loan loss provisions for each loan categories as follow.

Loan categorization	Company's policy		Policy of the Bank of Mongolia	
Standard loan		1%		1%
*Restructured loan	Prolonged terms	25%		1%
Non-performing loan				
Past due loan	1-30 days overdue	1%	1-90 days overdue	1%
Sub-standard loan	31-60 days overdue	25%	91-180 days overdue	25%
Doubtful loan	61-90 days overdue	50%	181-360 days overdue	50%
Bad loan	>90 days overdue	100%	>360 days overdue	100%

In the event where the principles or interest payments become past due, the terms of loans are negotiated and appropriate changes are made in the loan agreement or contract, resulting in classifying these loans to the "Restructured Loan" category.

**GOLDEN FUND FOR DEVELOPMENT (X.A.C-H.A.S) CO., LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**

31 DECEMBER 1999  
(In Mongolian Togrogs )

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**1. ORGANIZATION AND OPERATION**

The agreement between the Government of Mongolia and UNDP was made to finance and implement the three-year "MicroStart" project, for the purpose of establishing micro finance market and decreasing the poverty. The project was started in August 1998.

It was decided according to the Working plan approved by UNDP that ACDI-VOCA, organization in the USA, would implement the project jointly with up to 4 selected NGO's operating in Mongolia.

The X.A.C, a second tier organization was established in September 1998 for the purpose of project sustainability, and training, advising, controlling and providing financing to the participating organizations and their project implementation units.

During the trial period ended on September 1999, the company was providing small loans with the purpose of improving a living standards of low income families, and financial services to the small businesses, with the cooperation of non governmental organizations providing social oriented services such as Mongolian Women Federation (MWF) and Liberal Women's Brain Pool (LEOS).

In 23 August 1999, the shareholder's meeting was held and the articles of incorporation of XAC Co., Ltd was approved and the non governmental organizations including MWF, LEOS and Local Governance Development Fund (LGDF), National Association of Mongolian Agricultural Cooperators (NAMAC) and Rotary Club of Ulaanbaatar, Mongolian Open Society (Soros fund) were approved as a shareholders of XAC Co., Ltd. These six non-governmental organizations own same shares of stock in the capital of the company.

On 16 September 1999, the XAC Co., Ltd was granted the license in accordance with the "Rule on granting and controlling the license of some banking operations to the banking and non bank financial institutions", approved by the Bank of Mongolia.

The XAC Co., Ltd has branches in Sainshand and Airag of Dornogobi aimag, Ondorkhaan of Khentii aimag, Chilgeltei, Bayanzurkh, Songinokhairkhan districts of Ulaanbaatar city and Darkhan city of Darkhan-Uul aimag.

**2. ACCOUNTING BASIS**

The Financial statements have been prepared in accordance with International Accounting Standards. The accounting methodologies used by the Management of the company are guided by the Accounting methodologies for bank and non-bank institutions, approved by Bank of Mongolia, and Accounting methodologies for business entities, approved by the Ministry of Finance.

### 3. BASIC ACCOUNTING POLICIES (cont'd)

When the repayment of restructured loan is delayed one time or restructured loan portfolio balance of the branch is above 2 % of the total loan balances, the length of the past due period is delayed is assessed and provision for loan loss is estimated, in accordance with the provisions of the original contract.

#### n) Other Real Estate Owned (OREO)

The assets received in due of repayment of loan is valued at the lower of market value of asset or principle amount of loan and recorded in the Other Real Estate Owned account.

Other real estate owned is reported at the amount net of probable loan loss reserve.

Provision for Probable loan loss of OREO is determined using same percentage used for Provision for loan loss.

#### n) Operating lease

The company's lease agreement is an operating lease in its nature. Operating lease expenses are recognized in the Income Statement for the period.

#### n) Foreign currency translation and revaluation.

Cash in foreign currencies are translated to Mongolian Togrogs using the exchange rate on balance sheet date declared by the Bank of Mongolia.

Transactions in foreign currencies are recorded at Mongolian Togrog using the exchange rate declared by Bank of Mongolia on date of transaction.

Cash accounts in foreign currencies are revalued each time when the exchange rates are changed, and resulting differences are recognized as foreign currency revaluation gain or loss. Gain or loss resulted from foreign currency trading is recognized as gain or loss on foreign currency trading.

#### n) Tangible fixed assets

Office equipments and computers are reported at their book values, historical cost less accumulated depreciation.

Assets are depreciated over a useful life of assets, using the straight-line method of depreciation. Useful lives are 3 and 5 years for computers and office equipments, respectively.

Above stated useful lives are not in consistent with those stated in the Income Tax Law of Mongolia.

#### n) UNDP Grants or Deferred revenue- due to donors

The Financing received to utilize for operating expenses, assets and loan fund of the MicroStart project is initially recorded in "UNDP grants or deferred revenue do to donors" liability account and written of to the 'Donated equity', equity account for the amount of actual expenditure.

#### CASH AND CASH EQUIVALENTS

Balances of cash and cash equivalent accounts as of 31 December and 31 August 1999 are given below. Exchange rates on these dates were 1,072.37 and 1,046.96 Togrog, respectively.

	31 Dec 1999	31 Aug 1999
Petty cash fund	28,430.00	60,650.00
Cash on hand-Togrog	24,417,002.00	17,963,072.00
Cash on hand- USDollar	5,361.85	-
Cash in bank - Togrog	16,525,410.72	82,736,926.79
Cash in bank - USDollar	2,099,593.22	3,118,789.15
Foreign currency demand deposit	149,493,954.32	-
	192,569,752.11	103,879,437.94

#### LOAN AND PROVISIONS FOR LOAN LOSS

The balances of loans categorized according to the purposes, as of 31 December 1999 are as follows:

	31 December 1999
Working capital loan	249,204,252.00
Investment loan	9,569,387.00
Loan before provision for loan loss	258,773,639.00
Provision for Loan loss	(5,098,946.74)
Total Net Loan	253,674,692.26

Change in Provision for loan loss as follows.

Beginning balance, 31 August 1999	2,856,451.30
Additional provision	2,837,790.44
Loans written off against the provision	(595,295.00)
Ending balance, 31 Dec 1999	5,098,946.74

The balances of loan and related provision as of 31 December and 31 August 1999 as follow,

	31 December 1999		31 August 1999	
	Loan	Provision	Provision	Provision
Standard loan	252,440,042.00	(2,524,400.42)	188,716,818.00	(1,887,168.18)
Restructured loan	402,250.00	(318,440.25)	1,421,085.00	(355,271.26)
Overdue loan	2,939,407.00	(29,394.07)	3,221,636.00	(32,216.36)
Sub-standard loan	505,000.00	(126,250.00)	1,195,142.00	(298,785.50)
Doubtful loan	772,956.00	(386,478.00)	533,260.00	(266,630.00)
Bad loan	1,713,984.00	(1,713,984.00)	16,380.00	(16,380.00)
	258,773,639.00	(5,098,946.74)	195,104,321.00	(2,856,451.30)

#### OTHER REAL ESTATE OWNED

The balances of OREO as of 31 December and 31 August 1999 as follow,

	31 December 1999	31 Aug 1999
Building	-	60,000
Truck	-	135,000
Motorcycles	135,000	135,000
Equipment	135,000	135,000
Other real estate owned - at cost	270,000	465,000
Provision for loan loss	(270,000)	(465,000)
Net amount	-	-

**7. OTHER CURRENT ASSETS**

The balances as of 31 December and 31 August 1999 as follow:

	31 Dec 1999	31 Aug 1999
Interest receivable	8,424,258.14	
Collateral	108,000.00	
Prepayments	3,257,626.00	596,629.91
Employee advances	65,600.00	124,900.00
Supplies	866,336.50	1,060,633.50
Low valuable and fast depreciable items	1,445,880.50	561,564.00
	14,167,701.14	2,343,727.41

**8. FIXED ASSETS**

The balances of fixed assets as of 31 December and 31 August 1999 as follow:

	31 Dec 1999	31 Aug 1999b
Office equipment's		
Historical cost	16,872,311.00	14,084,889.00
Accumulated depreciation	(2,697,909.76)	(1,656,585.48)
Book value	14,174,401.24	12,428,303.52
Computers		
Historical cost	35,171,989.00	32,080,789.00
Accumulated depreciation	(11,690,014.86)	(7,931,836.59)
Book value	23,481,974.14	24,148,952.41
Net amount	37,656,375.38	36,577,255.93

Depreciation expense recorded for the period from 31 August to 31 December 1999 was 799,502.55 Togrog.

**9. ACCOUNTS PAYABLE**

The balances of payables as of 31 December and 31 August 1999 as follow;

	31 Dec 1999	31 Aug 1999
Accounts payable	557,894.04	279,598.00
Accrued payable	318,287.00	404,361.90
UNDP grants (University programme) (Note 10)	1,522,800.00	-
	2,398,981.04	683,959.90

The balances of social and health insurance payables as of 31 December and 31 August 1999 as follow

	31 Dec 1999	31 Aug 1999
Social insurance payable	1,443,055.31	1,548,856.28
Health insurance payable	295,257.96	387,828.69
	1,738,313.27	1,936,684.97

## 10. UNDP GRANTS OR DEFERRED REVENUE - DUE TO DONORS

The balance of UNDP grants as of 31 December and 31 August 1999 as follow,

	31 Dec 1999	31 Aug 1999
Beginning balance	228,611,911.16	114,839,654.53
Increase:		
Financing received	*146,209,000.00	251,525,341.00
Foreign currency revaluation	-	252,725.77
Accumulated total	374,820,911.16	366,617,721.30
Decrease :		
Distributed to owners (Note 11)	(120,000,000.00)	(60,000,000.00)
Expenditures for operation*	(-)	(78,005,810.14)
Total expenditures	(120,000,000.00)	(138,005,810.14)
Ending balance	254,820,911.16	228,611,911.16

\* Total financing of 150 million Togrogs was received in November 1999, as stated in the memorandum of understanding on agreement between UNDP and XAC-MSM. The total of 3,791 thousand Togrogs out of this financing was given to the University program, being implemented jointly with academic institutions. This amount has been recorded in a payable account.

The use of financing given for the above project as follow;

Description	Amount
Financing received	3,791,000.00
Expenditures:	
Student Scholarships	(1,800,000.00)
Student exposure trips	(468,200.00)
	(2,268,200.00)
Balance (31 Dec 1999) (Note 9)	1,522,800.00

## 11. SHARE CAPITAL

XAC Co., Ltd declared 60,000 shares of stock with a par value of 10,000 togrog. The number of shares outstanding as of 31 December 1999 is 18,000 shares of stock with a par value of 10,000.

The MWF and LEOS were granted the funding by UNDP to purchase the stocks of the XAC Co., Ltd.

Each of MWF and LWL, non governmental organizations purchased 3,000 shares of stock at a par value and invested total of 60,000,000 Togrogs.

In 4 November 1999, UNDP granted an additional funding of 120,000,000 Togrog to 4 entities such as NAMAC, LGDF, Ulaanbaatar Rotary Club, and Mongolian Soros Foundation, for purchasing shares of XAC Co., Ltd.

As a result, each of these 4 NGO's (NAMAC, LGDF, Ulaanbaatar Rotary Club, and Mongolian Soros Foundation) are entitled to hold 3,000 shares of stock of XAC Co., Ltd.

**12. REVENUE**

The revenue for the period ended on 31 December 1999 as follow

## a) Net interest revenue

	31 Aug - 31 Jan 1999
Interest revenue	
Interest on loan	62,022,041.00
Interest on bank account	589,687.52
Interest on deposit account	1,088,316.14
	<u>63,700,044.66</u>
Discount on Interest	(24,605.00)
Net interest revenue	<u>63,675,439.66</u>

## b) Net loss on foreign exchange and trading

	31 Aug-31 Dec 1999
Gain on foreign currency revaluation	414,700.08
Loss on foreign currency revaluation	(574,794.17)
Loss on foreign currency trading	(271,840.14)
Loss on foreign currency revaluation and trading	<u>(431,934.23)</u>

## c) Other revenue

	31 Aug-31 Dec 1999
Penalty revenue	698,264.00
Other revenue	609,714.77
	<u>1,307,978.77</u>

**13. OPERATING EXPENSES**

	31 Aug - 31 Dec 99
Salaries	14,327,850.66
Social insurance	3,900,132.40
Compensation and remuneration	6,218,860.30
Loan approval committee's fee	2,512,688.00
Stationary	1,910,707.50
Rent and utilities	4,475,539.00
Depreciation expenses	4,799,502.55
Communication	1,801,576.97
Business travel	1,187,390.00
Fuel and transportation	1,295,209.00
Customer training	363,185.00
Entertainment	631,606.00
Other	3,290,661.52
Total operating expenses	<u>46,714,908.90</u>

**14. INCOME TAX**

As stated in the Income tax law of Mongolia, 15% tax is levied on taxable income up to 100 million Tugrog. For taxable income above 100 million, 15 million Tugrog plus 40% tax on the amount in excess of 100 million is to be levied. The income tax computation of XAC Co., Ltd is as follows:

Taxable income	18,734,655.45
Tax rate	15%
Income tax	4,225,198.32
Income tax for the period	2,552,754.29
Deferred tax:	
On accrued interest revenue	1,672,438.72
On fixed asset depreciation difference	4,8315.31
	2,144,874.03

**15. POST BALANCE SHEET EVENT**

It was decided by the XAC Co., Ltd on 21 March 2001 to open new branches in Dornogovis aimag, Selenge aimag and Sukhbaatar, Khan-Uul districts in Ulaanbaatar.