

WASASA MICROFINANCE SHARE COMPANY

AUDITORS REPORT AND ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2017

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
WASASA MICROFINANCE SHARE COMPANY**

Opinion

We have audited the accompanying financial statements of *WASASA MICROFINANCE SHARE COMPANY* which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income and other profit or loss and statement of cash flows for the year then ended and summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of *WASASA MICROFINANCE SHARE COMPANY* as at 30 June 2017 and of its financial performance and cash flows for the year then ended in accordance with its accounting polices applied on a consistent basis.

As required by the commercial code of Ethiopia, based on our audit we report as follows:

- i) Pursuant to Article 375(1) of the Commercial Code of Ethiopia, 1960 and based on our reviews of the board of directors' report, we have not noted any matter that we may wish to bring to your attention.
- ii) Pursuant to article 375 (2) of the commercial code of Ethiopia we recommend the financial statements be approved.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTER

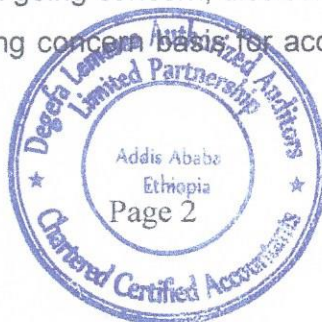
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon; we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

<u>Key Audit Matter</u>	<u>How our Audit Addressed the key Audit matter</u>
a) Evaluating the propriety of loan and advances classification/grading and determining the adequacy of the corresponding loan loss provision in accordance with the National Bank of Ethiopia (NBE) Directive, has been a key matter in this company's	We have addressed the matter by firstly: reviewing the loan classification and provision data compiled manually for its propriety and arithmetic accuracy. Secondly we have taken sample loan from each product and checked as to whether they have been properly classified and the required provision has been made. We have also checked sample loan files to conclude that the overall process starting from loan request, acceptance up to disbursement and subsequent follow-up and settlement has been satisfactory. Our review revealed that there has been no material misclassification of loans and advances that may make us doubt that the loan loss provision has been materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies of the company and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

In preparing the financial statements management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis for accounting unless management either

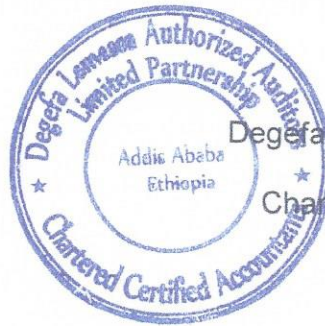


intends to liquidate the company or to close operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditors Responsibility for the Audit of the financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Menessa
Degefa Lemessa Authorized Auditors
Limited Partnership,
Chartered Certified Accountants

Addis Ababa

October 27, 2017

WASASA MICROFINANCE S.C
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	<u>Notes</u>	<u>Birr</u>	<u>Birr</u>	<u>2016</u> <u>Birr</u>
Fixed assets	3		23,437,111	11,955,028
Leasehold land	4		6,615,000	6,615,000
Investment in shares	6		391,000	202,786
Deferred expenditure	5		5,079,305	7,618,957
			<u>35,522,416</u>	<u>26,391,771</u>
<u>CURRENT ASSETS</u>				
Stock	7	801,500		736,254
Debtors	8	10,138,564		7,817,959
Loan	9	399,408,911		394,298,938
Cash at bank	10	102,056,174		126,375,244
		<u>512,405,149</u>		<u>529,228,395</u>
LIABILITIES AND CAPITAL				
<u>CURRENT LIABILITIES</u>				
Saving Deposit	12	162,569,307		135,851,982
Creditors	11	14,693,198		16,099,390
Current maturity of leasehold land	14	321,300		321,300
Current maturity of term loan	13	81,642,523		77,073,781
		<u>259,226,328</u>		<u>229,346,453</u>
Net current assets			<u>253,178,820</u>	<u>299,881,942</u>
			288,701,236	326,273,713
Leasehold land obligation long term portion	14	5,140,800		5,301,450
Revolving fund		4,700,000		4,700,000
Long term loan	13	131,459,662		189,252,127
			<u>(141,300,462)</u>	<u>(199,253,577)</u>
			<u>147,400,775</u>	<u>127,020,136</u>
<u>FINANCED BY:</u>				
Paid up capital			2,000,000	2,000,000
Donated equity	15		30,911,153	29,156,258
Legal reserve			1,438,602	1,438,602
Retained earning			113,051,020	94,425,276
			<u>147,400,775</u>	<u>127,020,136</u>



WASASA MICROFINANCE S.C
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	<u>Notes</u>	<u>Birr</u>	<u>Birr</u>	<u>2016</u> <u>Birr</u>
OPERATIONAL INCOME				
Interest Income	16		76,470,404	72,969,731
Sales of pass book			231,380	164,035
Service charge			<u>13,165,243</u>	<u>6,372,366</u>
			89,867,028	79,506,132
Operating expense				
Interest expense	17		<u>(27,912,726)</u>	<u>(23,984,047)</u>
			61,954,302	55,522,085
Other income	18		<u>9,459,316</u>	<u>6,948,849</u>
			71,413,617	62,470,934
EXPENSE				
General and administrative expense	19	47,865,764		43,135,736
Board allowance		180,000		156,000
Audit fee		88,000		57,500
Provision for fidelity insurance		50,000		50,000
Loan loss provision		<u>4,604,109</u>		<u>2,523,776</u>
			<u>(52,787,873)</u>	<u>(45,923,012)</u>
Excess of income over expenditure			18,625,744	16,547,922
Transfer to legal reserve			-	-
			<u>18,625,744</u>	<u>16,547,922</u>
Balance brought forward		94,425,276		78,522,154
Transferred to paid up capital		-		<u>(644,800)</u>
Retained earning carried forward			<u>94,425,276</u>	<u>77,877,354</u>
			<u>113,051,020</u>	<u>94,425,276</u>



WASASA MICROFINANCE S.C
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2017

	<u>Birr</u>	<u>Birr</u>	<u>2016</u> <u>Birr</u>
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>			
Current year surplus		18,625,744	16,547,922
Adjustment for:			
Provision for loan loss		4,604,109	2,523,776
Fixed assets and deferred expenditure adjustment		-	485,888
Depreciation & amortization		4,802,540	5,532,675
		<u>28,032,393</u>	<u>25,090,261</u>
Increase/decrease in stock	(65,246)		673,046
Increase/decrease Loan	(9,714,081)		(52,535,053)
Increase/decrease in debtors	(2,320,605)		(4,402,124)
Increase/decrease in creditors	(1,406,191)		481,826
Increase/decrease in saving deposits	26,717,325		24,970,368
		<u>13,211,200</u>	<u>(30,811,938)</u>
		41,243,593	(5,721,676)
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>			
Payment of lease	(160,650)		-
Purchase of fixed assets	(13,744,969)		(1,838,410)
Investment in shares	(188,214)		-
Investment in software expenditure	-		(2,386,483)
		<u>(14,093,834)</u>	<u>(4,224,893)</u>
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>			
Donated capital received	1,754,895		1,780,768
Loan received	-		100,000,000
Loan repaid	(53,223,723)		(51,085,811)
		<u>(51,468,828)</u>	<u>50,694,957</u>
		(24,319,070)	40,748,388
NET CASH OUT/IN FLOW DURING THE YEAR		<u>126,375,244</u>	<u>85,626,857</u>
CASH AT BANK AT THE BEGINNING OF THE YEAR		<u>102,056,174</u>	<u>126,375,244</u>
CASH AT BANK AT THE END OF THE YEAR			



WASASA MICROFINANCE SHARE COMPANY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2017

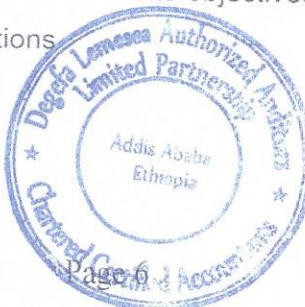
1. ESTABLISHMENT

1.1 WASASA Microfinance Share Company was established under the legal ground set by the Licensing and Supervision of the Business of Micro Financing Institutions, Proclamation No. 40/1996, under license number MFI/017/2000 from National Bank of Ethiopia with the paid up capital of Birr 201,000.00. Recognizing that economic growth and development of peasant farmers and others engaged in small scale production and services is dependent on easy access to and the availability of finance, the company has been established with the following objectives.

1.2 OBJECTIVES OF THE COMPANY

The objectives of the company are to:-

- (a) Provide credit in cash or kind to peasant farmers, women, youth and associations or cooperatives engaged in small and micro enterprise activity
- (b) Accept savings and deposits including time deposits
- (c) Perform transfer of payments within Ethiopia
- (d) Purchase financial instruments like treasury bills to generate income
- (e) Acquire, maintain and transfer movable and immovable property including residential premises for carrying out its business
- (f) Provide counseling services to clients
- (g) Encourage income generating projects for urban and rural small scale or micro operators.
- (h) Render managerial, marketing, technical and administrative advice to borrowers and assist them in obtaining services in those fields
- (i) Stimulate domestic saving
- (j) Engage in other activities related to its objectives and are customarily undertaken by micro financing institutions



2. ACCOUNTING POLICIES

WASASA Micro Financing Share Company has adopted the following accounting policies.

- a. Fixed assets are recorded at acquisition costs less accumulated depreciation. Depreciation is calculated at the following rates per annum on straight line basis.

	<u>%</u>
Building	5
Office equipment	10
Office furniture	10
Vehicle	20
Computer and accessories	25



3 FIXED ASSETS

	Balance on 30/06/2016	Addition	Balance on 6/30/2017
	<u>Birr</u>	<u>Birr</u>	<u>Birr</u>
<u>COST</u>			
Office building	3,795,445	-	3,795,445
Office equipment	8,570,463	93,100	8,663,563
Office furniture	1,770,025	129,829	1,899,854
Motor vehicles	7,037,413	-	7,037,413
Construction in progress	2,214,200	13,522,042	15,736,242
	<u>23,387,545</u>	<u>13,744,969</u>	<u>37,132,516</u>
<u>DEPRECIATION</u>			
Office building	660,663	189,772	850,435
Office equipment	4,461,480	1,400,923	5,862,403
Office furniture	723,193	165,734	888,927
Motor vehicles	5,587,181	506,458	6,093,639
	<u>11,432,517</u>	<u>2,262,887</u>	<u>13,695,405</u>
NET BOOK VALUE	<u><u>11,955,028</u></u>		<u><u>23,437,111</u></u>

- 1 The plot of the land on which the Head office building has been constructed is registered in the name of Wasasa Micro Finance S.C & OSRA.

4 Leasehold Land

A plot of 1260 m2 of land has been obtained under a lease agreement for 70 years from the Dukem Municipality of Oromia Regional State at a total cost of Birr 6,615,000 on account of which down payment of Birr 992,250 has been made and annual payments of Birr 160,650 are to be made over the years.

	Balance on 6/30/2016	Addition	Balance on 6/30/2017
	<u>Birr</u>	<u>Birr</u>	<u>Birr</u>
<u>DEFERRED EXPENDITURE</u>			
5			
a) Cost			
Computerization project cost	10,158,610	-	10,158,610
Less: Amortization	2,539,653	2,539,653	5,079,306
Net Book Value	<u>7,618,957</u>		<u>5,079,305</u>



6 INVESTMENT

Cooperative Bank of Oromia
Oromia International Bank

	<u>Birr</u>	2016 <u>Birr</u>
	2,000	2,000
	389,000	200,786
	<u>391,000</u>	<u>202,786</u>

7 STOCK

Office supplies
Uniform & Protection
Vehicle spare parts

	<u>Birr</u>	2016 <u>Birr</u>
	703,557	617,784
	45,543	64,129
	52,400	54,340
	<u>801,500</u>	<u>736,254</u>

8 DEBTORS

Advance for construction work at Dukem
Staff debtors
Purchase advance
Prepaid Insurance
Prepaid rent
Other receivable
Work advance
Guarantee fee payable with debit balance
Suspense account

	<u>Birr</u>	2016 <u>Birr</u>
	5,998,290	4,350,000
	2,549,389	2,306,594
	355,872	346,059
	432,846	339,770
	679,024	182,420
	2,000	4,628
	16,639	-
	-	481,720
	383,703	85,966
	10,417,762	8,097,157
Provision for doubtful debts	(279,197.50)	(279,198)
	<u>10,138,564</u>	<u>7,817,959</u>

9 LOAN AND ACCRUED INTEREST

Principal
Interest

Loan loss provision

	<u>Birr</u>	2016 <u>Birr</u>
	396,811,521	381,667,705
	10,573,543	16,854,933
	407,385,063	398,522,639
	(7,976,152)	(4,223,700)
	<u>399,408,911</u>	<u>394,298,938</u>

The movement of loan loss provision is as follows:

Balance brought forward	4,223,700
Balance written back against loan	(851,657)
Current year additional provision	4,604,109
	<u>7,976,152</u>



10 CASH AT BANK BALANCES

	<u>Birr</u>	<u>2016</u> <u>Birr</u>
Current accounts	35,917,465	63,880,860
Saving accounts	66,138,709	62,494,384
	<u>102,056,174</u>	<u>126,375,244</u>

11 CREDITORS

	<u>Birr</u>	<u>2016</u> <u>Birr</u>
Sundry	718,796	1,211,827
Income tax	132,704	70,326
Accrued charges	2,300,204	2,474,934
Withholding tax payable	639	5,715
5% tax on saving deposits	296,431	414,056
Loan insurance payable	1,645,834	2,782,272
Fidelity provision	424,991	374,991
Pension payable	92,237	94,398
Migration suspense	547,641	284,610
Cordaid-foreign loan	7,789,433	7,638,794
Work advance with credit balance	-	1,610
Cash in hand with credit balance	36,769	745,857
Guarantee fee	707,518	-
	<u>14,693,198.41</u>	<u>16,099,390</u>

12 SAVING DEPOSITS

	<u>Birr</u>	<u>2016</u> <u>Birr</u>
Mandatory saving	94,263,093	83,283,101
Voluntary saving	53,520,237	44,459,210
Timo deposit	13,377,452	6,774,180
Planned Time Diposit	849,034	853,864
Provident fund saving	559,491	481,627
	<u>162,569,307</u>	<u>135,851,982</u>



13 LOAN PAYABLES

	Outstanding balance <u>Birr</u>	Current maturity <u>Birr</u>	Long term portion <u>Birr</u>
Development Bank of Ethiopia	52,045,689	(20,423,857)	31,621,832
Oromia International Bank	1,537,242	(1,537,242)	-
Commercial Bank of Ethiopia	159,519,254	(59,681,424)	99,837,830
	<u>213,102,185</u>	<u>81,642,523</u>	<u>131,459,662</u>

Particulars of the Loans

Commercial Bank of Ethiopia

Approved	Interest rate	Collateral	Due date
100 Million	7.25%	Cash collateral of Birr 50 Million	April 2021
100 million	7.25%	Bank gurantee from RABO BNAKNEDERLAND (EUR 2 million) and cash collateral of Birr 10 million	March 2020
11 million	7.25%	Bank gurantee from RABO BNAKNEDERLAND (EUR 250,000) and cash collateral of Birr 1.1 million	June 2018
38 million	7.25%	Bank gurantee from ING Bank NU Netherland (EUR 1million) and cash collateral of Birr 4 million	June 2017
33 million	7.25%		April 2018
Oromia International Bank			
Approved	Interest rate	Collateral	Due date
5 million	16.30%	Gurantee from Capital Link	December 2017
Development Bank of Ethiopia			
Approved	Interest rate	Collateral	Due date
Birr 71,764,942	6%	Clean without collateral	Before June 2026



14 LEASEHOLD LAND OBLIGATION PAYABLE

	<u>Birr</u>
Total contract cost	6,615,000
Less: down payment	992,250
Additional payment	<u>160,650</u>
	<u>(1,152,900)</u>
	5,462,100
Current maturity	<u>(321,300)</u>
	<u><u>5,140,800</u></u>

15 DONATED EQUITY

	<u>Birr</u>	<u>2016</u> <u>Birr</u>
World Solidarity Movement	2,754,680	2,754,680
Ethio Italian Arsi Bale Rural Development Project	932,019	932,019
French Embassy	300,000	300,000
CIDR	314,325	314,325
BRS	118,250	118,250
EDF	1,182,058	1,182,058
OSRA capital subsidy	130,662	130,662
RUFIP	1,411,227	1,411,227
Cordaid	2,690,705	2,690,705
European Women Association	40,714	40,714
ICCO	15,936,567	15,936,567
UNCDF	3,345,051	3,345,051
SOS-Faim, Belgium capital grant	1,552,615	-
DAI-LIFT programme, capital grant	202,280	-
	<u>30,911,153</u>	<u>29,156,258</u>

16 INTEREST INCOME

	<u>Birr</u>	<u>2016</u> <u>Birr</u>
Interest income on loans	<u>76,470,404</u>	<u>72,969,731</u>

17 INTEREST EXPENSE

	<u>Birr</u>	<u>2016</u> <u>Birr</u>
Interest expense on clients' deposit	9,682,935	8,166,694
Interest expense on bank loans	<u>18,229,791</u>	<u>15,817,353</u>
	<u>27,912,726</u>	<u>23,984,047</u>



18 OTHER INCOME

	<u>Birr</u>	2016 <u>Birr</u>
Written off loan recovered	415,918	106,448
Income from credit life insurance	3,934,259	5,651,981
Interest income on bank deposit	3,150,445	845,613
Miscellaneous income	1,958,693	344,807
	<u>9,459,316</u>	<u>6,948,849</u>

19 GENERAL AND ADMINSTRATIVE EXPENSES

	<u>Birr</u>	2016 <u>Birr</u>
Salaries and wages	25,704,922	21,308,537
Allowance	1,032,623	1,543,626
Employees' benefit	6,181,037	5,143,575
Perdiem	1,096,150	1,060,812
Printing and stationery	1,197,413	1,031,153
Fuel and lubricants	435,878	455,208
Office rent	1,277,694	1,874,705
Legal fee	570,721	178,040
Insurance	495,558	440,151
Membership fee	5,000	5,000
Repair and maintenance	515,252	465,563
Registration fee	10,270	47,360
Transport	563,948	584,150
Training	394,181	126,961
Utilities	173,577	184,316
Communication	1,587,993	2,165,063
Depreciation and amortization	4,802,540	5,532,332
Advertisement	53,781	8,694
Bank charge	47,935	55,624
Cleaning materials	61,291	31,251
Consultancy	52,801	167,115
Contribution	350	17,938
Entertainment	385,372	234,354
Cash indemnity	1,065,182	294,575
Miscellaneous	154,295	179,632
	<u>47,865,764</u>	<u>43,135,736</u>

