RSM Top-Audit
Аудиторская и консалтинговая группа

FINCA International, Inc.
Georgia

Independent Auditor's Report

Financial Statements for the year ended 31 August 2005
Prepared under US GAAP

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Independent Auditor's Report

To the Management of «FINCA International, Inc.» Georgia and the Board of Directors FINCA International, Inc USA.

We have audited the accompanying statement of financial position of «FINCA International, Inc.» Georgia (the «Organization») of August 31, 2005, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Organization'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 (ISA). 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of Organization as of August 31, 2005, and the changes in their net assets, statement of functional expenses and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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«РСМ Топ-Аудит»

«FINCA International, Inc.» Georgia

Statement of Financial Position
August 31, 2005
(With Comparative Totals for 2004)
(In US Dollars)

Assets	2005	2004
Cash and cash equivalents (Note 2)		
Unrestricted	$523,876	$501,545
Restricted	3,300	-
	527,176	501,545
Short-term bank deposit	-	200,000
Loans and advances receivables, net (Note 3)	7,220,320	2,617,326
Grant support receivable	-	456,536
Other receivables (Note 4)	96,936	61,114
Other assets	26,910	496
Property and equipment, net (Note 5)	38,227	11,589
	$7,909,569	$3,848,606

Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses (Note 6)	$380,676	$411,468
Customers' deposits	3,300	196,119
Refundable advances (Note 7)	7,532	-
Notes payable (Note 8)	1,600,000	-
	1,991,508	607,587
Commitments and Contingencies (Note 10, 11)		
Net Assets		
Unrestricted	5,918,061	3,241,019
	5,918,061	3,241,019
	$7,909,569	$3,848,606

On behalf of the Management

Country Director

Chief Accountant

See Notes to Financial Statements.

«FINCA International, Inc.» Georgia

Statement of Activities
Year Ended August 31, 2005
(With Comparative Totals for 2004)
(in US Dollars)

	2005				2004
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and support:					
Interest income	$2,453,899	-	-	$2,453,899	$1,369,216
Grants and contracts	1,777,325	-	-	1,777,325	1,131,141
Fees and other	179,959	-	-	179,959	80,466
Investment income	2,012	-	-	2,012	
Total revenue and support	4,413,195	-	-	4,413,195	2,580,823
Expenses:					
Program services	1,077,510	-	-	1,077,510	810,925
General and administrative	514,426	-	-	514,426	535,139
Indirect expenses	190,897			190,897	117,528
Total expenses	1,782,833	-	-	1,782,833	1,463,592
Change in net assets before translation adjustment	2,630,362	-	-	2,630,362	1,117,231
Translation adjustment	46,680	-	-	46,680	292,695
Change in net assets	2,677,042	-	-	2,677,042	$1,409,926
Net assets:					
Beginning	3,241,019	-	-	3,241,019	
Ending	$5,918,061	-	-	$5,918,061	

On behalf of the Management

Country Director

Chief Accountant

See Notes to Financial Statements.

«FINCA International, Inc.» Georgia

Statement of Functional Expenses
Year Ended August 31, 2005
(With Comparative Totals for 2004)
(in US Dollars)

	Program Services	General and Administrative	2005 Total	2004 Total
Professional fees and contract services	$14,921	566,439	$81,360	$143,621
Salaries	326,055	257,530	583,585	396,743
Employee benefits and	165,133	4,920	170,053	34,277
payroll taxes	18,553	9,990	28,543	85,598
reversal adjustments of payroll taxes/ adjustments of payroll taxes	(57,199)	(81,762)	(138,961)	138,961
Travel	48,098	37,995	86,093	46,163
Occupancy and utilities	78,940	54,220	133,160	75,212
Supplies and miscellaneous	22,967	29,133	52,099	27,186
Telephone and communications	15,243	10,082	25,325	15,373
Meetings and conferences	1,018	2,892	3,910	18
Printing and publication	5,123	141	5,265	4,805
Depreciation	3,028	12,009	15,037	9,743
Provision for loan losses	47,087	-	47,087	86,327
Affiliation fees to FINCA	297,783	-	297,783	149,150
Management fees to FINCA	-	110,837	110,837	89,835
Advertising/Promotion	14,353	-	14,353	3,485
Bank charges	61,124	-	61,124	39,567
Interest expenses	15,283	-	15,283	-
Total direct costs	$1,077,510	$514,426	$1,591,936	$1,346,064
Income tax expense			153,227	99,758
Repairs and maintenance			1,590	13,969
Other expenses			36,080	3,801
Indirect costs			$190,897	$117,528
Total expenses			$1,782,833	$1,463,592

On behalf of the Management

Country Director

Chief Accountant

See Notes to Financial Statements.

«FINCA International, Inc.» Georgia

Statement of Cash Flows
Year Ended August 31, 2005
(With Comparative Totals for 2004)
(in US Dollars)

	2005	2004
Cash Flows from Operating Activities		
Change in net assets	$2,677,042	$1,409,926
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	15,037	9,743
Loss on disposals of fixed assets	-	192
Changes in assets and liabilities:		
(Increase) decrease in:		
Short-term bank deposit	200 000	(200,000)
Loans and advances receivables	(4,602,994)	(1,051,045)
Grant support receivable	456,536	(456,536)
Other receivables	(35,822)	(34,413)
Other assets	(26,414)	(496)
Increase (decrease) in:		
Accounts payable and accrued expenses	(30,792)	252,846
Customers' deposits	(192,819)	48,259
Refundable advances	7,532	(60,00)
Net cash used in by operating activities	(1,532,694)	(81,524)
Cash Flows from Investing Activities		
Purchase of property and equipment	(41,675)	(10,184)
Proceeds from sales of property and equipment	-	1,376
Net cash used in investing activities	(41,675)	(8,808)
Cash Flows from Financing Activities		
Proceeds from notes payable	1,600,000	-
Net cash provided by financing activities	1,600,000	-
Net decrease in cash and cash equivalents	25,631	(90,332)
Cash and Cash Equivalents		
Beginning	501,545	591,877
Ending	$527,176	$501,545

On behalf of the Management

Country Director

Chief Accountant

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities:

FINCA International, Inc. ("FINCA"), a not-for-profit organization, is incorporated in the USA. The purpose of FINCA is to "Help the poor help themselves". FINCA believes that world hunger and poverty cannot be cured simply by food handouts and grants but can be permanently affected by self-help and self-sufficiency of the poor.

FINCA provides self-help opportunity by establishing community revolving loan funds, or "village banks", in impoverished communities through affiliated organizations ("affiliates"). The affiliates are typically separate legal entities that enter into affiliate agreements with FINCA Small loans support investment in individual or community productive micro enterprises. Participants build self-reliance, self-esteem, and a savings fund that remains within the community as a permanent source of capital for continued investment.

FINCA Georgia (the "Organization") is the affiliate of FINCA International, Inc. in Georgia. Through its regional hub headquartered in Kiev, Ukraine ("FINCA HUB"), the Organization carries out Small Enterprise Technical Assistance and Financing Programs.

The Organization's mission is to support the economic and human development of Georgian families trapped in severe poverty. This is accomplished mostly through the creation of Savings and Credit Groups - associations of several individual members who receive the following services: working capital loans to finance self-employment activities and a mutual support system that encourages self-worth and personal development.

The Organization began lending in July 1998. The Organization was registered to comply with statutory regulations on 19 April 1999.

A decision was made by FINCA Group of Companies to change the balance-sheet date from 31 August to 31 December. The financial year is planned to start from 01 January till 31 December.

Operating Environment

Over recent years, Georgia has undergone substantial political and economic changes. As an emerging market, Georgia does not possess a well-developed commercial infrastructure, which generally exists in more mature business markets. Laws and regulations affecting businesses operating within the country, as well as throughout the Commonwealth of Independent States ("CIS"), are subject to rapid change. In addition, continued economic stability is dependent to a large extent on the effectiveness of fiscal measures taken by the government, decisions of international lending organizations, and other actions beyond the Organization's control.

Although recently there have been positive economic signs in Georgia, the long-term prospects for the Georgian economy remain uncertain. As a result, the Organization's assets and operations could be at risk if there are any adverse changes in the political and business environment.

Taxation and Other Statutory Regulations

Starting from 1 October 2002 the Organization's economic activity on the territory of Georgia became subject to taxation.

Georgian tax authorities are increasingly directing their attention to the business community as a result of the overall economic environment. In respect of this, the local and national tax environments in Georgia are constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Georgian laws and regulations can lead to the imposition of severe penalties and interest. Future tax examinations could assess additional taxes, penalties and interest, and these amounts could be material.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Taxation and Other Statutory Regulations (Continued)

The Organization believes it has complied with all applicable regulations and requirements. However, since the regulations are not always clearly written, it is difficult to predict future interpretations by regulatory authorities, and outcomes of such interpretations. The management of the Organization considers the probability of any future sanctions being undertaken by local authorities against the Organization remote, and believes that no fines or penalties will become payable.

A summary of FINCA's significant accounting policies follows:

Basis of accounting: The financial statements are prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, FINCA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents: FINCA considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted cash: The restricted cash balance relates to funds received from USAID and private sector grants. These funds are restricted for use on specific programs, as designated by donors.

In this financial statement, the restricted cash is the money received from the borrowers (Saving) as a security of loan repayment. In the financial year 2005 this procedure has been changed, and these moneys should be refunded.

Loans and advances receivables: Loans and advances to customers are stated at the unpaid principal balance less provisions for loan losses. FINCA estimates amounts of possible losses on loans and advances at the statement of financial position date to determine the provisions, and believes they are reasonable, having regard to the risks in lending in our market areas. FINCA recognizes that economic and regulatory conditions may have an impact on the debtors' ability to repay loans.

All delinquent loans are provided for by specific provisions using prescribed percentages depending on overdue days. In determining its specific provision FINCA classifies loans and advances into categories based on aging analysis and applies the following minimum rates:

1 – 30 days past due	1%
31 - 60 days past due	25%
61-90 days past due	50%
91-180 days past due	75%
181 or more days past due	100%

FINCA also maintains a minimum general provision of 1 % against the current loan portfolio at the end of each month.

At the time a loan is deemed doubtful, or management believes the contractual interest or principal due will not be collected, the loan is classified as non-performing and any interest accrued is reversed. At August 31, 2005, the allowance for doubtful accounts was $ 137,535.

Property and equipment:

Prior to May 2005, FINCA Georgia capitalized all property and equipment with a cost of $ 200 or more purchased with non-federal funds. Since May 1, 2005, all expenses connected to purchase of the fixed assets with cost less than 5,000 US dollars, are included in structure of charges and shown in the Statement of Activities.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Property and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful life of the assets.

Valuation of long-lived assets: FINCA accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Unrestricted net assets: Unrestricted net assets represent unrestricted resources available to support FINCA's operations and temporarily restricted resources that become available for use by FINCA in accordance with the intentions of donors. Also, all loan capital is considered unrestricted resources when loans made to recipients are repaid to FINCA.

Revenue and support: Interest income on loans to customers is recognized when incurred on the original loan amount.

Foreign currency translation: The financial statements and transactions of FINCA's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities are translated at current exchange rates in effect at the balance sheet date. Translation adjustments, which result from the process of translating the financial statements into U.S. dollars, are accumulated in the cumulative translation adjustment account, which is a component of accumulated net assets. Revenues and expenses are translated at the average exchange rate for each period. Gains and losses from foreign currency transactions are included in change in net assets.

The exchange rates as of 31 August 2005 and 2004 were GEL 1.790 and GEL 1.785 to $ 1 respectively. The average GEL/USD exchange rates for the years ended 31 August 2005 and 31 August 2004 were 1.8172 and 2.035 respectively. The translation of GEL denominated assets and liabilities into USD as of 31 August 2005 and 2004 does not indicate that the Organization could realize, or settle in USD, the translated value of these assets and liabilities.

Expenses: During the current financial year expenses are divided on program services expenses, general and administrative expenses and indirect cost. The program services expenses are $ 1,077,510, general and administrative expenses are $ 514,425, indirect expenses are $ 190,897 for the year ended August 31, 2005.

Income tax status: The sum of profit tax represents the sum of tax which size is determined by the tax laws of Georgia, corporate income tax at the rate of 20%.

Estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Cash and cash equivalents

	2005
Cash in bank	
Unrestricted	$522,530
Restricted	3,300
Cash on hand	1,346
	$527,176

Note 3. Loans and Advances Receivable

Loans to customers are made within Georgia, in the cities of Tbilisi, Telavi, Tsnori, Marneuli,Kutaisi,Gori,Poti,Akhaltsikhe and in rural areas. Most loans outstanding as of 31 August 2005 and 2004 were granted to groups of small entrepreneurs, some of them were granted to individuals. The loan life for group loans is standardized and ranges from 16 to 52 weeks. The principal and interest amounts are payable in equal installments weekly, bi-weekly or monthly depending on loan cycle. In the case of group loans interest is charged on the basis of the original principal amount irrespective of principal repayments. In the case of individual loans interest is charged on the reducing balance. The loan life for individual loans ranges from 16 to 104 weeks.
Loans to individuals are secured principally by cars, equipment and home appliances. Some loans are secured by inventory or shop premises. Loans to groups are not collateralized or secured.

Loans and advances receivable at August 31, 2005 consist of the following:

	2005
Loans and advances receivable	$7,357,855
Less allowance for doubtful accounts	(137,535)
	$7,220,320

The aging of those loans receivables is as follows:

	2005
Current	$7,062,404
1 - 30 days past due	178,304
31 - 60 days past due	56,111
61 - 90 days past due	8,726
91 - 120 days past due	12,414
121 - 180 days past due	9,876
181 or more days past due	30,020
	$7,357,855

Note 3. Loans and Advances Receivable (Continued)

The change in the loan loss provision for the year ended August 31, 2005, is as follows:

	2005
Beginning balance	$144,281
Current year provision for loan loss	47,087
Foreign exchange loss on revaluation of provision	(1,254)
Recovery of losses	16,153
Write offs	(68,732)
	$137,535

Note 4. Other Receivables

Other receivables at August 31, 2005, consist of the following:

	2005
Interest income accrued on loans to customers	$96,936
	$96,936

Note 5. Property and equipment

Property and equipment and accumulated depreciation at August 31, 2005 consist of the following:

Property and equipment	Estimated Useful Lives	Beginning Balance	Additions	Deletions	Net
Building improvements	2-26 years	$7,875	$7,804	-	$15,679
Computer equipment and software	3-5 years	62,354	33,872	(8, 897)	87,329
Office furniture and equipment	3-10 years	12,279	-	-	12,279
		82,509	41,675	(8,897)	115,267
Accumulated depreciation					
Building improvements	2-26 years	7,276	2,489	-	9,765
Computer equipment and software	3-5 years	51,965	3,584	-	55,549
Office furniture and equipment	3-10 years	11,679	67	-	11,746
		70,920	6,140	-	77,060
NET		**$11,589**	**$35,535**	**$(8,897)**	**$38,227**

Note 6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at August 31, 2005 consist of the following:

	2005	2004
Accrued affiliation fee payable to FINCA (Note 8)	$221,648	$104,951
Provision for profit tax payable	56,465	79,701
Salaries A/P	38,671	10,636
Payable to HQ (excl grants)	23,711	54,472
Audit fees accrual	16,520	9,600
Provision for social security payable and related fines	-	138,961
Deferred income tax liability	-	2,260
Other	23,661	10,887
	$380,676	$411,468

Note 7. Grant support receivable

	Balance at August 31, 2004	Due to FINCA	Liquidation	Balance at August 31, 2005
Grant USAID	$456,536	$2,197,130	$1,733,063	$7,532
	$456,536	**$2,197,131**	**$1,733,063**	**$7,532**

Note 8. Notes Payable and Loans

Notes payable and Loans consist of the following at August 31, 2005

	2005
Long –term Notes Payable (Promissory notes)	$1,200,000
Short-term loans	400,000
	$1,600,000

Maturities of Notes payable at August 31, 2005, are due in future fiscal years as follows:

Years ending,	
2006	-
2007	1,200,000
Total Notes Payable	**$1,200,000**

Note 9. Related Party Transactions

The related parties of the Organization include key management of the Organization, FINCA and other companies of the FINCA group (i.e. FINCA HUB and all affiliates).

Loans from Finca International, Inc.:

As of 31 August 2005 the Organization had liabilities for short-term loan received from FINCA for USD 400,000. Loan was issued to the Organization by FINCA at 4.5 % per annum. The loan was issued during 2005 with maturity on 31 January, 2006. In June - August, 2005, the Organization has received three cash transfers under Promissory Notes, issued by ResponcAbility Global Mocrofinance Fund.The total amount of the transfers is USD 1,200,000 with maturity on June and September, 2007.

Grants from FINCA International, Inc.: During the year ended August 31, 2005 the Organization obtained grant from United States Department of Agriculture (USDA) through FINCA in the amount of $ 2,197,131. The grant received from USDA was liquidated in FY 2005 in the amount of $ 1,733,063. Grant was utilized in accordance with the intentions of donors. The outstanding balance of the total grants as of August 31, 2005 was $ 7,532.

During the financial years ended August 31, 2004 and August 31, 2005 the Organization obtained a grant from the United States Department of Agriculture (USDA) through FINCA in the amount of $ 2,197,131. The grant amount received from USDA that was liquidated in FY 2005 was in the amount of $ 1,733,063. Grant was utilized in accordance with the intentions of donors. The outstanding balance of the total grants unliquidated in Georgia as of August 31, 2005 was $7,532.

Affiliation fees: During 2005 and 2004 the customers of the Organization were charged an affiliation fee of 1-2% of the loan

Note 9. Related Party Transactions (Continued)

amount upon receipt of new loans. During 2005 and 2004 the Organization received affiliation fees from its customers on behalf of FINCA in the amounts of USD 157,109 and USD 74,575, respectively.

During 2005 and 2004 the Organization was charged an affiliation fee by FINCA in the amounts of USD 297,783 and USD 149,150, respectively. The affiliation fee is calculated as a percentage (currently 2%) of the Organization's loan disbursements. As of 31 August 2005 and 2004 the Organization had liabilities for affiliation fees payable to FINCA Inc. for USD 221,648 and USD 104,951 respectively.

Management fees: During 2005 and 2004 the Organization received management services from FINCA The amounts of such services were USD 110,837 and USD 89,835 respectively. As of 31 August 2005 and 2004 the Organization had other liabilities to FINCA (for management fee payable to FINCA Inc. and for expenses paid by FINCA on behalf of the Organization) in the amounts of USD 23,711 and USD 54,472 respectively.

Other reimbursable expenses: Additionally there were other reimbursable (non-labor) expenses made and billed by FINCA The amount of the expenses in 2005 was USD 35,907. Settlements between the Organization and FINCA are normally made in the manner of decreases and increases of the amount of funds held by the Organization with FINCA (although sometimes direct wire transfers of funds via banks are used) and on the terms agreed with FINCA (currently settlements are made on a monthly basis).

Note 10. Commitments and Contingencies

As of 31 August 2005 no significant commitments and contingencies existed.

Note 11. Lease Obligations

As at 31 August 2005 the Organization made prepayments under operating leases. Most of the lease agreements were made for the periods of 3-12 months. There are no specific lease renewal clauses - as old leases expire new lease agreements are made.
Future minimum lease payments due total $ 177,230 and are due within one year.

Total office rent expense for FINCA Georgia for the years ended August 31, 2005 and 2004, were $133,160 and $75,212, respectively.