

CONSTANTA FOUNDATION

*Financial Statements for the year ended 31 December 2004,
and Independent Auditors' Report*

INDEPENDENT AUDITOR'S REPORT	Błąd! Nie zdefiniowano zakładki.
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საქართველოს აუდიტორული და საკონსულტაციო კომპანია
Georgian Audit & Consulting Company

In Association with **Deloitte & Touche** ასოცირებული კომპანია

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Constanta Foundation

We have audited the accompanying balance sheet of Constanta Foundation ("The Fund") as of 31 December 2004, and related statements of income and cash flows for the year then ended. The preparation of mentioned financial statements is the responsibility of the Fund'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. Those Standards require that we plan and perform the audit in order to obtain reasonable assurance that 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 overall assessment of accuracy of the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2004 and the results of its operations for the year then ended, in accordance with International Accounting Standards.

Georgian Audit and Consulting Company

T. Partskhaladze

Partner

March 20, 2005



BALANCE SHEET STATEMENT

	Note	2004	2003
ASSETS			
Current assets			
Cash	1	908,695	1,356,658
Short-term investments		136,875	400,000
Total loan portfolio	2	9,035,456	7,337,297
Loan loss reserve	3	(1,549,727)	(288,243)
Other short-term assets	4	856,474	99,715
Net current fixed assets		9,387,773	8,905,427
Non-current assets			
Fixed assets, net	5	1,258,589	1,022,313
TOTAL ASSETS		10,646,362	9,927,740
LIABILITIES			
Current liabilities			
Other short-term liabilities		(16,385)	219,669
TOTAL LIABILITIES		(16,385)	219,669
EQUITY			
Prior period donated funds	6	8,628,754	7,458,751
Current period donated funds	6	890,429	1,170,002
Prior years profit/loss		1,079,318	31,946
Current years profit/loss		64,246	1,047,372
TOTAL EQUITY		10,662,747	9,708,071
TOTAL LIABILITIES AND EQUITY		10,646,362	9,927,740

The accompanying notes are an integral part of these financial statements.

PROFIT AND LOSS STATEMENT

	Note	2004	2003
REVENUE	7	<u>5,686,549</u>	<u>5,051,313</u>
OPERATING EXPENSES		(5,234,756)	(3,695,291)
Employee's salary and wages		(1,772,945)	(1,703,950)
Loan loss provision expenses		(1,374,866)	(142,867)
Administrative expenses	8	<u>(2,086,945)</u>	<u>(1,848,474)</u>
NET OPERATING PROFIT/LOSS		<u>451,793</u>	<u>1,356,022</u>
Exchange losses		(268,007)	(39,697)
Other non-operational revenue		7,467	40
Other non-operational expenses		<u>(22,037)</u>	<u>(7,150)</u>
PROFIT BEFORE TAXATION		169,216	1,309,215
TAXES	9	<u>(104,970)</u>	<u>(261,843)</u>
NET PROFIT		<u><u>64,246</u></u>	<u><u>1,047,372</u></u>

The accompanying notes are an integral part of these financial statements.

CASH FLOW STATEMENT

	2004	2003
Cash flow from operating activities		
Net profit	64,246	1,047,372
Amortization	196,201	157,300
Provision expenses	1,374,866	142,867
Exchange rate difference	(16,296)	(2,656)
Changes in short-term assets	(756,759)	(25,165)
Changes in short-term liability	(236,053)	323,805
Net cash flow from operating activities	626,205	1,643,523
Cash flow from investment activities		
Changes in investments	263,125	(400,000)
Changes in gross loan portfolio	(1,795,245)	(1,244,572)
Changes in gross fixed assets	(432,477)	(298,422)
Net cash flow from investment activities	(1,964,597)	(1,942,994)
Cash flow from financial activities		
Funds received from donors	890,429	1,170,002
Net cash flow from financial activities	890,429	1,170,002
NET CASH FLOW	(447,963)	870,531
Cash balance at the beginning of the year	1,356,658	486,127
Cash balance at the end of the year	908,695	1,356,658

The accompanying notes are an integral part of these financial statements.

ACCOUNTING POLICIES

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared in accordance with International Accounting Standards (IAS), based on historical cost accounting of fixed assets.

The accompanying financial statements have been prepared in the national currency of Georgia, Lari (GEL), which is the Fund's functional currency.

The accounting records of the fund are prepared based on the Accounting Law and taxation regulations of Georgia. Under these requirements accounting records are prepared on historical cost basis.

FOREIGN CURRENCIES

Transactions denominated in foreign currency are translated into GEL at the official exchange rate of National Bank of Georgia on the date of transaction. The official exchange rate for the principal currency as of 31 December 2004 was:

1 USD	1.825 GEL
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CASH

Cash includes cash on premises as well as cash on bank accounts.

LOANS

Basis of presentation

Loans are presented as granted loans and provision for doubtful loans.

The balance of provision for doubtful loans on the date of the balance sheet statement presents an estimate of possible loan losses on that date. The estimate is made in accordance with the internal regulation developed by the Fund's management on the basis of historical analysis of loan losses.

Policy of loans provisions

The amount of provision for doubtful loans depends on timeliness of overdue payments. Actual losses on loans may differ from current estimate.

Considering the absence of reliable information on borrowers' solvency, it is almost impossible to determine expected losses correctly. Despite this Fund's management within its responsibilities made maximum effort to identify anticipated loss precisely and is confident that adequate provision is created in terms of existing information.

INVENTORIES

Valuation of inventories

Inventories are stated at lower of cost and net realizable value.

FIXED ASSETS

Basis of presentation

Fixed assets are stated at historical cost less accumulated depreciation.

An asset is considered a fixed asset when its useful life exceeds one year. Initial historical cost of a fixed asset consists of purchase price, non-recoverable taxes and other expenses directly related to putting a fixed asset into use.

Depreciation

Depreciation is charged to the historical cost for all fixed assets using the straight-line method on a monthly basis.

REVENUE RECOGNITION

Revenue consists of fees for loan services, loan interest and penalties, as well as interests and other revenue from investments in government bonds, time and demand deposits. Revenue is recognised on the accrual basis.

TAXATION

Social and other tax expenditure items are recognised in the period, in which they arise. Under local tax regulations the Fund has to pay a total of 31% social tax on salaries, although a part of salaries are financed from received grants and therefore are not objects of social taxation.

The Fund pays road and property taxes and tax from economic activity, as well as 20% profit tax from the net taxable profit.

GENERAL INFORMATION

Constanta foundation was established in 1997 as an association (union) according to The Civil code of Georgia. In 1998, the Fund changed his legal status and was reregistered as a fund.

The Fund receives grants from different international donors, and gives away micro credits for small and micro businesses.

Legal address of the Fund is 115 Tsinamdzgvrishvili str., Tbilisi, Georgia. The Fund has a head office, eight branches, and their departments and service centres.

ECONOMIC SITUATION

Georgian authorities' resolution, in 2004, to prohibit "outer" trade in the streets, made a negative effect on the Fund's activity and on return rate of loans.

Constanta foundation was established as non-entrepreneurial entity according to The Civil code of Georgia. According to civil legislation the organisation could perform entrepreneurial activity, but if it would substantially turn to entrepreneurial activity, the Ministry of Justice (by the Ministry of Justice's or/and interested person's action) could cancel registration. Because the Fund's principal activity is entrepreneurial activity and revenue consists of revenue from this activity, it would face the problem.

After the amendment in The Civil code of Georgia, in 25 February 2005, where it was determined status of microfinance organisation, the menace was averted, but the Fund needs to reregister as microfinance organization.

NOTES TO FINANCIAL STATEMENTS

1. CASH

Cash of the Fund for 31 December 2004 includes:

	(GEL)
National currency (GEL) on hands	75,018
National currency (GEL) on bank accounts	475,764
Foreign currency on bank accounts	357,913
Total:	<u>908,695</u>

2. LOANS

Total loans	9,035,456
Portfolios under risk	1,850,283
Among them:	
More then 30 days overdue	1,754,958.00
More then 60 days overdue	1,738,891.00
More then 90 days overdue	1,702,130.00
More then 270 days overdue	416,928.00

3. PROVISION FOR DOUBTFUL LOANS

Provision for doubtful loans forms according to rates established by the internal policy on the loan overdue portfolio. Provisions for doubtful loans for the period ended in 31 December 2004 was as followed:

	Group loans	Individual loans	Insider loans	Agrarian loans
Loans	6,789,284	1,913,157	276,383	56,632
Provisions	-1,419,720	-118,790	-11,217	0
Net loans	<u>5,369,564</u>	<u>1,794,367</u>	<u>265,166</u>	<u>56,632</u>

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Amount of provisions for doubtful loans for the period ended in 31 December 2004 was 17% of total loan portfolio. This rate for previous period was 4%. Major cause of this difference is the incident in Gori regional branch's Khashuri department, which is in process of investigation. Also resolution of Georgian government to prohibit "outer" trade in the streets, made a negative effect on the return rate of loans.

4. OTHER CURRENT ASSETS

For the period ended in 31 December 2004 other current assets included following items:

	(GEL)
Interests due and service fee	275,159
deferred tax assets	270,706
Receivables from suppliers	148,749
Penalties	85,428
Prepaid rent	45,187
Advances provided	18,620
Receivables from claims	4,292
Receivables from accountable persons	1,937
other short-term assets	<u>6,396</u>
Total	<u><u>856,474</u></u>

5. FIXED ASSETS

Following table presents changes in the Funds fixed assets during the year 2004 and their structure for 31 December.

	Computers and other office equipments	Furniture	Office building	Machinery	work in progress	Other fixed assets	Intangible assets	Total
<i>Historical cost for 31 December 2003</i>	496,030	114,782	557,262	161,302	-	-	24,704	1,354,080
<i>Accumulated depreciation for 31 december 2003</i>	173,915	31,707	67,786	56,219	-	-	2,140	331,767
<i>NBV for 31 December 2003</i>	322,115	83,075	489,476	105,083	-	-	22,564	1,022,313
<i>Changes in fixed assets during the year 2004</i>	150,478	28,943	199,445	10,842	22,984	4,879	(8,349)	409,221
<i>Depreciation during the year 2004</i>	89,903	21,698	28,836	30,484	-	597	1,428	172,946
<i>NBV for 31 December 2004</i>	382,690	90,320	660,085	85,441	22,984	4,282	12,787	1,258,589

6. GRANTS RECEIVED

Grants received during the current period reached 890,429 GEL. These grants according to the Fund's accounting policy have been included in capital. Opening balance of grants amount, which had been included in capital was 8,628,754 GEL.

7. REVENUE

Revenues for the period ended 31 December 2004 was as follows:

	(GEL)
Interest on loans	4,982,436
Penalties on loans	218,917
Loan service fee	391,044
Interest on investments	81,494
Other revenue	12,658
Total	5,686,549

8. ADMINISTRATIVE EXPENSES

Administrative expenses of the Fund for the year ended December 31, 2004 consist of the following items:

Depreciation	196,201
Transportation and errand	98,344
Office rent	238,661
Office equipment	96,587
Communication & postage	103,772
Professional service	103,793
Bank percents and penalties	55,593
Insurance	12,148
Fuel	85,219
Taxes	590,203
Training	88,338
Advertisement and promotion	40,877
Repair and maintenance	180,352
Utilities	58,690
Other general and administrative expenses	138,167
TOTAL	2,086,945

For the audited period tax expenses consist of the following items:

	(GEL)
Social Insurance Tax	495,448
Road Tax	38,842
VAT	13,865
Income Tax	13,006
Property Tax	11,495
Tax on transfer of property	6,662
Advertising Tax	2,939
Other taxes	7,946
Total	590,203

9. PROFIT TAX

The Fund pays profit tax 20%. Net profit before tax for the period ended 31 December 2004 was 1,842,730 GEL.

Profit tax calculation as of December 31, 2004:

Taxable net profit	1,842,730
Tax rate	20%
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	368,546
Provisions for doubtful debt not deducted (temporary difference)	-255,357
Profit tax paid to the budget at the source of payment (permanent difference)	-8,149
Depreciation and amortization not deducted (temporary difference)	-70
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Profit Tax	104,970
