

FINCA AZERBAIJAN

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 Founders of FINCA Azerbaijan and the Board of Directors FINCA International, Inc. USA:

We have audited the accompanying statement of financial position of FINCA Azerbaijan (the «Organization») as 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.

Without qualifying our opinion, we draw your attention to Note 1 to the Financial Statements regarding the method adopted by the Organization for calculation of exchange differences.

RSM Top-Audit



Член RSM International
международной аудиторской
и консалтинговой ассоциации.

Член Института
Профессиональных Аудиторов (ИИПАР)

FINCA Azerbaijan

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

Assets	2005	2004
Cash and cash equivalents		
Unrestricted (Note 2)	\$595,722	\$534,350
Restricted	-	710
	<u>595,722</u>	<u>535,060</u>
Loans and advances receivables, net (Note 3)	7,257,291	2,977,001
Grant support receivable (Note 4)	123,134	390,052
Other receivables (Note 5)	23,402	22,226
Other assets (Note 6)	42,124	5,296
Property and equipment, net (Note 7)	48,560	50,217
	<u>\$8,090,233</u>	<u>\$3,979,952</u>
Liabilities And Net Assets		
<hr/>		
Liabilities		
Accounts payable and accrued expenses (Note 8)	\$820,841	\$228,624
Notes payable (Note 9)	2,387,127	421,713
	<u>3,207,968</u>	<u>650,337</u>
Commitments and Contingencies (Note 11)		
Net Assets		
Unrestricted	4,882,265	3,329,615
	<u>4,882,265</u>	<u>3,329,615</u>
	<u>\$8,090,233</u>	<u>\$3,979,952</u>

On behalf of the Management

 Country Director

 Chief Accountant

See Notes to Financial Statements.

FINCA Azerbaijan

Statement of Activities

Year Ended August 31, 2005

(With Comparative Totals for 2004)

	2005			2004	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenue and support:					
Interest income	\$2,415,498	-	-	\$2,415,498	\$1,161,769
Grants and contracts (Note 4)	961,440	-	-	961,440	2,002,258
Fees and other	308,375	-	-	308,375	125,602
Total revenue and support	3,685,313	-	-	3,685,313	3,289,629
Expenses:					
Program services	1,520,835	-	-	1,520,835	860,068
General and administrative	646,393	-	-	646,393	526,723
Indirect expenses	251,642	-	-	251,642	26,542
Total expenses	2,418,870	-	-	2,418,870	1,413,433
Change in net assets before translation adjustment	1,266,443	-	-	1,266,443	1,876,196
Translation adjustment	286,207	-	-	286,207	3,107
Change in net assets	1,552,650	-	-	1,552,650	\$1,879,303
Net assets:					
Beginning	3,329,615	-	-	3,329,615	
Ending	\$4,882,265	-	-	\$4,882,265	

On behalf of the Management

Country Director

Chief Accountant

See Notes to Financial Statements.

FINCA Azerbaijan

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

	Program Services	General and Administrative	2005 Total	2004 Total
Professional fees and contract services	-	\$222,128	\$222,128	\$44,545
Salaries, employee benefits and payroll taxes	649,674	194,059	843,733	559,522
Travel	106,880	65,508	172,388	96,827
Occupancy and utilities	62,032	38,019	100,051	71,128
Supplies and miscellaneous	28,385	17,398	45,783	89,664
Telephone and communications	23,716	15,302	39,018	32,936
Meetings and conferences	54,741	8,803	63,544	35,583
Printing and publication	10,743	3,951	14,694	16,551
Depreciation	20,812	6,573	27,385	20,081
Provision for loan losses	14,517	-	14,517	41,333
Affiliation fees to FINCA	319,351	-	319,351	171,715
Management fees to FINCA	-	74,652	74,652	107,616
Promotion	13,046	-	13,046	4,855
Bank charges	159,670	-	159,670	92,811
Interest expenses	57,268	-	57,268	1,624
Total direct costs	\$1,520,835	\$646,393	\$2,167,228	\$1,386,791
Income tax expense			233,123	17,684
Other taxes			18,519	8,958
Indirect costs			\$251,642	\$26,642
Total expenses			\$ 2,418,870	\$1,413,433

On behalf of the Management

 Country Director

 Chief Accountant

See Notes to Financial Statements.

FINCA Azerbaijan

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

	2005	2004
Cash Flows from Operating Activities		
Change in net assets	\$1,552,650	\$1,879,303
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	27,385	20,081
Loss on disposals of fixed assets	-	(11,155)
Changes in assets and liabilities:		
(Increase) decrease in		
Loans and advances receivables	(4,280,290)	(1,969,614)
Grant support receivable	266,918	(258,888)
Other receivables and assets	(38,004)	(9,363)
Increase (decrease) in		
Accounts payable and accrued expenses	592,217	183,774
Net cash used in operating activities	(1,879,124)	(165,862)
Cash Flows from Investing Activities		
Decrease in deposit with FINCA Inc.	-	120,260
Purchase of property and equipment	(25,728)	(24,484)
Net cash used in investing activities	(25,728)	95,776
Cash Flows from Financing Activities		
Proceeds from notes payable	1,965,414	185,768
Net cash provided by financing activities	1,965,414	185,768
Net increase in cash and cash equivalents	60,562	115,682
Cash and Cash Equivalents		
Beginning	535,160	419,478
Ending	\$595,722	\$535,160

On behalf of the Management

 Country Director

 Chief Accountant

See Notes to Financial Statements.

FINCA Azerbaijan
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 Azerbaijan Limited Liability Non-Bank Credit Organization ("the Organization") is the affiliate of FINCA in Azerbaijan. 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 Azeri 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 was established in April 1998 and started its operations in June 1998. Until 25 November 2000 it was registered as a representative office of FINCA in Azerbaijan ("the representative office"). Starting from the aforementioned date, the Organization was re-registered and obtained the status of a legal entity. The Organization was reregistered to comply with the regulations of the National Bank of Azerbaijan, in accordance with which only legal entities can perform lending activities on the territory of Azerbaijan. The new entity obtained a license for lending activities from the National Bank of Azerbaijan on 9 November 2000.

Since its inception, FINCA Azerbaijan has operated on a financial year from September 1 to August 31. During 2005, FINCA took the decision to change financial year in use by its affiliates to the calendar year from January 1 to December 31, effective January 1, 2006.

Operating Environment - Over recent years, Azerbaijan has undergone substantial political and economic changes. As an emerging market, Azerbaijan 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 Azerbaijan, the long-term prospects for the Azeri 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 - In accordance with the Agreement between the Government of the United States of America and Government of the Republic of Azerbaijan Regarding Cooperation to Facilitate the Provision of Assistance signed on 11 May 2000 the Organization is defined as an operator responsible for the implementation of U.S. Government assistance programs and is not liable for income tax, value added tax, social and pension contributions or any other taxes derived from any activities related to grants received from the U.S. Government.

Azeri 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 Azerbaijan are constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Azeri 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)

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.

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 \$ 76,952.

Property and equipment:

Prior to May, 2005, the Organization 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, are included in structure of charges and shown in the Statement of Activities.

Property and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful life of the assets. Furniture and equipment purchased for direct use of foreign programs are expensed and charged to the grant under which they were acquired.

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

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.

Grants and Grant Support: Under the Grant Agreements with the United States Agency for International Development ("USAID"), BP Exploration (Shah Deniz) Limited ("BP"), Baku - Tbilisi-Ceyhan Pipeline Company ("BTC"), the International Rescue Committee ("IRC"), and Deutsche Gesellschaft für Technische Zusammenarbeit ("GTZ") FINCA advances donated funds to the Organization. The Organization records each advance as unearned grant support when received. When allowable expenditure or a disbursement of a new loan to a borrower is made, the corresponding amount is debited to unearned grant support and recognized as revenue.

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 AZM 4,626 and AZM 4,902 to \$ 1 respectively. The average AZM/USD exchange rates for the years ended 31 August 2005 and 31 August 2004 were 4,821 and 4,917 respectively. The translation of AZM-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.

During fiscal year 2005, the method used by FINCA Azerbaijan to calculate foreign exchange differences did not correspond to the practice generally employed by other FINCA affiliates.

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 \$ 1,520,835, general and administrative expenses are \$ 646,393, indirect expenses are \$ 251,642 for the year ended August 31, 2005 respectively.

Income tax status: Income tax of the Organization represents the most probable estimation of the corporate income tax as a result of the economic activities of the Organization during the year ended 31 August 2004 made by the Organization's management based on all applicable revenues and expenses and the currently enacted statutory rate of corporate income tax of 24%.

As of August 2005 the Organization did not have any significant temporary differences between the carrying and tax values of its assets and liabilities, and, therefore, there are no material deferred tax assets or liabilities as of these dates. Therefore, the total corporate income tax expense is fully represented by the current portion of corporate income tax.

As of August 31, 2005 the amount of the profit tax expense was \$ 233,123.

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	\$574,662
Cash on hand	21,060
Cash and cash equivalents	<u>\$595,722</u>

Note 3. Loans and Advances Receivable

Loans to customers are made within Azerbaijan, in the cities of Baku, Imishli, Massali, Gandja 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 46 weeks. The principal and interest amounts for group loans are redeemable weekly, bi-weekly or monthly by equal installments. Interest on some group loans is charged on the basis of the original principal amount lent, irrespective of principal repayments throughout the life of the loan.

The loan life for individual loans ranges from 6 to 12 months. The principal and interest amounts for individual loans are redeemable monthly. Interest on loans to individuals is charged on the remaining balance of the loan after each repayment of principal, i.e. on a declining basis.

The group loans are secured by Solidarity Group Guarantee. The individual loans are secured by movable property such as cars, equipment, home appliances, other household assets, and/or by gold items. Additionally, individual loans are ensured by third-party guarantee on the demand by Credit Committee.

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

	2005
Loans and advances receivable	\$7,334,243
Less allowance for doubtful accounts	(76,952)
	<u>\$7,257,291</u>

The aging of those loans receivables consist of the following:

	2005
Current	\$7,322,793
1 - 30 days past due	3,091
31 - 60 days past due	3,084
61 - 90 days past due	4,136
91 - 120 days past due	1,139
121 - 180 days past due	-
181 or more days past due	-
	<u>\$7,334,243</u>

The change in the loan loss provision for the year ended August 31, 2005, consists of the following:

	2005
Beginning balance	\$65,474
Current year provision for loan loss	14,517
Recovery of losses	1,235
Write offs	(5,274)
	<u>\$76,952</u>

FINCA Azerbaijan
Notes to Financial Statements

Note 4. Grant support receivable

Grant support receivable consists of the following amount of grants at August 31, 2005:

The list of grants (№ and date)	Balance at August 31, 2004	Due to FINCA	Liquidation	Write off	Balance at August 31, 2005
Grant USAID. Grant agreement № 112-A-00-00-00024-00, dated 20.09.2000.	\$4,162	\$52,162	\$59,681	-	\$11,681
Grant BTC. Grant agreement № G-03-AGT-49486, dated 01.07.03.	213,980	397,123	300,761	-	117,618
Grant BP SH. Grant agreement № G-03-BPSD-53471, dated 03.12.2003.	74,779	95,779	14,835	-	(6,165)
Grant IRC	(78,175)	-	-	78,175	-
Grant GTZ. Grant agreement № 81068523, dated 06.05.2004	175,306	683,294	334,434	173,554	-
	\$390,052	\$1,228,358	\$709,711	\$251,729	\$123,134

The total amount of grant revenue in the Statement of Activities consists of the sum of grant liquidation and the sum of grant write off. According the conditions of the IRC and GTZ contracts the funds borrowed under these contracts including any interest revenue accrued after conclusion of the contract will be transferred to the Recipient credit fund as a non-repayable grant. IRC and GTZ grants vested their funds in FINCA Azerbaijan as grants ended and the Agreement conditions are satisfied.

Note 5. Other Receivables

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

	2005
VAT receivable	\$15,953
Account receivable	5,999
Other	1,450
	\$23,402

Note 6. Other assets

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

	2005
Prepaid expenses	\$17,468
Prepaid taxes	24,656
	\$42,124

Note 7. 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
Computer equipment and software, leasehold improvements	3 year	\$69,183	\$23,113	-	\$ 92,296
Furniture and equipment, vehicles	5 year	32,447	2,615	-	35,062
		<u>\$101,630</u>	<u>\$25,728</u>	-	<u>\$127,358</u>
Accumulated depreciation					
Computer equipment and software, leasehold improvements	3 year	\$39,232	\$21,052	-	\$60,284
Furniture and equipment, vehicles	5 year	12,181	6,333	-	18,514
		<u>\$51,413</u>	<u>\$27,385</u>	-	<u>\$78,798</u>
NET		<u>\$ 50,217</u>	<u>\$(1,645)</u>	-	<u>\$48,560</u>

Note 8. 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	\$300,140	\$105,543
Provision for income tax	195,873	17,684
Management fees and other payables to FINCA	102,345	52,596
MFSI payable	90,191	-
Accrued payroll and accrued payroll tax payable	64,085	26,096
Accrued interest payable to FINCA	31,979	1,624
Accrued interest payable	19,080	-
Accrued audit fee payable	16,520	9,600
Other	828	15,481
	<u>\$820,841</u>	<u>\$228,624</u>

Note 9. Notes Payable

As of August 31, 2005 Organization has two types of debt: "charitable" loan and commercial debt. Charitable loan is received from Social Fund for Internally Displaced Persons (SFDI). This loan is free from interest on the principal amount. The fund received should be used specifically for the purpose of disbursement of micro-loans to customers, not less than 80% of whom should be refugees (called "internally displaced people"). As of August 31, 2005 the amount of this loan was equal \$ 287,127.

Commercial debts are debts received from Village Bank Capital Fund of FINCA International, Inc. and from Credit Suisse Microfinance fund Management Company at the interest rates in the range of from 4,5 % to 9,6 %. As of August 31, 2005 the amount of this loan was equal \$ 1,200,000 and 900,000 respectively.

FINCA Azerbaijan
Notes to Financial Statements

Note 9. Notes Payable (Continued)

Notes payable consist of the following at August 31, 2005 and at August, 2004:

The name of Lender	Secured	Unsecured	Total 2005	Total 2004
VBCF	-	\$1,200,000	\$1,200,000	\$126,143
Social Fund for Internally Displaced Persons (SFDI)	-	287,127	287,127	295,570
Credit Suisse Microfinance fund Management company	-	900,000	900,000	-
	-	\$2,387,127	\$2,387,127	\$421,713

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

Years ending August, 31	
2006	\$1,754,410
2007	632,717
Total Notes Payable	\$2,387,127

Note 10. Related Party Transactions

Loans from FINCA International, Inc.:

As of 31 August 2005 the FINCA Azerbaijan had liabilities for short-term loan received from FINCA for USD 1,200,000. Loan was issued to the Organization by FINCA at the interest rate in the range of 4.5-8 % per annum. The loan was issued during 2005 with maturity on 30 September 2005. The Organization has the right to prepay in whole or in part the principal amount of the loan at anytime and without a prepayment premium or other charges. As of 31 August 2005 the Organization had liabilities for interest payable on short-term loan received from FINCA for USD 31,979.

Lender	Maturity	Rate	Denomination	Amount
FINCA International, Inc	30 September 2005	4.5%	US \$	\$700,000
FINCA International, Inc	30 September 2005	8 %	US \$	500,000
				\$1,200,000

Grants from FINCA International, Inc.: During the year ended August 31, 2005 the Organization obtained grant support from USAID, BP SH, BTC, IRC and GTZ through FINCA in the amount of \$ 1,228,358. Total revenue derived from this grant support received to cover the current expenditure and to lend those funds to its customers was \$ 709,711. As of August 31, 2005 the Organization recognized the remaining amount of IRC and GTZ grants in the revenue in the amount of \$ 251,729 according the conditions of the IRC and GTZ contracts (See Note 4). IRC and GTZ grants vested their funds in FINCA Azerbaijan as grants ended and the Agreement conditions are satisfied.

As of August 31, 2005 the Organization had grant support earned but not received from FINCA in the amount of \$ 123,134.

Affiliation fees: Generally, for each loan extended to its customers 1-4% of the amounts disbursed is collected by FINCA Azerbaijan in exchange for providing supporting services. For the year ended August 31, 2005, the Organization recognized income in amount \$ 285,289. In its turn FINCA Azerbaijan is in agreement with FINCA to pay 2% of the disbursement amount. For the year ended August 31, 2005 FINCA Azerbaijan realized an expense of \$ 319,351 related to affiliation fees payable to FINCA. As of 31 August 2005 the accounts payable for affiliation fees due to FINCA was \$ 300,140.

Note 10. Related Party Transactions (Continued)

Management fees: Management fee expenses mainly represent the Country Director's expenses including the salary, housekeeping etc. FINCA directly concluded the agreement with the Country Director. During the year ended August 31, 2005 the Organization received management services from FINCA in the amount of \$ 74,652.

Other reimbursable expenses: Other reimbursable expenses due to FINCA during the year ended August 31, 2005 were incurred in the amount of \$ 33,005.

As of 31 August 2005 the accounts payable for management fees and other reimbursable expenses due to FINCA were \$102,345. Settlements between the Organization and FINCA are normally made in the manner of direct wire transfers of funds via banks and on the terms agreed with FINCA (currently settlements are made on as needed basis).

Note 11. Commitments and Contingencies

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

Note 12. Lease Obligations

FINCA Azerbaijan leases office space in the North, West and South region of Republic of Azerbaijan to support its operations and project activity. These lease agreements are concluded for 12 months and can be terminated before the expiration date by either party. All rental payments are fixed till the expiration of the leases. There are no specific lease renewal clauses.

Future minimum lease payments due total \$ 95,459 and are due within one year.

Total office rent expense for FINCA Azerbaijan for the years ended August 31, 2005 and 2004 were \$ 100,051 and \$71,128, respectively.