

Itgelt Audit

XAC- MICROSTART MONGOLIA PROJECT

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

Ulaanbaatar 2000

MICROSTART – MONGOLIA PROJECT
BALANCE SHEET
AS OF 31 AUGUST 1999
(In Mongolian Togrogs)

02

	Note	31 August 1999	31 January 1999
Assets			
Current assets			
Cash and cash equivalents	4	103,879,437.94	25,836,428.53
Loan and advance	5	195,104,321.00	41,436,825.00
Provision for loan loss	5	(2,856,451.30)	(413,918.00)
Other real estate owned*	6	465,000.00	-
Provision for loss – OREO	6	(465,000.00)	-
Other current assets	7	2,343,727.41	5,390,420.50
Total current assets		298,471,035.05	72,249,756.03
Non current assets			
Fixed assets	8	46,165,678.00	30,865,472.00
Accumulated depreciation	8	(9,588,422.07)	(3,182,862.49)
Intangible assets		852,788.00	-
Total Non Current Assets		37,430,043.93	27,682,609.51
Total assets		335,901,078.98	99,932,365.54

	Note	31 August 1999	31 January 1999
Liabilities			
Accounts payable	9	683,959.90	6,822,039.00
Social Insurance payable		1,936,684.97	721,896.00
Other tax payable		494,503.16	19,890.00
Total short term liabilities		3,115,148.03	7,563,825.00
Deferred revenue- due to donors	10	228,611,911.16	114,839,654.53
Total liabilities		231,727,059.19	122,403,479.53
Equity			
Share capital	11	60,000,000.00	-
Donated equity	11	78,005,810.14	-
Retained earnings		(33,831,790.35)	(22,471,113.99)
Total equity		104,174,019.79	(22,471,113.99)
Total liabilities and equity		335,901,078.98	99,932,365.54

MICROSTART-MONGOLIA PROJECT
PROFIT AND LOSS ACCOUNTS
FOR THE PERIOD FROM 1 JANUARY TO 31 AUGUST 1999
(In Mongolian Togrogs)

	Note	1999
Net interest income	12	49,150,172.09
Commissions and fees		1,747,750.00
Net Gain on foreign currency revaluation and trading	12	254,258.87
Other revenue	12	937,638.49
Total operating income		52,089,819.45
Operating expenses	13	(60,512,962.51)
Net loss before Provision for loan loss		(8,423,143.06)
Loan loss provision expense	5	(2,937,533.30)
Net loss		(11,360,676.36)

MICROSTART – MONGOLIA PROJECT
STATEMENT OF CASH FLOW
1 JANUARY TO 31 AUGUST 1999
(In Mongolian Togrogs)

04

	Sub Total	Total
<i>Cash flows from operating activities</i>		
Net loss	(11,360,676.36)	
Adjustments for:		
Probable loan loss provision expenses	2,937,533.30	
Depreciation expenses	6,436,263.88	
	<u>9,373,797.18</u>	
Net loss before change in working capital	(1,986,879.18)	
Increase in Loan and OREO	(154,162,496.00)	
Decrease in other current asset	3,015,988.79	
Decrease in short term payable	(4,448,676.97)	
	<u>(155,595,184.18)</u>	
Net cash flow from operating activities		(157,582,063.36)
<i>Cash flows from investing activities:</i>		
Purchase of Intangible assets	(852,788.00)	
Purchase of Fixed assets	(15,300,206.00)	
	<u>(16,152,994.00)</u>	
Net cash flow from investing activities		(16,152,994.00)
<i>Cash flows from financing activities:</i>		
Increase in deferred revenue- due to donors	251,778,066.77	
Net cash flow from Financing activities		<u>251,778,066.77</u>
Total Net cash flow		<u>78,043,009.41</u>
Beginning balance of cash and cash equivalents	25,836,428.53	
Ending balance of cash and cash equivalents	<u>103,879,437.94</u>	

MICROSTART- MONGOLIA (MSM) PROJECT
NOTES TO THE FINANCIAL STATEMENTS
 31 AUGUST 1999
 (In Mongolian Togrogs)

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 a 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, organisation in the USA, is to implement the project jointly with up to 4 selected NGO's operating in Mongolia.

The X.A.C (HAS), a second tier organization was established in September 1999 for the purpose of project sustainability, training and advising and providing financing to the participating organizations and their project implementation units.

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

2. ACCOUNTING BASIS

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

3. BASIC ACCOUNTING POLICIES

The financial statements of the project for the period ended on 31 August 1999 have been prepared on the basis of historical cost assumption using the following accounting policies.

(a) Interest revenue and expense

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

(b) Commissions and fees

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

(c) 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.

3. BASIC ACCOUNTING POLICIES (Cont'd)

(d) 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 categorized 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.

Interests on loans are accrued on the outstanding principles at the balance sheet date.

Interests on loans are calculated at the date of repayment based on the principle amounts of loans using simple interest method. Interests on loans are not accrued during the accounting period.

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

Percentages of loan loss provisions for each category of loan as follow

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

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

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 assessed and the provision for loan loss is estimated, in accordance with the provisions of the original contract.

(e) Other Real Estate Owned (OREO)

The assets received in due of repayment of loan are valued at the lower of market value of asset or principle of loan.

The Other Real Estate Owned is reported on the balance sheet at the amount net of provision for probable loan loss.

The Provision for Probable loan loss is also determined for OREO, using same percentage used for provision for loan loss.

(f) Operating lease

The project implementing units of MSM project rent offices and the lease agreements in their nature are operating leases. Operating lease expenses are recognized in the Income Statement for the period.

(g) Foreign currency conversion and revaluation

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

Transactions in foreign currencies are recorded in Mongolian Togrogs 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.

(h) Tangible fixed assets

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

Assets are depreciated over useful lives 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 consistent with those stated in the Income Tax Law of Mongolia.

(i) Grants or Deferred revenue- due to donors

The UNDP grants received to utilize for operating expenses, assets and loan fund of the MicroStart project is initially recorded at liability "Deferred revenue" account and written of to the "Donated equity", equity account for the amount of actual expenditure.

4. CASH AND CASH EQUIVALENTS

Balances of cash and cash equivalent accounts as of 31 January and 31 August 1999 are given below. Exchange rate on these dates was 1,046.96 and 950 Togrog, respectively.

	31 Aug 1999	1 Jan 1999
Petty cash fund	60,650.00	100,000.00
Cash on hand-Togrog	17,963,072.00	5,270,985.00
Cash in bank - Togrog	82,736,926.79	8,931,113.52
Cash in bank - USDollar	3,118,789.15	11,534,330.01
	103,879,437.94	25,836,428.53

LOAN AND PROVISION FOR LOAN LOSS

The balances of loans classified according to their purposes and related provisions as of 31 August and 31 January 1999 as follows.

	31 August 1999		31 January 1999	
	Loan	Provision	Loan	Provision
Standard loan	188,716,818.00	(1,887,168.18)	41,436,825.00	(413,918.00)
Restructured loan	1,421,085.00	(355,271.26)	-	-
Past due loan	3,221,636.00	(32,216.36)	-	-
Sub-standard loan	1,195,142.00	(298,785.50)	-	-
Doubtful loan	533,260.00	(266,630.00)	-	-
Bad loan	16,380.00	(16,380)	-	-
	195,104,321.00	(2,856,451.30)	41,436,825.00	(413,918.00)

The change in provision for loan loss as follows,

	31 Aug 1999	31 Jan 1999
Beginning balance	413,918.00	-
Additional provision	2,472,533.30	413,918.00
Write off	(30,000.00)	-
Balance	2,856,451.30	413,918.00

6. OTHER REAL SETATE OWNED

The balances of OREO as of 31 August 1999 as follow

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

7. OTHER CURRENT ASSETS

The balance of other current asset as of 31 August and 31 December 1999 as follow,

	31 Aug 1999	31 Jan 1999
Prepayments	596,629.91	540,564.00
Employee advances	124,900.00	3,939,710.00
Supplies	1,622,197.50	910,146.50
	2,343,727.41	5,390,420.50

11. SHARE CAPITAL

10

UNDP financing of 60 million Togrog was disbursed to MWF and LEOS for the purchase of shares from XAC Co., LTD.

The actual amount of financing for the project operating expenses was 78,005,810.14 Togrog, which was reported as Donated equity in the balance sheet.

The estimation approved by the UNDP and actual amounts of operating expenses as follow,

	Salary expenses		Operating expenses	
	Budget	Actual	Budget	Actual
Head office	28,616,191.14	25,642,241.69	26,195,019.38	23,921,602.89
Sainshand	4,439,710.00	3,933,472.00	3,093,526.00	2,511,218.00
Airag	3,340,050.00	2,889,794.00	2,118,793.00	1,394,655.00
Chingeltei	4,238,670.00	3,689,244.00	3,172,262.80	2,675,450.80
Khentii	3,926,448.69	3,293,067.33	2,787,971.00	2,091,732.00
Bayanzurkh	3,409,474.44	2,569,935.43	2,507,147.00	2,062,326.00
Songinokhairkhan	404,130	267,960.00	431,180.00	365,972.00
Darkan	356,580	202,367.00	409,629.00	494,772.00
	48,731,254.27	42,488,081.45	40,715,528.18	35,517,728.69

12. REVENUE

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

a) Net interest revenue

	From 31 January to 31 August 1999
Interest revenue	
Interest on loan	48,871,663.40
Interest on bank account	507,571.69
	49,379,235.09
Interest rebates	(229,063.00)
Net interest revenue	49,150,172.09

b) Net gain on Foreign currency revaluation and trading

	31 January to 31 August 1999
Gain on foreign currency revaluation	651,017.05
Gain on foreign currency revaluation	114,920.00
Loss on foreign currency trading	(511,678.18)
Net gain on foreign currency revaluation and trading	254,258.87

a) Other revenue

	31 Jan-31 Aug 1999
Penalty	171,084.00
Other revenue	766,554.49
	937,638.49

8. FIXED ASSETS

09

The balances of fixed assets as of 31 August and 31 January 1999 as follow,

	31 Aug 1999	31 Jan 1999
Office equipment		
Historical cost	14,084,889.00	8,235,034.00
Accumulated depreciation	(1,656,585.48)	(516,689.66)
Book value	12,428,303.52	7,718,344.34
Computers		
Historical cost	32,080,789.00	22,630,438.00
Accumulated depreciation	(7,931,836.59)	(2,666,172.83)
Book value	24,148,952.41	19,964,265.17
Net amount	36,577,255.93	27,682,609.51

Depreciation expense recorded for the period from 31 January to 31 August 1999 was 6,436,263.88 togrog.

9. ACCOUNTS PAYABLE

The accounts payable balances as of 31 August and 31 January 1999 as follow.

	31 Aug 1999	31 Jan 1999
Social insurance payable	279,598.00	178,360.00
Health insurance payable	404,361.90	6,643,679.00
	683,959.90	6,822,039.00

10. DEFERRED REVENUE- DUE TO DONORS

Total of 366,617, 721 Togrog was received from UNDP during the period from the project commencement to 31 August 1999.

The change in UNDP Grants as of 31 August and 31 January 1999 as follows.

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

OPERATING EXPENSES

11

	31 January to 31 August 1999
Salaries	25,527,769.02
Social insurance	4,849,699.77
Compensation and remuneration	2,000.00
Loan approval committee's fee	738,810.00
Training expenses	411,895.00
Stationary	3,597,593.40
Rent and utilities	5,918,140.00
Depreciation expenses	6,436,263.88
Communication	1,316,467.00
Business travel	6,248,015.00
Fuel and transportation	1,941,065.00
Entertainment	431,198.00
Provision for receivables	210,213.75
Other	2,883,832.69
Total operating expenses	60,512,962.51

14. POST BALANCE SHEET EVENT

- 1) XAC, operating under the MicroStart Project was incorporated as a Limited liability company on September 1999, and was granted the license in accordance with the "Rule on granting and controlling the license for some banking activities to bank and non bank institutions", approved by the Bank of Mongolia on 16 September 1999. The company started its operation with the registration by state registrar on 20 September 1999.
- 2) The additional funding of 150 million Togrogs was received from UNDP in November, and fund of 120 million Togrogs was distributed to four non governmental organisations including NAMAC, LGDF, Mongolian Soros Foundation, Ulaanbaatar Rotary Club, for the stock purchase from XAS Co., Ltd.