Open Society Georgia Foundation

IFRS Financial Statements
for 2023

Contents

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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 2023, the statements of comprehensive income, changes in fund balance and cash flows for the year then ended, and notes, comprising material 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 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting 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 Accountants 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.

Emphasis of Matter

We draw attention to Note 2(b) in the financial statements, which describes that the management intends to liquidate the Foundation. However, a new foundation is established, which is expected to continue all operations of the existing Foundation. Our opinion is not modified in respect of this matter.

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 Accounting 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.

KPMG Georgia LLC, a company incorporated under the Laws of Georgia and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

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:

Nino Chikhladze

KPMG Georgia LLC
Tbilisi, Georgia
23 July 2024

USD	Note	31 December 2023	31 December 2022
Assets			
Non-current assets			
Property, equipment and intangible assets	12	100,652	104,855
Total non-current assets		**100,652**	**104,855**
Current assets			
Receivables	13	1,002,690	1,336,563
Prepayments and other assets		31,632	34,263
Cash and cash equivalents	14	1,177,389	1,266,128
Total current assets		**2,211,711**	**2,636,954**
Total assets		**2,312,363**	**2,741,809**
Liabilities and fund balance			
Fund balance			
Fund balance		213,684	157,637
Toral fund balance		**213,684**	**157,637**
Non-current liabilities			
Accruals	18	-	47,111
Total non-current liabilities		**-**	**47,111**
Current liabilities			
Deferred income	16	173,913	134,152
Payables	17	1,560,518	1,409,838
Accruals	18	364,248	993,071
Total non-current liabilities		**2,098,679**	**2,537,061**
Total liabilities		**2,098,679**	**2,584,172**
Total liabilities and fund balance		**2,312,363**	**2,741,809**

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 9 to 27.

USD	Note	2023	2022
Income			
Contribution income	5	2,530,519	3,584,069
Third party income	6	693,392	166,935
Non-contribution income	7	112,212	82,624
		3,336,123	**3,833,628**
Expenses			
Program expenses	8	(1,714,979)	(2,371,595)
Administrative expenses	9	(827,801)	(1,253,911)
Third party expenses	10	(745,095)	(202,189)
		(3,287,875)	**(3,827,695)**
Operating surplus before net finance income		**48,248**	**5,933**
Net finance income			
Net foreign exchange gain		11,110	24,368
		11,110	**24,368**
Surplus before income tax		**59,358**	**30,301**
Income tax	11	(3,311)	(4,777)
Surplus and total comprehensive income for the year		**56,047**	**25,524**

These financial statements were approved by management on 23 July 2024 and were signed on its behalf by:

Ketevan Khutsishvili
Executive Director

Omar Ogbaidze
Financial Manager

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 27.

USD	**Fund balance**
Balance at 1 January 2022	**132,113**
Surplus and total comprehensive income for the year	25,524
Balance at 31 December 2022	**157,637**
Balance at 1 January 2023	**157,637**
Surplus and total comprehensive income for the year	56,047
Balance at 31 December 2023	**213,684**

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 9 to 27.

USD	**Note**	**2023**	**2022**
Cash flows from operating activities			
Surplus before income tax		59,358	30,301
Adjustments for:			
Depreciation and amortization	12	19,160	22,063
Other non-cash expenses		3,962	-
Net foreign exchange gain		(11,110)	(24,368)
		71,370	**27,996**
Changes in:			
Receivables		338,120	(361,304)
Prepayments		2,631	(4,701)
Deferred revenue		39,761	(258,591)
Payables		156,348	1,040,517
Accruals		(675,934)	(612,573)
Cash generated from operations before income taxes paid		**(139,074)**	**(196,652)**
Income taxes paid	11	(3,311)	(4,777)
Net cash flows from operating activities		**(71,015)**	**(173,433)**
Cash flows from investing activities			
Acquisitions of property, equipment and intangible assets	12	(18,919)	(5,782)
Net cash flows used in investing activities		**(18,919)**	**(5,782)**
Net increase in cash and cash equivalents for the year		**(89,934)**	**(179,215)**
Cash and cash equivalents as at 1 January		1,266,128	1,442,245
Effect of exchange rate fluctuations on cash and cash equivalents		1,195	3,098
Cash and cash equivalents at 31 December	14	**1,177,389**	**1,266,128**

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 9 to 27.

1. Reporting entity

(a) Georgian business environment

The Foundation's operations are primarily 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.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry.

Georgia's economy was also affected by the mentioned events and is subject to future uncertainties in economy as described; on the other hand, growth of Georgian economy was up to 7% in 2023, driven by higher export and tourism revenues and strong private consumption, and further single digit economic growth is expected in 2024.

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 Foundations (former Open Society Institute), a private operating foundation organized as a charitable trust under the laws of the State of New York, USA (the "Founder").

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

(a) Statement of compliance

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

(b) 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 of the Open Society Georgia Foundation into an independent legal entity. The main purpose of the transformation was 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.

To implement this decision, on February 6, 2023 the Founder transferred all powers and responsibilities to the Executive Board of the Foundation, and the Foundation's charter was amended accordingly. Consequently, the Executive Board of the Foundation became the supreme governing body of Open Society Georgia Foundation. Subsequent to this transformation of Open Society Georgia Foundation into an independent legal entity was successfully completed. However, in the second half of 2023, it was decided to liquidate Open Society Georgia Foundation to remove ties with Open Society Institute and establish a new foundation - Civil Society Foundation (CSF), which would continue all operations of the existing fund.

On 10 July 2023 CSF was established by the members of Executive Board of Open Society Georgia Foundation. The management's main aim was to ensure a smooth transition to the Civil Society Foundation, which has been operational since January 2024, while formally the entity was established in July 2023.

Since the establishment of the new foundation, transition process has commenced concurrently with liquidation process of Open Society Georgia Foundation. Management has established an operational and risk management plan to manage this transition effectively, ensuring minimal disruption to the operations and stakeholders. As of the date of issuance of these financial statements the following steps have been completed:

- Grants from Open Society Foundations initially intended for Open Society Georgia Foundation have been awarded to CSF. CSF has secured substantial funding commitments from several key donors who have historically supported Open Society Georgia Foundation. Notably, Open Society Georgia Foundation's main donor, FPOS, has committed significant funds to CSF, ensuring a stable financial foundation.
- CSF has also secured grants from other key donors including the European Union (EU), Konrad Adenauer Fund (KAS), and RFSU.
- All key staff have been transferred from Open Society Georgia Foundation to CSF since 1 January 2024.
- The transfer of property and equipment from Open Society Georgia Foundation to CSF has begun. CSF has established its administrative framework, including office space, IT infrastructure and operational policies. Management expects the transfer process to complete at the end of 2024.

Management is planning to shut down Open Society Georgia Foundation by the end of 2024, although this timeline could extend to mid-2025 depending on the completion of legal, tax, and other procedures related to the liquidation. Open Society Georgia Foundation will cease its legal existence, however the business activities of the Foundation will be continued by newly established foundation, CSF.

Management believes that all the above described steps taken my management will ensure a smooth transition and continuity of the Foundation's operations.

Management is confident that the CSF 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 view that there is no material uncertainty with respect to the Foundation's ability to continue as 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 IFRS Accounting Standards 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 estimates are recognised prospectively.

There are no judgements, 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.

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.

The Foundation recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in note 19 - fair values and risk management.

5. Contribution income

USD	2023	2022
FOSI income	2,530,519	3,215,098
FPOS income	-	368,971
	2,530,519	**3,584,069**

In 2023, no program expenses and administrative expenses were incurred which were financed by FPOS (see note 8 and note 9). Consequently, during 2023 contribution income from FPOS is nil (2022: USD 368,971).

6. Third party income

USD	2023	2022
European Commission	548,432	166,935
IREX	124,193	-
Other	20,767	-
	693,392	**166,935**

7. Non-contribution income

USD	2023	2022
Rent income	112,212	74,665
Service fees (non-renatal)	-	7,959
	112,212	**82,624**

8. Program expenses

FOSI program expenses

USD	2023	2022
Public administration	487,373	480,137
Media and communication	432,941	189,546
European integration	307,018	363,479
Criminal justice	377,977	325,738
Ethnic minorities	107,149	238,028
Public health	2,521	534,302
Total FOSI program expenses	**1,714,979**	**2,131,230**

FPOS program expenses

USD	2023	2022
Media and communication	-	208,614
Public administration	-	17,248
Ethnic minorities	-	14,503
Total FPOSI program expenses	**-**	**240,365**
Total program expenses	**1,714,979**	**2,371,595**

In 2023 no program expenses were incurred financed by FPOS (see note 5).

9. Administrative expenses

FOSI administrative expenses

USD	**2023**	**2022**
Salaries and benefits	390,944	765,321
Professional and consulting fees	184,042	153,475
Rent and utilities	51,008	34,447
Security	42,203	44,192
Software	37,081	-
Travel, conference, meetings	32,849	32,847
Bank charges	27,238	38,929
Depreciation and amortization	18,923	21,469
Telecommunication	12,126	10,685
Office supplies	8,779	7,914
Auto expenses	3,860	4,334
Maintenance of equipment	1,182	262
Other	17,566	19,106
Total FOSI administrative expenses	**827,801**	**1,132,981**

FPOS administrative expenses

USD	**2023**	**2022**
Salaries and benefits	-	69,205
Professional and consulting fees	-	17,143
Security	-	9,609
Bank charges	-	8,464
Utilities	-	7,490
Travel, conference, meetings	-	2,798
Telecommunication	-	2,323
Office supplies	-	1,721
Auto expenses	-	863
Maintenance of equipment	-	57
Other	-	1,257
Total FPOS administrative expenses	**-**	**120,930**
Total administrative expenses	**827,801**	**1,253,911**

In 2023 no administrative expenses were incurred financed by FPOS (see note 5).

10. Third party expenses

USD	**2023**	**2022**
Public health	388,271	67,880
Civil society	160,160	99,055
Media	124,193	-
Administration	72,471	27,138
European integration	-	8,116
	745,095	**202,189**

11. Income taxes

USD	**2023**	**2022**
Current year tax expense	**3,311**	**4,777**

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:

	2023		**2022**	
	USD	**%**	**USD**	**%**
Surplus before income tax	**59,358**		**30,301**	
Income tax	3,311	6	4,777	16
	3,311	**6**	**4,777**	**16**

12. Property, equipment and intangible assets

USD	Land	Buildings	Leasehold improvement	Furniture	Vehicles	Computers and equipment	Software	Total
Cost								
Balance at 1 January 2022	76,720	10,200	41,191	12,217	44,175	126,171	4,102	314,776
Additions	-	-	-	-	143	5,637	-	5,780
Disposals	-	-	-	-	-	(11,973)	-	(11,973)
At 31 December 2022	**76,720**	**10,200**	**41,191**	**12,217**	**44,318**	**119,835**	**4,102**	**308,583**
Balance at 1 January 2023	76,720	10,200	41,191	12,217	44,318	119,835	4,102	308,583
Additions	-	-	785	1,581	536	16,017	-	18,919
Disposals	-	-	-	-	-	(7,696)	-	(7,696)
At 31 December 2023	**76,720**	**10,200**	**41,976**	**13,798**	**44,854**	**128,156**	**4,102**	**319,806**
Depreciation and amortization								
Balance at 1 January 2022	-	(8,390)	(36,190)	(12,217)	(41,557)	(89,260)	(4,102)	(191,716)
Charge for the year	-	(406)	(2,615)	-	(121)	(18,921)	-	(22,063)
Depreciation of disposals	-	-	-	-	-	10,051	-	10,051
Balance at 31 December 2022	**-**	**(8,796)**	**(38,805)**	**(12,217)**	**(41,678)**	**(98,130)**	**(4,102)**	**(203,728)**
Balance at 1 January 2023	-	(8,796)	(38,805)	(12,217)	(41,678)	(98,130)	(4,102)	(203,728)
Charge for the year	-	(408)	(1,969)	(268)	(141)	(16,374)	-	(19,160)
Depreciation of disposals	-	-	-	-	-	3,734	-	3,734
Balance at 31 December 2023	**-**	**(9,204)**	**(40,774)**	**(12,485)**	**(41,819)**	**(110,770)**	**(4,102)**	**(219,154)**
Net book value								
At 1 January 2022	**76,720**	**1,810**	**5,001**	**-**	**2,618**	**36,911**	**-**	**123,060**
At 31 December 2022	**76,720**	**1,404**	**2,386**	**-**	**2,640**	**21,705**	**-**	**104,855**
At 31 December 2023	**76,720**	**996**	**1,202**	**1,313**	**3,035**	**17,386**	**-**	**100,652**

13. Receivables

USD	31 December 2023	31 December 2022
Receivables from FPOS	769,565	1,019,488
Receivables from third party donors	57,071	111,796
VAT receivables	148,347	203,597
Other receivables	27,707	1,682
	1,002,690	**1,336,563**

The Foundation's exposure to credit and currency risks related to receivables are disclosed in note 19.

14. Cash and cash equivalents

USD	31 December 2023	31 December 2022
Bank balances	1,176,775	1,265,514
Petty cash	614	614
	1,177,389	**1,266,128**

The Foundation's exposure to credit and currency risks and a sensitivity analysis for financial assets and liabilities are disclosed in note 19.

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 income

USD	31 December 2023	31 December 2022
European Commission	151,101	110,021
Other	22,812	24,131
	173,913	**134,152**

17. Payables

USD	31 December 2023	31 December 2022
Payables to FOSI	1,498,089	1,345,656
Other payables	62,429	64,182
	1,560,518	**1,409,838**

The Foundation's exposure to currency risk related to payables are disclosed in note 19.

18. Accruals

USD	31 December 2023	31 December 2022
Non-current		
FOSI related grant accruals	-	47,111
	-	**47,111**
Current		
FOSI related grant accruals	344,425	902,749
FPOS related grant accruals	195	251
Third party related grant accruals	19,628	90,071
	364,248	**993,071**

19. Fair values and risk management

(a) Measurement of fair values

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 judgement, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Foundation has determined fair values using valuation techniques. The objective of valuation techniques is to arrive at fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and financial liabilities is calculated based on present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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 and market risk from its use of financial instruments. Due to the nature of the Foundation's operation and the basis of determining income from FOSI and FPOS the Foundation is not significantly exposed to liquidity risk.

(i) Risk management framework

The 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 analyze 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.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

		Carrying amount	
USD	**Note**	**31 December 2023**	**31 December 2022**
Receivables	13	1,002,690	1,336,563
Cash at banks	14	1,176,775	1,265,514
		2,179,465	**2,602,077**

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 2023 and 2022.

Cash at banks

The Foundation held cash at bank of USD 1,002,690 at 31 December 2023 (31 December 2022: USD 1,336,563), which represents its maximum credit exposure on these assets. The balances 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 rating of the counterparty. Management estimated that ECL is immaterial at reporting date.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Foundation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Foundation is exposed to currency risk on grant disbursements and purchases that are denominated in a currency other than USD. The currency in which these transactions are primarily denominated is GEL and EUR.

Exposure to currency risk

The Foundation's exposure to foreign currency risk was as follows based on notional amounts:

USD	**GEL-denominated 31 December 2023**	**EUR-denominated 31 December 2023**	**GEL -denominated 31 December 2022**	**EUR-denominated 31 December 2022**
Cash and cash equivalents	54,112	160,148	265,186	12,302
Receivables	174,884	58,824	218,930	-
Payables	(41,820)	(3)	(43,575)	-
Net exposure	**187,176**	**218,969**	**440,541**	**12,302**

The following significant exchange rates were applied during the year:

in USD	**Average rate**		**Reporting date spot rate**	
	2023	**2022**	**2023**	**2022**
GEL 1	0.3807	0.3441	0.3718	0.3701
EUR 1	1.0815	1.0542	1.1063	1.0675

Sensitivity analysis

A strengthening of the USD, as indicated below, against the following currencies at 31 December 2023 would have increased (decreased) fund balance and surplus before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Foundation considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2022.

	Surplus before income tax	
USD	**Strengthening**	**Weakening**
31 December 2023		
GEL (10% movement)	(18,718)	18,718
EUR (10% movement)	(21,897)	21,897
31 December 2022		
GEL (10% movement)	(44,054)	44,054
EUR (10% movement)	(1,230)	1,230

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 2023, the Foundation has no outstanding management commitments related to the core budget (31 Decmber 2022: USD 52,353).

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. At tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are more significant than in other countries, with more developed taxation systems. 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. 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	**2023**	**2022**
Salaries and bonuses	214,121	244,724

(b) Other related party transactions

USD	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December***	
	2023	**2022**	**2023**	**2022**
Contributions received:				
Other related parties	2,530,519	3,584,069	(728,524)	(326,168)

*Outstanding balances represent net amounts of receivables from FPOS (see note 13) and payables to FOSI (see note 17).

None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

Other transactions

In 2023 and 2022 the Foundation leased a building located at 10 Chovelidze Street, Tbilisi, Georgia from a related party free of charge.

23. Basis of measurement

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

24. Material 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, <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 income. 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 as program expenses when the grant agreement is signed by the Foundation and counter-signed by the grant recipient following award of the grant by the Management board. 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

(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 13) and cash and cash equivalents (note 14), 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 Fondaton 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.

25. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2023 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.

- *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1).*
- *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7).*
- *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).*
- *Lack of Exchangeability (Amendments to IAS 21).*