Open Society Georgia Foundation

Financial Statements
for 2013

Contents

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Independent Auditors' Report

To the Executive Board
Open Society Georgia Foundation

We have audited the accompanying financial statements of Open Society Georgia Foundation (the Foundation), which comprise the statement of financial position as at 31 December 2013, and the statements of comprehensive income, changes in fund balance and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 about 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 the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Foundation as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Georgia LLC

KPMG Georgia LLC
5 July 2014

LIMITED LIABILITY COMPANY
404437695
KPMG Georgia

USD	Note	31 December 2013	31 December 2012	1 January 2012
Assets				
Non-current assets				
Property, equipment and intangible assets	12	185,782	178,215	159,230
Other non-current assets		21,286	-	-
Total non-current assets		**207,068**	**178,215**	**159,230**
Current assets				
Inventories		87	87	87
Receivables	13	2,199,769	2,192,636	1,919,141
Prepayments		23,791	21,276	29,937
Cash and cash equivalents	14	36,626	30,636	39,712
Total current assets		**2,260,273**	**2,244,635**	**1,988,877**
Total assets		**2,467,341**	**2,422,850**	**2,148,107**
Liabilities and fund balance				
Fund balance		243,114	216,993	222,795
Non-current liabilities				
Deferred revenue	16	21,286	-	-
Accruals	17	185,976	235,490	-
Total non-current liabilities		**207,262**	**235,490**	**-**
Current liabilities				
Deferred revenue	16	172,833	21,054	34,700
Payables		78,275	82,857	83,588
Accruals	17	1,765,857	1,866,456	1,807,024
Total current liabilities		**2,016,965**	**1,970,367**	**1,925,312**
Total liabilities		**2,224,227**	**2,205,857**	**1,925,312**
Total liabilities and fund balance		**2,467,341**	**2,422,850**	**2,148,107**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 24.

USD	Note	2013	2012
Income			
Contribution income	5	6,000,923	6,499,558
Third party income	6	169,432	119,966
Non-contribution income	7	231,343	82,721
		6,401,698	**6,702,245**
Expenses			
Program expenses	8	(5,189,548)	(5,743,441)
Administrative expenses	9	(784,478)	(738,558)
Third party expenses	10	(376,936)	(212,626)
		(6,350,962)	**(6,694,625)**
Operating surplus before net finance costs		**50,736**	**7,620**
Net finance costs			
Net foreign exchange (loss)/gain		(10,016)	1,448
		(10,016)	**1,448**
Surplus before income tax		**40,720**	**9,068**
Income tax expense	11	(14,599)	(14,870)
Surplus/(deficit) and total comprehensive income/(loss) for the year		**26,121**	**(5,802)**

These financial statements were approved by management on 5 July 2014 and were signed on its behalf by:

Ketevan Khutsishvili
Executive Director

ღია საზოგადოება - საქართველო ფონდი
OPEN SOCIETY GEORGIA FOUNDATION
203844448

Ramaz Japaridze
Financial Manager

USD	**Fund balance**
Balance at 1 January 2012	222,795
Deficit and total comprehensive loss for the year	(5,802)
Balance at 31 December 2012	**216,993**
Balance at 1 January 2013	**216,993**
Surplus and total comprehensive income for the year	26,121
Balance at 31 December 2013	**243,114**

The statement of changes in fund balance is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 24.

USD	2013	2012
Cash flows from operating activities		
Surplus before income tax	40,720	9,068
Adjustments for:		
Depreciation and amortization	37,541	37,815
Gain on disposal of property and equipment	-	(6,490)
Net foreign exchange loss/(gain)	10,016	(1,448)
	88,277	**38,945**
Changes in:		
Receivables and other non-current assets	(40,740)	(271,573)
Prepayments	(2,515)	8,661
Deferred revenue	176,956	(13,646)
Payables	(973)	771
Accruals	(152,401)	294,922
Cash generated from operations before income taxes paid	**68,604**	**58,080**
Income taxes paid	(16,567)	(17,268)
Net cash flows from operating activities	**52,037**	**40,812**
Cash flows from investing activities		
Acquisitions of property, equipment and intangible assets	(42,819)	(58,336)
Cash received from disposal of property and equipment	-	8,026
Net cash flows used in investing activities	**(42,819)**	**(50,310)**
Net increase/ (decrease) in cash and cash equivalents for the year	**9,218**	**(9,498)**
Cash and cash equivalents as at 1 January	30,636	39,712
Effect of exchange rate fluctuations on cash and cash equivalents	(3,228)	422
Cash and cash equivalents at 31 December (note 14)	**36,626**	**30,636**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 24.

1. Reporting entity

(a) Georgian business environment

The Foundation's operations are located in Georgia. Consequently, the Foundation is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Foundation. The future business environment may differ from management's assessment.

(b) Organisation and operations

The Open Society Georgia Foundation (the Foundation) was established as a not for profit organization under the Civil Code of Georgia on 31 December 1998. The Foundation's founder is the Open Society Institute, a private operating foundation organized as a charitable trust under the laws of the State of New York, USA.

The main objectives of the Foundation are to support programs in the fields of civil education and culture, health, integration, law and public administration, civil society and media, human rights, legal and economic development and reform. Furthermore, the Foundation administers and coordinates regional programs, facilitating regional contacts and facilitating exchange of experience among the people of the world.

The Foundation's activities are funded by the Foundation Open Society Institute (FOSI), the Foundation to Promote Open Society (FPOS) and various third parties.

The Foundation's registered office is 10 Chovelidze Street, Tbilisi 0108, Georgia.

2. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). These are the Foundation's first financial statements prepared in accordance with IFRSs and IFRS 1 *First-time adoption of International Financial Reporting Standards* has been applied.

The Foundation has not previously prepared general purpose financial statements in accordance with another financial reporting framework. Consequently, the Foundation has not presented any of the reconciliations required by IFRS 1 *First-time adoption of International Financial Reporting Standards.*

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari (GEL). The Foundation's functional currency and the currency in which these financial statements are presented is the United States Dollar (USD). Management has determined the USD to be the Foundation's functional currency as it considers that the USD reflects the economic substance of the underlying events and circumstances of the Foundation. In making this assessment, management has considered the following matters:

- a significant proportion of contribution income is represented by contributions from FOSI and FPOS which are received in USD; and
- a significant proportion of expenses are denominated in USD.

4. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the opinion of management, there are no critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and there are no assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Measurement of fair values

A number of the Foundation's accounting policies and disclosures require the determination of fair values for financial assets and liabilities. The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities. Fair values have been determined for measurement and for disclosure purposes.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

5. Contribution income

USD	2013	2012
FPOS income	2,458,201	-
FOSI income	3,542,722	6,499,558
	6,000,923	**6,499,558**

6. Third party income

USD	2013	2012
United Nations Association of Georgia	155,238	95,006
REC Moldova	14,194	-
Revenue Watch Institute	-	24,960
	169,432	**119,966**

7. Non-contribution income

USD	2013	2012
Secretariat and technical assistance to MSI USAID	153,691	-
Rent income	77,652	74,695
Gain on disposal of property and equipment	-	6,490
Other	-	1,536
	231,343	**82,721**

8. Program expenses

FPOS program expenses

USD	2013	2012
Media and communication	742,885	-
Public administration	296,982	-
Public health	271,666	-
Civil society	199,938	-
Law	167,394	-
Economic reform	121,045	-
European integration	80,219	-
Youth	72,472	-
Ethnic minorities	62,047	-
Criminal justice	39,406	-
Information	30,000	
Other	17,875	
Total FPOS program expenses	**2,101,929**	**-**

FOSI program expenses

USD	2013	2012
Public health	917,234	1,568,680
Media and communication	488,348	1,181,101
Law	264,636	603,462
Public administration	256,927	381,597
Civil society	194,916	422,668
Ethnic minorities	190,160	230,332
Education	137,935	161,728
Youth	128,235	240,929
European integration	126,210	135,937
Economic reform	122,091	266,082
East-East	107,770	223,120
Criminal justice	84,999	106,697
Arts and Culture	68,158	165,929
Other	-	55,179
Total FOSI program expenses	**3,087,619**	**5,743,441**
Total program expenses	**5,189,548**	**5,743,441**

9. Administrative expenses

FPOS administrative expenses

USD	**2013**	**2012**
Salaries and benefits	205,747	-
Security	28,268	-
Professional and consulting fees	26,261	-
Travel, conference, meetings	22,091	-
Utilities	11,551	-
Non resident VAT	10,509	-
Telecommunication	8,793	-
Office supplies	7,585	-
Bank charges	6,650	-
Auto expenses	5,406	-
Maintenance of equipment	2,583	-
Other	12,748	-
Total FPOS administrative expenses	**348,192**	**-**

FOSI administrative expenses

USD	**2013**	**2012**
Salaries and benefits	233,736	434,208
Depreciation and amortization	36,928	37,815
Security	32,974	52,183
Professional and consulting fees	30,633	40,503
Travel, conference, meetings	25,769	59,444
Utilities	13,474	24,847
Non resident VAT	12,258	20,490
Telecommunication	10,257	18,956
Office supplies	8,848	11,537
Bank charges	7,218	11,098
Auto expenses	6,306	10,058
Maintenance of equipment	3,013	7,083
Other	14,872	10,336
Total FOSI administrative expenses	**436,286**	**738,558**
Total administrative expenses	**784,478**	**738,558**

10. Third party expenses

USD	2013	2012
Civil society	155,482	94,727
Public administration	142,997	-
Administrative	63,218	92,939
European integration	15,239	-
Economic reform	-	24,960
	376,936	**212,626**

11. Income tax expense

USD	2013	2012
Current year tax expense	**14,599**	**14,870**

The Foundation's applicable tax rate is the income tax rate of 15%. The core activities of the Foundation are exempt from income tax. In accordance with the Georgian Tax Code, the Foundation pays income tax on net non-contribution income.

Reconciliation of effective tax rate:

	2013		2012	
	USD	**%**	**USD**	**%**
Surplus before income tax	**40,720**	**100%**	**9,068**	**100%**
Income tax on exempt activities	-	-	-	-
Income tax on non-tax exempt income	13,252	33%	12,408	137%
Other tax income	1,347	3%	2,462	27%
	14,599	**36%**	**14,870**	**164%**

12. Property, equipment and intangible assets

USD	Land	Buildings	Leasehold improvements	Furniture	Vehicles	Computers and equipment	Software	Total
Cost								
Balance at 1 January 2012	76,720	10,200	65,798	70,432	62,457	313,911	6,340	605,858
Additions	-	-	8,350	4,569	28,037	17,380	-	58,336
Disposals	-	-	(53,236)	(59,358)	(43,038)	(285,184)	(2,902)	(443,718)
Balance at 31 December 2012	**76,720**	**10,200**	**20,912**	**15,643**	**47,456**	**46,107**	**3,438**	**220,476**
Balance at 1 January 2013	76,720	10,200	20,912	15,643	47,456	46,107	3,438	220,476
Additions	-	-	5,764	3,922	-	35,422	-	45,108
Disposals	-	-	(7,103)	(3,946)	(1,087)	(15,717)	-	(27,853)
Balance at 31 December 2013	**76,720**	**10,200**	**19,573**	**15,619**	**46,369**	**65,812**	**3,438**	**237,731**
Depreciation and amortization								
Balance at 1 January 2012	-	(4,318)	(57,291)	(59,003)	(35,868)	(286,351)	(3,797)	(446,628)
Charge for the year	-	(408)	(6,000)	(4,975)	(9,240)	(16,785)	(407)	(37,815)
Disposals	-	-	52,917	58,208	43,038	285,117	2,902	442,182
Balance at 31 December 2012	**-**	**(4,726)**	**(10,374)**	**(5,770)**	**(2,070)**	**(18,019)**	**(1,302)**	**(42,261)**
Balance at 1 January 2013	-	(4,726)	(10,374)	(5,770)	(2,070)	(18,019)	(1,302)	(42,261)
Charge for the year	-	(408)	(5,062)	(4,259)	(10,531)	(16,934)	(347)	(37,541)
Disposals	-	-	7,103	3,946	1,087	15,717	-	27,853
Balance at 31 December 2013	**-**	**(5,134)**	**(8,333)**	**(6,083)**	**(11,514)**	**(19,236)**	**(1,649)**	**(51,949)**
Net book value								
At 1 January 2012	76,720	5,882	8,507	11,429	26,589	27,560	2,543	159,230
At 31 December 2012	76,720	5,474	10,538	9,873	45,386	28,088	2,136	178,215
At 31 December 2013	**76,720**	**5,066**	**11,240**	**9,536**	**34,855**	**46,576**	**1,789**	**185,782**

13. Receivables

USD	31 December 2013	31 December 2012	1 January 2012
Receivables from FPOS	1,055,105	-	-
Receivables from FOSI	683,572	1,860,850	1,731,293
VAT receivables	258,326	235,999	174,308
Receivables from third party donors	161,133	81,050	-
Other receivables	41,633	14,737	13,540
	2,199,769	**2,192,636**	**1,919,141**

The Foundation's exposure to credit risk related to receivables is disclosed in note 18.

14. Cash and cash equivalents

USD	31 December 2013	31 December 2012	1 January 2012
Petty cash	635	158	674
Bank balances	35,991	30,478	39,038
	36,626	**30,636**	**39,712**

The Foundation's exposure to credit risk related to bank balances is disclosed in note 18.

15. Capital management

Given the nature of the Foundation's operations, the Foundation does not have a formal capital management policy.

The Foundation is not subject to externally imposed capital requirements.

16. Deferred revenue

USD	31 December 2013	31 December 2012	1 January 2012
United Nations Association of Georgia	136,998	21,054	34,700
REC Moldova	57,121	-	-
	194,119	**21,054**	**34,700**
Non-current	21,286	**-**	**-**
Current	172,833	21,054	34,700
	194,119	**21,054**	**34,700**

17. Accruals

USD	31 December 2013	31 December 2012	1 January 2012
Non-current			
FPOS related grant accruals	71,745	-	-
FOSI related grant accruals	114,231	235,490	-
	185,976	**235,490**	**-**
Current			
FPOS related grant accruals	435,840	-	-
FOSI related grant accruals	1,316,258	1,802,212	1,801,896
Third party related accruals	7,892	60,721	737
Other accruals	5,867	3,523	4,391
	1,765,857	**1,866,456**	**1,807,024**

18. Fair values and risk management

(a) Fair values of financial assets and liabilities

Management believes that the fair values of the Foundation's financial assets and liabilities approximate their carrying amounts.

(b) Financial risk management

The Foundation is mainly exposed to credit risk from its use of financial instruments. The nature of the Foundation's operation and the basis of determining income from FPOS and FOSI mean that the Foundation is not significantly exposed to liquidity and market risks.

(i) Risk management framework

Management has overall responsibility for the establishment and oversight of the Foundation's risk management framework.

The Foundation's risk management policies are established to identify and analyse the risks faced by the Foundation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Foundation's activities. The Foundation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) Credit risk

Credit risk is the risk of financial loss to the Foundation if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the receivables and bank balances. Although collection of receivables and bank balances could be influenced by economic factors, management believes that no counterparty will fail to meet its obligations and that the Foundation is, accordingly, not significantly exposed to credit risk. Bank balances are maintained with Georgian banks with good credit ratings, and the Foundation does not expect any counterparty to fail to meet its obligations. In these circumstances, the Foundation has not established credit policy.

As at 31 December 2013, 31 December 2012 and 1 January 2012 more than 90% of the Foundation's receivables are from related parties (see note 21). None of the Foundation's receivables are overdue and the Foundation believes that no impairment allowance is necessary in respect of receivables or bank balances.

19. Management commitments

At any time the management of the Foundation can commit funds to grantees.

Management commitments are commitments of the Foundation to fund grants or programs in the following year, which have not become liabilities, but meet certain criteria established by the Foundation. As at 31 December 2013, the Foundation has management commitments of USD 76,555 related to the core budget (31 December 2012: USD 26,408; 1 January 2012: USD 26,206).

Management commitments related to the budgets allocated by the Open Society Foundations Programs as at 31 December 2013 amounted to USD 44,973 (31 December 2012: USD 51,994; 1 January 2012: USD 68,132).

Management commitments must meet all of the following criteria:

a) the activity relates to Foundation management's decisions and strategy; and is not included in the budget of the following year;
b) the commitment has been:
   - documented in the national board of directors' minutes, or
   - approved by the Network, International or US Program senior Management, or
   - approved according to the requirements specified in the External Match Policy for commitments out of External Match funds;
c) there was substantive activity reinforcing representations by management that the activity related to the financial reporting period;
d) there was a public announcement or an official communication issued committing the foundation/program to the activity;
e) The amount of the commitment can be reliably estimated.

20. Contingencies

(a) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after six years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

21. Related parties

(a) Parent and ultimate controlling party

The Foundation's founder is the Open Society Institute ("OSI").

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in program and administrative expenses.

USD	2013	2012
Salaries and bonuses	**175,728**	**198,366**

(ii) Expenses

USD	Transaction value		Outstanding balance		
	2013	2012	31 December 2013	31 December 2012	1 January 2012
Grants provided to entities in which the OSGF Executive Board members have interests	**-**	**481,494**	**-**	**126,707**	**-**

(c) Other related party transactions

The Foundation's other related party transactions are disclosed below.

(i) Contribution income

USD	Transaction value		Outstanding balance		
	2013	2012	31 December 2013	31 December 2012	1 January 2012
FPOS	2,458,201	-	1,055,105	-	-
FOSI	3,542,722	6,499,558	683,572	1,860,850	1,731,293
	6,000,923	**6,499,558**	**1,738,677**	**1,860,850**	**1,731,293**

In 2013 the Foundation received funding from FPOS and FOSI in the amount of USD 1,403,096 (2012: nil) and USD 4,720,000 (2012: USD 6,370,000) respectively.

(ii) Other transactions

In 2013 and 2012 the Foundation leased a building located at 10 Chovelidze Street, Tbilisi, Georgia from a related party free of charge.

22. Basis of measurement

The financial statements have been prepared on the historical cost basis.

23. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position as at 1 January 2012 for the purposes of the transition to IFRSs, unless otherwise indicated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to USD at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to USD at the exchange rate at that date. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in statement of comprehensive income.

(b) Contribution income

(i) FPOS/FOSI income

The FPOS/FOSI grant (core budget) is provided as a conditional support where the condition is that the Foundation is required to incur expenditures or legally binding commitments to grantees chargeable under the grant. The same funding and income recognition policy applies for the budgets allocated by the Open Society Foundations Programs to the Foundation.

The recognition of contribution income under programs requiring matching contributions from external sources (External Match Funds) is conditional upon the Foundation incurring legally binding commitments to grantees.

The amount of FPOS/FOSI income is calculated as follows:

Total FPOS/FOSI related expenses incurred by the Foundation
Plus: Property and equipment purchased during the year related to FPOS/FOSI activities
Plus: FPOS/FOSI related foreign exchange difference, <u>if it is a loss</u>
Less: Net book value of assets related to FPOS/FOSI activities disposed of
Less: FPOS/FOSI related foreign exchange difference, <u>if it is a gain</u>
Less: Depreciation expense on property and equipment related to FPOS/FOSI activities

The FPOS/FOSI income is restricted and is required to be spent for the purposes underlying the calculation of such income. Where applicable, the surplus of cash received over FPOS/FOSI income is recognized as deferred revenue. The balance of funds committed to grantees not disbursed as of the reporting date is recognized in accruals.

The FPOS/FOSI income is denominated in the currency in which FPOS/FOSI denominated its budget to the Foundation.

(ii) Third party funding

Income from third party funding is recognized in the period in which expenses that it is intended to compensate are incurred and when there is reasonable assurance that the Foundation will comply with the relevant conditions and the funding will be received.

(c) Expenses

Expenses are recorded on an accrual basis, when goods are consumed or when services are performed.

Program expenses related to the grants provided by the Foundation are recognized when the grant agreement is signed by the Foundation and counter-signed by the grant recipient. If grants are provided with conditions, the grant expense is recorded when the grantee meets the conditions or when the likelihood the recipient will not meet the conditions becomes remote.

(d) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Foundation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(e) Taxation

Income tax expense comprises current income tax. Current tax is recognized in statement of comprehensive income.

The Foundation is exempt from taxes specified by Georgian legislation with respect to its core activity. The Foundation is also exempted from customs duties on imports. The Foundation pays the following taxes: payroll-related taxes, property tax and income taxes on certain types of activities in accordance with Georgian Tax Code requirements. Income tax is calculated only on non-contribution income.

According to the Tax Code of Georgia, the Foundation has the right to reclaim value added tax ("VAT") on purchase from the state budget within the grant projects. VAT on purchases may be offset against other tax liabilities.

(f) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in statement of comprehensive income.

(ii) Subsequent expenditure

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Foundation, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in statement of comprehensive income as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is recognised in statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives of significant items of property and equipment for the current and comparative periods are as follows:

- buildings 25 years;
- leasehold improvements 5 years;
- furniture 5 years;
- vehicles 5 years;
- computer and equipment 3-5 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Financial instruments

The Foundation classifies non-derivative financial assets into loans and receivables category and non-derivative financial liabilities into other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Foundation initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets and liabilities are recognised initially on the trade date at which the Foundation becomes a party to the contractual provisions of the instrument.

The Foundation derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Foundation is recognised as a separate asset or liability.

The Foundation derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Foundation has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

(ii) Non-derivative financial liabilities - measurement

Other financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(h) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through statement of comprehensive income is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Foundation on terms that the Foundation would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- economic conditions that correlate with defaults.

The Foundation considers evidence of impairment for receivables at both an individual asset and a collective level. All individually significant receivables are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Foundation uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in statement of comprehensive income and reflected in an allowance account. When the Foundation considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through statement of comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Foundation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in statement of comprehensive income.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

24. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Foundation's operations. The Foundation plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The final standard is expected to be issued in 2014 and will be effective for years beginning on or after 1 January 2018. The Foundation recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Foundation's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Foundation does not intend to adopt this standard early.

- IFRS 15 *Revenue from Contracts with Customers* will be effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted. The standard supersedes IAS 11 *Construction Contracts*; IAS 18 *Revenue*; IFRIC 13 *Customer Loyalty Programmes*; IFRIC 15 *Agreements for the Construction of Real Estate*; IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. The core principle of the standard is for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the Foundation expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The Foundation has not yet analysed the likely impact of the standard on its financial position or performance. The Foundation does not intend to adopt this standard early.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 July 2014. Entities are permitted to apply them earlier. The Foundation has not yet analysed the likely impact of the improvements on its financial position or performance.