

Open Society Georgia Foundation

**IFRS Financial Statements
for 2021**

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Independent Auditors' Report

To the Executive Board of Open Society Georgia Foundation

Opinion

We have audited the financial statements of Open Society Georgia Foundation (the "Foundation"), which comprise the statement of financial position as at 31 December 2021, the statement of comprehensive income, changes in fund balance and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the International Ethics Standards Board for International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:

Vakhtang Kezheradze



KPMG Georgia LLC
4 May 2023



Open Society Georgia Foundation
Statement of Financial Position as at 31 December 2021

USD	Note	2021	2020
Assets			
Non-current assets			
Property, equipment and intangible assets	12	123,060	116,733
Total non-current assets		123,060	116,733
Current assets			
Inventories		87	87
Receivables	13	968,980	764,064
Prepayments		29,475	15,203
Cash and cash equivalents	14	1,442,245	700,497
Total current assets		2,440,787	1,479,851
Total assets		2,563,847	1,596,584
Liabilities and fund balance			
Fund balance			
Fund balance		132,113	87,222
Total fund balance		132,113	87,222
Non-current liabilities			
Accruals	17	454,396	244,514
Total non-current liabilities		454,396	244,514
Current liabilities			
Deferred revenue	16	393,373	2,174
Payables	18	380,720	20,241
Accruals	17	1,203,245	1,242,433
Total current liabilities		1,977,338	1,264,848
Total liabilities		2,431,734	1,509,362
Total liabilities and fund balance		2,563,847	1,596,584

Open Society Georgia Foundation
Statement of Comprehensive Income for 2021

USD	Note	2021	2020
Income			
Contribution income	5	4,646,013	5,572,927
Third party income	6	50,317	286,642
Non-contribution income	7	67,820	76,322
		4,764,150	5,935,891
Expenses			
Program expenses	8	(3,763,456)	(4,720,619)
Administrative expenses	9	(882,953)	(823,088)
Third party expenses	10	(76,989)	(353,165)
		(4,723,398)	(5,896,872)
Operating surplus before net finance income		40,752	39,019
Net finance income			
Net foreign exchange gain/(loss)		7,853	(11,649)
		7,853	(11,649)
Surplus before income tax		48,605	27,370
Income tax	11	(3,714)	(8,403)
Surplus and total comprehensive income for the year		44,891	18,967

These financial statements were approved by management on 4 May 2023 and were signed on its behalf by:

Ketevan Khutsishvili
Executive Director

Omar Ogbaidze
Financial Manager

Open Society Georgia Foundation
Statement of Changes in Fund Balance for 2021

USD	<u>Fund balance</u>
Balance at 1 January 2020	68,255
Surplus and total comprehensive income for the year	<u>18,967</u>
Balance at 31 December 2020	<u>87,222</u>
Balance at 1 January 2021	87,222
Surplus and total comprehensive income for the year	<u>44,891</u>
Balance at 31 December 2021	<u>132,113</u>

USD	2021	2020
Cash flows from operating activities		
Surplus before income tax	48,605	27,370
<i>Adjustments for:</i>		
Depreciation and amortization	19,606	19,696
Net foreign exchange (gain)/loss	(7,851)	11,649
	60,360	58,715
<i>Changes in:</i>		
Receivables	(204,916)	(203,563)
Prepayments	(14,272)	(723)
Deferred revenue	391,198	(6,035)
Payables	364,910	(5,679)
Accruals	170,694	257,774
Cash generated from operations before income taxes paid	707,614	100,489
Income taxes paid	(3,714)	(8,403)
Net cash flows from operating activities	764,260	92,086
 Cash flows from investing activities		
Acquisitions of property, equipment and intangible assets	(25,933)	(35,960)
Net cash flows used in investing activities	(25,933)	(35,960)
 Net increase in cash and cash equivalents for the year	738,327	56,126
Cash and cash equivalents as at 1 January	700,497	650,319
Effect of exchange rate fluctuations on cash and cash equivalents	3,421	(5,948)
Cash and cash equivalents at 31 December (Note 14)	1,442,245	700,497

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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 and the Foundation's registration number is 291.

2. Basis of accounting

Statement of compliance

These financial statements have been prepared in accordance with IFRS standards as issued by International Accounting Standards Board (IFRS Standards).

Going Concern

In the last quarter of 2022, the Foundation received communication from Division Director of Europe and Eurasia Program at OSF regarding the decision on transformation which stated that the Open Society Georgia Foundation will be spun off into an independent legal entity. The main purpose of the transformation is to enable the Foundation to have autonomy in its decision-making processes, as well as the ability to attract new partners and donors by itself.

As part of this transformation, the management is developing a clear and comprehensive plan that outlines the steps they will take to achieve their goals. The management has invested and continues to invest in building its organizational capacity, including hiring additional staff members with expertise in key areas such as fundraising, program management, and financial management.

Per management's view, their programs and initiatives are aligned with the priorities of many different donors, therefore it helps them to attract funding from a range of different donors, both through their existing relationships and through new partnerships that they are actively pursuing.

As of the date of issuance of these financial statements, the Foundation has already successfully obtained financing for EU-funded two projects and has received EUR 810 thousand for those projects.

Stiftung Open Society Institute (FOSI) has already awarded a USD 2,567,952 grant to the Foundation in 2023 and FOSI has expressed its intention to provide funding to the transformed foundation in 2024 and 2025 of USD 1,925,964 and USD 1,283,976, respectively.

Consequently, the management is confident that the Foundation will have sufficient funds to continue its operations for at least 12 months from the date of approval of these financial statements and, therefore, these financial statements have been prepared on a going concern basis. Accordingly, the management is of the view that there is no material uncertainty with respect to the Foundation's ability to continue as a going concern.

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	2021	2020
FOSI income	4,231,857	5,090,554
FPOS income	400,594	482,373
OSI NY income	13,562	-
	4,646,013	5,572,927

6. Third party income

USD	2021	2020
European Commission	49,680	258,805
ITPC	637	25,064
UPR	-	1,824
Embassy of Netherlands	-	949
	50,317	286,642

7. Non-contribution income

USD	2021	2020
Rent income	67,820	76,322
	67,820	76,322

8. Program expenses

FPOS program expenses		
USD	2021	2020
Media and communication	265,108	263,427
Public administration	28,584	68,158
Ethnic minorities	10,795	16,115
Public health	352	7,260
Total FPOS program expenses	304,839	354,960

FOSI program expenses		
USD	2021	2020
Public health	1,021,916	1,570,814
European Integration	877,494	862,635
Public administration	598,175	577,451
Criminal justice	445,475	562,658
Media and communication	295,930	518,285
Ethnic Minorities	219,627	273,816
Total FOSI program expenses	3,458,617	4,365,659
Total program expenses	3,763,456	4,720,619

9. Administrative expenses

FPOS administrative expenses

USD

	2021	2020
Salaries and benefits	65,483	78,093
Professional and consulting fees	9,977	15,101
Security	8,180	11,843
Utilities	4,964	4,332
Bank charges	2,537	2,844
Telecommunication	1,722	2,115
Travel, conference, meetings	1,576	1,356
Office supplies	1,332	1,584
Auto expenses	704	739
Maintenance of equipment	144	270
Air courier and postage	13	17
Non resident VAT	-	5,978
Depreciation and amortization	-	220
Other	495	395
Total FPOS administrative expenses	97,127	124,887

FOSI administrative expenses

USD

	2021	2020
Salaries and benefits	387,897	362,823
Professional and consulting fees	174,063	146,530
Financial support	61,998	3,903
Security	48,933	53,821
Rent and utilities	29,693	20,184
Depreciation and amortization	19,606	19,476
Bank charges	15,174	13,252
Telecommunication	10,302	9,854
Travel, conference, meetings	9,425	6,318
Office supplies	7,966	7,469
Auto expenses	4,209	3,442
Maintenance of equipment	862	1,258
Non resident VAT	-	27,851
Covid 19 protection	-	10,053
Other	15,698	11,967
Total FOSI administrative expenses	785,826	698,201
Total administrative expenses	882,953	822,088

10. Third party expenses

USD

	2021	2020
Civil Society	49,680	254,285
Administrative	27,309	71,481
Public Health	-	24,587
European Integration	-	2,812
	76,989	353,165

11. Income taxes

USD	2021	2020
Current year tax expense	<u>3,714</u>	<u>8,403</u>

The Foundation's applicable tax rate is the income tax rate of 15%. The core activities of the Foundation are exempt from income tax.

Reconciliation of effective tax rate:

	2021		2020	
	USD	%	USD	%
Surplus before income tax	48,605	100	27,370	100
Other tax income	3,714	8	8,403	31
	<u>3,714</u>	<u>8</u>	<u>8,403</u>	<u>31</u>

12. Property, equipment and intangible assets

USD	Land	Buildings	Leasehold improvement	Furniture	Vehicles	Computers and equipment	Software	Total
Cost								
Balance at 1 January 2020	76,720	10,200	32,501	11,761	43,746	73,853	4,102	252,883
Additions	-	-	5,099	385	429	30,047	-	35,960
Disposals	-	-	-	-	-	-	-	-
At 31 December 2020	76,720	10,200	37,600	12,146	44,175	103,900	4,102	288,843
Balance at 1 January 2021	76,720	10,200	37,600	12,146	44,175	103,900	4,102	288,843
Additions	-	-	3,591	71	-	22,271	-	25,933
At 31 December 2021	76,720	10,200	41,191	12,217	44,175	126,171	4,102	314,776
Depreciation and amortisation								
Balance at 1 January 2020	-	(7,578)	(27,296)	(8,459)	(41,386)	(63,650)	(4,045)	(152,414)
Charge for the year	-	(406)	(5,107)	(2,462)	(65)	(11,599)	(57)	(19,696)
Balance at 31 December 2020	-	(7,984)	(32,403)	(10,921)	(41,451)	(75,249)	(4,102)	(172,110)
Balance at 1 January 2021	-	(7,984)	(32,403)	(10,921)	(41,452)	(75,249)	(4,102)	(172,110)
Charge for the year	-	(406)	(3,787)	(1,296)	(106)	(14,011)	-	(19,606)
Balance at 31 December 2021	-	(8,390)	(36,190)	(12,217)	(41,557)	(89,260)	(4,102)	(191,716)
Net book value								
At 1 January 2020	76,720	2,622	5,205	3,302	2,360	10,203	57	100,469
At 31 December 2020	76,720	2,216	5,197	1,225	2,724	28,651	-	116,733
At 31 December 2021	76,720	1,810	5,001	-	2,618	36,911	-	123,060

13. Receivables

USD	2021	2020
Receivables from FPOS	650,517	249,923
Receivables from FOSI	-	207,389
Receivables from Third party donors	191,133	215,842
VAT receivables	126,254	89,887
Other receivables	1,076	1,023
	968,980	764,064

The Foundation's exposure to credit risk related to receivables is disclosed in note 19(ii).

14. Cash and cash equivalents

USD	2021	2020
Bank balances	1,441,655	699,916
Petty cash	590	581
	1,442,245	700,497

The Foundation's exposure to credit risk related to bank balances is disclosed in note 19(ii).

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	2021	2020
European Commission	393,373	-
International Treatment Preparedness Coalition	-	2,174
	393,373	2,174

17. Accruals

USD	2021	2020
Non-current		
FOSI related grant accruals	375,784	33,784
Third party related grant accruals	78,612	210,730
	454,396	244,514
Current		
FOSI related grant accruals	1,058,705	1,184,166
FPOS related grant accruals	10,745	29,213
Third party related accruals	133,795	29,054
	1,203,245	1,242,433

18. Payables

USD	2021	2020
Payables to FOSI	360,754	-
Other payables	19,996	20,241
	380,720	20,241

19. Fair values and risk management

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

(a) 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.

Receivables

The Foundation's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. Geographically, the credit risk is concentrated mainly in foreign counterparties.

The Foundation establishes an allowance for impairment that represents its estimate of expected losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

The Foundation believes that expected credit loss is immaterial in respect of receivables as at 31 December 2021 and 2020.

Cash and cash equivalents

The cash and cash equivalents are held with one Georgian bank with short term issuer default rating of B, rated by Fitch Ratings, and management does not believe that these counterparty will fail to meet its obligations.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Foundation considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

20. 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 2021, the Foundation has management commitments of USD 116,031 related to the core budget (2020: nil).

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 2021 budget;
- 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.

21. Contingencies

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 three 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.

22. Subsequent events

As disclosed in Note 2, subsequent to reporting period, the Foundation received communication from Division Director of Europe and Eurasia Program at OSF regarding the decision on transformation which stated that the Open Society Georgia Foundation will be spun off into an independent legal entity. The main purpose of the transformation is to enable the Foundation to have autonomy in its decision-making processes, as well as the ability to attract new partners and donors by itself.

23. Related parties

(a) 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	2021	2020
Salaries and bonuses	214,315	205,563

(b) Other related party transactions

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

Other transactions

In 2021 and 2020 the Foundation leased a building located at 10 Chovelidze Street, Tbilisi, Georgia from a related party free of charge.

24. Basis of measurement

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

25. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(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, if it is a loss

Less: Net book value of assets related to FPOS/FOSI activities disposed of

Less: FPOS/FOSI related foreign exchange difference, if it is a gain

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, plant 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

(i) Recognition and initial measurement

Receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Foundation becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement of financial assets

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Foundation changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Foundation may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Foundation's financial assets comprise the following classes of financial assets: Receivables (note 14) and cash and cash equivalents (note 15), which are measured at amortised cost using the effective interest method.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

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

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Foundation evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Foundation performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Foundation assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Foundation analogizes to the guidance on the derecognition of financial liabilities.

The Foundation concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature)

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Foundation recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Foundation derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Foundation applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Foundation recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the key rate of National Bank of Georgia, if the loan contract entitles banks to do so and the Foundation have an option to either accept the revised rate or redeem the loan at par without penalty. The Foundation treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

The Foundation performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Foundation concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

The Foundation derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Foundation neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Foundation enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Foundation derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Foundation also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Foundation currently has a legally enforceable right to set off and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Foundation currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Foundation and all counterparties.

(h) Impairment

(i) Non-derivative financial assets

Financial instruments

The Foundation recognises loss allowances for ECLs on financial assets measured at amortised cost:

The Foundation measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Foundation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Foundation's historical experience and informed credit assessment and including forward-looking information.

The Foundation assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Foundation considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Foundation in full, without recourse by the Foundation to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Foundation is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Foundation expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Foundation assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Foundation on terms that the Foundation would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Foundation has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Foundation has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Foundation individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Foundation expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Foundation's procedures for recovery of amounts due.

26. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Foundation has not early adopted the new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Foundation's financial statements.

- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).*
- *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).*
- *Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*
- *Annual Improvements to IFRS Standards 2018–2020.*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to IAS 8).*