

MUNGEREZA & KARIISA 

**Micro Enterprise Development Network
(MED – Net)**

(A Company Limited by Guarantee)

Financial Statements

For Year ended 31 December 2008

35 Yusuf Lule Road

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Kampala Uganda

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Corporate Information

Directors	Richard Reynolds Rudo Kwaramba Mary Kusambiza Rev. Polly Musiime Amelia Muwanguzi Rita Balaka Mitala	Chairman
Registered office	Plot 256, Bombo Road Makerere Kavule P.O Box 24751, Kampala	
Auditors	Mungereza & Kariisa, Certified Public Accountants Plot 35, Yusuf Lule Road P.O Box 6565, Kampala Tel: +256 414 341474 Email: accountants@fmungereza.co.ug	
Solicitors	Zake Wegulo & Co Advocates Plot 9 Kampala Road P.O Box 30848, Kampala	
Bankers	Standard Chartered Bank Speke Road P.O Box 7111, Kampala	Stanbic Bank Uganda Ltd Mukono Branch P.O Box 480, Mukono
	Stanbic Bank Uganda Ltd City Branch P.O Box 973, Kampala	Stanbic Bank Uganda Ltd Lira Branch P.O Box 24751, Lira
	Barclays Bank Kampala Road Branch P.O Box 7101 Kampala	Bank of Baroda Mbale Branch P.O Box 24751, Mbale
	Stanbic Bank Uganda Ltd Mpigi Branch P.O Box 973, Kampala	Post Bank Nkrumah Road P.O Box 45678, Kampala
	Stanbic Bank Uganda Ltd Masaka Branch P.O Box 567, Masaka	Stanbic Bank Uganda Ltd Kyotera Branch P.O Box 2616, Kyotera
	DFCU Bank Impala Branch P.O Box 70, Kampala	Bank of Baroda Uganda Ltd Kampala Road P.O Box 7197, Kampala
	Bank of Africa Plot 24, Jinja Road P.O 2750, Kampala	

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

Activities

Micro Enterprise Development Network (MED – Net) is a Micro-Finance Institution affiliated to World Vision Uganda. The principal activity of the company is provision of short-term loan facilities to rural urban micro, small and medium clients.

Results

Shs

Deficit for the year

1,180,546,160

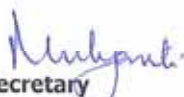
Directors

The directors who served on the Board during year ended 31 December 2008 are shown on page 2.

Auditors

Mungereza & Kariisa, who were appointed as auditors during the year, have expressed their willingness to continue in office in accordance with section 159 (2) of the Companies Act.

By Order of the Board


Secretary

Kampala

12th May 2009

Statement of Directors' Responsibilities

It is the responsibility of directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the results of the Company operations for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company, and to enable them ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


The Board of Directors confirm that in their opinion:

- (a) The financial statements give a true and fair view of the financial position of the Company as at 31 December 2008, and of the results of its operations and its cash flows for the period then ended; and
- (b) The financial statements are drawn up in accordance with the applicable accounting standards and comply with the Uganda Companies Act.

This statement is made in accordance with the resolution of the Directors.

Signed at Kampala on.....12 May.....2009


.....
Director


.....
Director

MUNGEREZA & KARIISA



Mungereza & Karisa
Certified Public Accountants
35 Yusuf Lule Road
P O Box 6565
Kampala Uganda
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Report of the Independent Auditors to the members of Micro Enterprise Development Network (MED – Net) (A Company Limited by Guarantee)

Report on Financial Statements

We have audited the accompanying financial statements of Micro Enterprise Development Network (MED-Net) which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibilities

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Partners:

Fulgence Mungereza

Karisa-Kasa Joram

**Report of the Independent Auditors to the members of
Micro Enterprise Development Network (MED – Net)
(Continued)**

**Non-Compliance with International Accounting Standard 18
Recognition of Revenue)**

The interest income is recognised when it is received rather than when it is earned contrary to International Accounting Standard 18 (Revenue Recognition). We are therefore unable to ascertain that the income included in the income statement is complete.

Opinion

Except for the matters referred to in the paragraph above, in our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2008, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Uganda Companies Act (Cap 110).

Mungereza & Kariisa

Mungereza & Kariisa
Certified Public Accountants (Uganda)
Kampala

18 May 2009

Income Statement

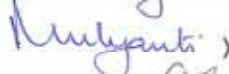

	Note	2008 Shs	2007 (Restated) Shs
Interest on loans	2	1,310,721,289	481,954,442
Other income	3	65,211,656	2,176,464,896
		1,375,932,945	2,658,419,338
Operating expenses	4	(2,000,127,009)	(2,281,864,177)
Loan provisions written off		(167,425,778)	(62,484,105)
		(791,619,842)	314,071,056
Finance expenses	5	(388,926,318)	(500,730,571)
Surplus/(Deficit) from operations before taxation		(1,180,546,160)	(186,659,515)
Taxation		-	-
Surplus/(Deficit) for the period		<u>(1,180,546,160)</u>	<u>(186,659,515)</u>

Micro Enterprise Development Network (MED – Net)
(A Company Limited by Guarantee)
Financial Statements
Year ended 31 December 2008

Balance Sheet

		2008	2007 (Restated)
Assets	Notes	Shs	Shs
Cash and Bank balances	6	413,644,759	427,725,492
Short term Investments	7	650,000,000	400,000,000
Loans	8	3,154,508,784	1,465,737,529
Inventory		12,965,760	-
Debtors and prepayments	9	89,155,276	116,535,400
Property and equipment	10	596,126,328	372,558,121
Total Assets		<u>4,916,400,907</u>	<u>2,782,556,542</u>
Liabilities			
Client savings	11	865,481,179	536,031,382
Creditors and accruals	12	383,777,046	298,565,063
Related party balance		-	36,591,506
		<u>1,249,258,225</u>	<u>871,187,951</u>
Capital and reserves			
Donated Equity – Loan fund	13(a)	2,366,199,131	900,289,274
Donated Equity – Operating fund	13(b)	2,066,951,946	1,138,151,698
Revaluation reserves	15	213,446,138	159,992,695
Retained Profits	16	(3,663,331,286)	(2,482,785,126)
		<u>983,265,929</u>	<u>(284,351,459)</u>
Long-term loans	17	<u>2,683,876,753</u>	<u>2,195,720,250</u>
Total reserves and liabilities		<u>4,916,400,907</u>	<u>2,782,556,542</u>

The financial statements on pages 5 to 18 were approved by the Board of Directors on 12th May 2009 and were signed on their behalf by:

 Director
 Director
 AMELIA MUWANUZI

Micro Enterprise Development Network (MED – Net)
(A Company Limited by Guarantee)
Financial Statements
Year ended 31 December 2008

Statement of Changes in Equity

	Note	Loan Fund Shs	Operating Fund/Deferred Grant Shs	Revaluation Reserves Shs	Revenue Reserve Shs	Total Shs
2007						
As at 1 January 2007		811,152,938	553,500,000	159,992,695	(4,384,510,737)	(2,859,865,104)
Prior year adjustment	20	-	-	-	2,088,385,126	2,088,385,126
Adjusted balance 1 January 2007		811,152,938	553,500,000	159,992,695	(2,296,125,611)	(771,479,978)
Grant received		-	584,651,698	-	-	584,651,698
Profit for the year		-	-	-	(97,523,179)	(97,523,179)
As at 31 December 2007		<u>811,152,938</u>	<u>1,138,151,698</u>	<u>159,992,695</u>	<u>(2,393,648,790)</u>	<u>(284,351,459)</u>
2008						
As at 1 January 2008		811,152,938	1,138,151,698	159,992,695	(2,393,648,790)	(284,351,459)
Prior Year adjustment		89,136,336	-	-	(89,136,336)	-
As at 1 January 2008 (<i>Restated</i>)		<u>900,289,274</u>	<u>1,138,181,698</u>	<u>159,992,695</u>	<u>2,482,785,126</u>	<u>284,351,459</u>
Grant received		1,465,909,857	928,800,248	-	-	2,394,710,105
Revaluation		-	-	53,453,443	-	53,453,443
Profit for the year		-	-	-	(1,180,546,160)	(1,180,546,160)
As at 31 December 2008		<u>2,366,199,131</u>	<u>2,066,951,946</u>	<u>213,446,138</u>	<u>(3,663,331,286)</u>	<u>983,265,831</u>

Cash Flow Statement

	Note	2008 Shs	2007 Shs
Operating activities			
Surplus/ (Deficit) before taxation		(791,619,842)	314,071,056
<i>Adjustments for:</i>			
Depreciation		123,056,816	231,539,636
Gain on sale of assets		(7,666,892)	15,640,487
Prior year adjustments		-	2,088,385,026
Adjustment on fixed assets		(171,830,028)	-
Net cash (outflow)/ inflow before working capital changes		(848,059,946)	2,649,636,205
<i>Changes in working capital:</i>			
Increase in loans advanced		(1,688,771,255)	(849,329,152)
Increase/(Decrease) in client savings		329,449,797	(782,874,638)
Increase in inventory		(12,965,760)	-
Increase in debtors and prepayments		27,380,124	(62,341,418)
Increase/(Decrease) in creditors and accruals		85,211,983	80,980,287
Decrease in related party balances		(36,591,506)	-
Cash generated/(used in) from operations before tax and finance costs		(2,144,346,563)	6,036,071,284
Finance expenses		(388,926,318)	(500,730,571)
Cash (used in)/ generated from operations		(2,533,272,881)	535,340,713
Investing activities			
Purchase of property, plant and equipment		(131,490,460)	(113,424,251)
Proceeds from the sale vehicles		17,816,000	8,613,840
Proceeds from short term investment		-	222,333,596
Purchase of short term investments		(250,000,000)	-
Net cash inflow from investing activities		(363,674,460)	117,523,185
Financing Activities			
Loan received		488,156,503	-
Loan repayment		-	(1,600,163,954)
Operating Fund received		928,800,248	584,651,698
Loan Fund		1,465,909,857	89,136,336
Net cash inflow from financing		2,882,866,608	(926,375,920)
Net (decrease)/increase in cash and cash equivalent		(14,080,733)	(273,512,022)
Cash and cash equivalents at 1 January 2007		427,725,492	701,237,514
Cash and cash equivalents at 31 December 2007	6	413,644,759	427,725,492

Notes to the Financial Statements

1 Accounting Policies

Basis of accounting

The financial statements are prepared under the historical cost convention and on accrual basis except for the recognition of interest income on loans and advances. Under this basis, transactions are recognized when they occur, not when cash is received or paid. As a conservative exception, interest income on loans is recorded on cash basis; that is, when cash is received.

Property and equipment and depreciation

Property and equipment are stated at cost less depreciation. Depreciation is calculated to write off the cost of property, plant and equipment on a straight line basis using annual rates determined by considering their estimated useful lives as follows:

Building	5%
Motor vehicles/cycles	25%
Furniture and fittings	20%
Computers equipment and software	33.3%
Software	20%

Stocks

Stocks are stated at the lower of cost and net realisable value.

Grants

Grants and donations for the operations and for loan funds to be used in the current operating period are recorded in the income statement in the period they are received.

Grants for property and equipment are capitalized in the balance sheet and amount of amortization transferred to the revenue reserve over the useful life of the assets acquired.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into Uganda Shillings at the rate of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

Notes to the Financial Statements (Continued)

1 Accounting Policies (Continued)

Loans Loss Provision and write-Offs

Specific provision is made on all loans to clients outstanding for over 7 days as follows:

- 1 % on installment in arrears for 0 days
- 10% on installments in arrears for 1 - 30 days
- 25% on installments in arrears for 31 - 60 days
- 50% on installments in arrears for over 61 - 90 days
- 100% on installments in arrears for over 91 days

Bad debts are written off when all the reasonable steps to recover them have been taken without success.

Retirement Benefit Obligations

The Company contributes to the National Social Security Fund. This is a defined contribution scheme registered under National Social Security Act (1985). The company's obligation under the scheme are limited to specific contribution regulated from time to time and currently stated at 10% of the employees' gross pay. In addition to the statutory obligation is a provident fund to which employees contribute 5% and the company also contributes 10% of the employees gross pay. The Company's contributions are charged to the income statement in the year to which it relates.

Components of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, cash held in bank and bank borrowings.

2 Interest on loans

	2008 Shs	2007 Shs
Interest on loans	1,019,354,813	362,496,256
Fines and penalties	7,398,669	8,438,175
Registration fees/administration	37,026,000	11,708,590
Other direct income	209,692,535	72,169,126
Recoveries from the loan written off	37,249,272	27,142,295
	<u>1,310,721,289</u>	<u>481,954,442</u>

Notes to the Financial Statements (Continued)

	2008 Shs	2007 Shs
3 Other Income		
Grant Income	-	2,072,861,615
Interest on fixed deposits	23,756,206	94,499,672
Gain on disposal of assets	7,666,892	-
Other income	33,788,558	9,103,359
	<u>65,211,656</u>	<u>2,176,464,896</u>
4 Operating expenses		
Personnel expenses	1,174,035,520	1,131,368,085
Depreciation	123,056,816	231,539,636
Auditors fees	7,900,000	13,433,903
Legal and other professional fees	8,228,806	37,775,500
Other operating expenses	686,905,867	867,747,053
	<u>2,000,127,009</u>	<u>2,281,864,177</u>
5 Financial Expenses		
Interest on loans	236,948,052	453,069,304
Interest on overdraft and bank fees	25,101,619	38,258,060
Financial costs	126,876,647	9,403,207
	<u>388,926,318</u>	<u>500,730,571</u>
6 Cash and Bank Balances		
Cash at bank	395,849,070	425,270,092
Cash at hand	17,795,689	2,455,400
	<u>413,644,759</u>	<u>427,725,492</u>

Notes to the Financial Statements (Continued)

	2008 Shs	2007 Shs
7 Short term Investments		
Fixed deposit account- Bank of Africa	400,000,000	200,000,000
Fixed deposit account- CMF	-	200,000,000
Fixed deposit account- Stanbic	250,000,000	-
	<u>650,000,000</u>	<u>400,000,000</u>
8 Loans		
Total Loan portfolio	3,285,455,276	1,556,557,985
Provision for bad and doubtful debts	(130,946,492)	(90,820,456)
	<u>3,154,508,784</u>	<u>1,465,737,529</u>
9 Debtors and prepayments		
Other receivables	31,199,252	63,910,869
Prepayments	48,951,624	48,721,305
Interest on deposits	9,004,400	3,903,226
	<u>89,155,276</u>	<u>116,535,400</u>

Notes to the Financial Statements (Continued)

10 Properties and Equipment

	Land	Land & Building	Furniture & Equipment	Computer software & related equipment	Motor Vehicles & Cycles	Total
	Shs	Shs	Shs	Shs	Shs	Shs
Cost						
1 January 2007	30,000,000	141,667,250	122,313,751	272,601,436	212,524,532	777,439,719
Additions	-	-	69,485,139	43,939,112	-	113,424,251
Disposals adjustments	-	-	-	(37,968,264)	(16,450,228)	(54,418,492)
At 31 December 2007	30,000,000	141,667,250	222,043,280	428,358,233	238,280,346	1,060,349,109
Additions	-	-	89,791,000	8,099,460	33,600,000	131,490,460
Revaluations	50,000,000	128,332,750	(30,513,238)	(132,737,728)	43,844,706	30,082,074
Disposals	-	-	(59,357,684)	(16,358,000)	(91,832,037)	(108,190,037)
As at 31 December 2008	80,000,000	350,000,000	252,476,596	287,361,965	223,893,015	1,113,731,576
Depreciation						
As at 1 October 2007	-	29,693,823	75,250,172	242,202,239	139,268,183	486,414,417
Charge for the year	-	7,083,360	19,378,924	137,628,067	57,449,285	231,539,636
Disposal	-	-	-	(21,143,065)	(9,020,000)	(30,163,065)
As at 31 December 2007	-	36,777,183	94,629,096	358,687,241	197,697,468	687,790,988
Charge for the year	-	5,625,000	28,667,778	49,213,277	39,550,761	123,056,816
Disposal	-	-	-	(16,358,000)	(81,682,929)	(98,040,929)
Revaluation	-	35,936,167	28,913,145	(150,403,296)	20,891,997	(195,201,167)
As at 31 December 2008	-	5,625,000	94,383,729	241,139,222	176,457,297	517,605,248
Net Book Value						
At 31 December 2008	80,000,000	264,375,000	158,092,867	46,222,743	47,435,718	596,126,328
At 31 December 2007	30,000,000	104,890,067	127,414,184	69,670,992	40,582,878	372,558,121

Notes to the Financial Statements (Continued)

	2008 Shs	2007 Shs
11 Client Savings		
Compulsory saving	865,481,179	536,031,382
Provision for shortfall savings	-	-
	<u>865,481,179</u>	<u>536,031,382</u>
12 Creditors & Accruals		
Sundry payables	80,962,180	41,057,782
Accruals	43,995,638	90,041,749
Interest Payable	59,969,310	24,750,113
Staff provident fund	185,518,683	133,363,752
Others	13,331,234	8,050,259
Designed fund	-	1,301,408
	<u>383,777,045</u>	<u>298,565,063</u>
13 Loan Fund Capital		
(a) Loan fund-equity		
As at 1 January	900,289,274	811,152,938
Prior year adjustment	-	89,136,336
	<u>900,289,274</u>	<u>900,289,274</u>
As at 1 January (Restated)	900,289,274	900,289,274
Additions	1,465,909,857	-
	<u>2,366,199,131</u>	<u>900,289,274</u>
(b) Operating fund/Deferred Grant		
As at 1 January	1,138,151,698	553,500,000
Additions	928,800,248	584,651,698
	<u>2,066,951,946</u>	<u>1,138,151,698</u>
As at 31 December	2,066,951,946	1,138,151,698
Total	<u>4,433,151,077</u>	<u>2,038,440,972</u>

Notes to the Financial Statements (Continued)

14 Loan Fund Capital (continued)

A loan fund of US\$ 325,700 was obtained from Vision Fund International in tranches of \$ 100,000, \$108,500, \$117,000 and \$500,000 and are repayable by 2011 at an annual interest rate of 6%.

	2008 Shs	2007 Shs
15 Revaluation Reserves		
As at 1 January	159,992,695	159,992,695
Additions	<u>53,453,443</u>	<u>-</u>
As at 31 December	<u>213,446,138</u>	<u>159,992,695</u>
16 Revenue Reserve		
As at 1 January	(2,393,648,980)	(4,384,510,837)
Prior year Adjustment	<u>(89,136,336)</u>	<u>2,088,385,026</u>
Adjusted balance	(2,482,785,126)	(2,296,125,711)
Surplus/ Deficit) for the period	<u>(1,180,546,160)</u>	<u>(97,523,179)</u>
As at 31 December	<u>(3,663,331,286)</u>	<u>(2,393,648,890)</u>
17 Long term Loans		
OIKO	787,500,003	1,125,000,000
NOVIB	273,443,750	351,443,750
MSCL	-	125,000,000
Vision Fund International	<u>1,622,933,000</u>	<u>594,276,500</u>
	<u>2,683,876,753</u>	<u>2,195,720,250</u>

Notes to the Financial Statements (Continued)

18 Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current period.

19 These financial statements are presented in Uganda Shillings.

20 Prior year adjustment

This relates to a correction of error in treatment of the loan and operation grant funds received.

Appendix I

	2008 Shs	2007 Shs
OPERATING EXPENSES		
A Personnel costs		
Salaries	892,346,943	859,241,318
NSSF	89,699,948	89,020,332
Temporary Help	-	3,852,450
Recruitment costs	4,990,440	14,317,694
Provident fund	89,536,673	85,086,882
Other staff benefits	52,423,362	36,742,915
Other Staff costs	13,201,700	20,728,267
Bonus	31,836,454	22,378,227
Sub-total	<u>1,174,035,520</u>	<u>1,131,368,085</u>
B Other operating expenses		
(i) Travel costs		
Domestic travel	33,569,255	46,449,738
Foreign travel	3,461,450	6,259,010
Fuel and oils	102,819,539	94,755,316
Motor vehicle repairs and maintenance	31,506,090	41,754,888
Vehicle insurance	1,356,094	7,946,807
Vehicle fees and taxes	2,752,000	4,126,625
Others	-	681,627
Sub total	<u>175,464,428</u>	<u>201,974,011</u>
(ii) Training costs		
Client training	-	16,268,100
Staff in house training	53,972,802	75,708,072
Others	98	23,845,692
Sub total	<u>53,972,900</u>	<u>115,821,864</u>

Appendix II (Continued)

	2008 Shs	2007 Shs
(iii) Office expenses		
Per diem and mileage refund	30,308,900	33,598,720
Postage	4,588,899	1,239,133
Lending license and subscription fees	3,068,000	-
Equipment Maintenance	17,580,732	77,072,756
Electricity and water	25,438,093	19,563,001
Printing and duplication	40,536,469	46,739,270
Advertising costs	28,054,070	61,706,960
Bad debts written off	2,221,246	-
Other Office expenses	15,838,563	60,153,752
Customer and Hospitality costs	130,800	7,232,300
Telephone fax and email	104,046,899	119,155,595
Insurance general	10,519,285	17,028,689
Office maintenance and cleaning	14,495,000	2,476,600
Research Costs	3,330,100	-
Office rent	74,966,845	74,039,473
License fees (software)	1,140,000	1,451,700
Office security	78,194,506	28,493,229
Board sitting costs	3,010,132	-
Sub total	<u>457,468,539</u>	<u>549,951,178</u>
Grand Total	<u>686,905,867</u>	<u>867,747,053</u>