Foundation Caucasian Institute for Peace, Democracy and Development

Financial Statements

Together with the Auditor's Report

Year ended 31, December 2010

CONTENT

Statement of management's responsibilities for the preparation and approval of the financial statement

For the year ended 31 December 2010

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out on page 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Foundation "Caucasian Institute for Peace, Democracy and Development" (hereinafter - the 'Organization').

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Organization at 31 December 2010 and the results of its activities and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently
- Making judgments and estimates that are reasonable and prudent
- Stating whether IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Organization will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Organization
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Organization, and which enable them to ensure that the financial statements of the Organization comply with IFRSs
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Organization operates
- Taking such steps as are reasonably available to them to safeguard the assets of the Organization
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2010 were approved on behalf of the management on ____________________ 2011 by:

Executive Director ______________________________ Avto Jokhadze

BDO

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INDEPENDENT AUDITOR'S REPORT

To the founders of the Caucasian Institute for Peace, Democracy and Development

Report on the Financial Statements

We have audited the accompanying financial statements of the **Caucasus Institute for Peace, Democracy and Development** (hereinafter - the 'Organization'), which comprise the balance sheet as at December 31, 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with international Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As it is mentioned in note 4, The Organization's financial statements did not comply with requirements of IFRS 1. Particularly, IFRS 1 states that "Entity's first IFRS financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information." The Organization did not present statement of financial position as at December 31, 2008.

We did not perform the audit of the financial statements for 2009; consequently, we are unable to express our opinion in connection with completeness and accuracy of 2009 financial statements and the effect of opening balances of 2010.

BDO

Qualified Opinion

In our opinion, except for possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the **Institute for Peace, Democracy and Development** as at December 31, 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO LLC

6 July 2011

BDO LLC

Foundation Caucasian Institute for Peace, Democracy and Development

Statement of Financial Position

For the year ended 31 December 2010

(In USD)

	Notes	2010	2009 (unaudited)
Assets			
Current assets			
Cash and cash equivalents	5	103,837	174,537
Grants receivable	6	2,046,724	1,737,410
Accounts and other receivables	7	57,750	81,031
		2,208,311	**1,992,978**
Non-current assets			
Property, plant and equipment	8	338,939	423,937
		338,939	**423,937**
		2,547,250	**2,416,915**
Equity, reserves and liabilities			
Current liabilities			
Accounts and other payable	9	90,885	91,414
Short-term borrowings	10	-	76,191
		90,885	**167,605**
Long-term liabilities			
Deferred income tax liability	11	1,010	230
		1,010	**230**
Net assets			
Retained reserves		313,867	359,922
Temporary restricted revenue	12	2,164,904	1,894,940
Translation reserve		(23,416)	(5,782)
		2,455,355	**2,249,080**
		2,547,250	**2,416,915**

Executive Director ______________________ Avto Jokhadze

Notes on pages 10-26 are the integral part of these financial statements.

Foundation Caucasian Institute for Peace, Democracy and Development

Statement of Total Comprehensive Income

For the year ended 31 December 2010

(In USD)

	Notes	2010	2009 (unaudited)
Revenues, gains and other support			
Unrestricted revenue	13	595,445	653,322
Revenues from economic activities	14	647	3,054
Contributions and gifts	15	467	400
Profit from realization of FA (net)		9,565	-
		606,124	**656,776**
Expenses			
Program expenses	16	(595,446)	(653,322)
General and administrative expenses	17	(27,014)	(47,218)
Finance cost	10	(4,703)	(17,540)
Foreign exchange loss/gain		(23,010)	13,286
		(650,173)	**(704,794)**
Income before tax		**(44,049)**	**(48,018)**
Income tax expenses	18	(2,006)	(314)
Net income		**(46,055)**	**(48,332)**
Translation effect		(17,634)	(5,782)
Total comprehensive income		**(63,689)**	**(54,114)**

Executive Director ______________________ Avto Jokhadze

Notes on pages 10-26 are the integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2010

(In USD)

	Note	2010	2009 (unaudited)
Cash flows from operating activities			
Loss/income before tax		(44,049)	(48,018)
Adjustments to reconcile change in net assets to net cash used by operating activities:			
Depreciation of fixed and intangible assets		32,961	46,277
Profit/loss from realization of FA		(9,565)	-
Change in temporary restricted revenue		269,964	1,069,544
Interest expenses		4,703	17,540
Translation reserve effect		23,416	(5,782)
Operating cash flows before working capital changes		**277,430**	**1,079,561**
Decrease/Increase:			
Grants receivable		(310,226)	(1,093,100)
Accounts and other receivable		24,037	42,363
Accounts and other payable		(907)	56,473
Cash provided from operating activities		(9,666)	85,297
Paid interest		(5,459)	(16,748)
Paid income tax		(841)	(455)
Net cash flows from operating activities		(15,966)	68,094
Cash flows from investing activities			
Purchase of Fixed assets		(11,191)	(22,974)
Realization of Fixed assets		32,648	-
Net cash flows from investing activities		21,457	(22,974)
Cash flows from financial activities			
Repayment of borrowings		(76,191)	(51,300)
Net cash flows from financial activities		(76,191)	(51,300)
Net Increase/(decrease) in cash and cash equivalents		(70,700)	(6,180)
Cash and cash equivalents at beginning of year	5	174,537	180,717
Cash and cash equivalents at end of year	5	103,837	174,537

Executive Director ______________________ Avto Jokhadze

Notes on pages 10-26 are the integral part of these financial statements.

Foundation Caucasian Institute for Peace, Democracy and Development

Statement of Changes in Reserves

For the year ended 31 December 2010

(In USD)

	Temporary restricted revenue	Retained reserves	Reserves for translation	Total reserves
Balance as at December 31 /2008 (unaudited)	**823,580**	**408,253**	**-**	**1,231,833**
Net income (loss) for year	-	(48,332)		**(48,332)**
Transfer from restricted to unrestricted revenue	1,071,361	-		**1,071,361**
Exchange differences arising on the translation of the financial statements in US dollars	-		(5,782)	**(5,782)**
Balance as at December 31 /2009 (unaudited)	**1,894,941**	**359,921**	**(5,782)**	**2,249,080**
Net income (loss) for year	-	(46,055)		**(46,055)**
Transfer from restricted to unrestricted revenue	269,964	-		**269,964**
Exchange differences arising on the translation of the financial statements in US dollars	-		(17,634)	**(17,634)**
Balance as at December 31 /2010	**2,164,905**	**313,866**	**(23,416)**	**2,455,355**

Executive Director ______________________________ Avto Jokhadze

Notes on pages 10-26 are the integral part of these financial statements.

1. Organization

The Caucasian Institute for Peace, Democracy and Development (CIPDD) was founded in August 1992 Tbilisi, Georgia. CIPDD is a non-governmental, not-for-profit organization.

CIPDD has programs for research, publishing, organizing conferences, producing video films, support and other related activities, which promote democratic and free market values that publicize major achievements of Western democratic thought and encourage non-partisan theoretical analysis of problems, related to the post communist transition in Georgia and the Caucasus region.

2. Critical accounting estimates and judgments

The Organization makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Useful lives of intangible assets and property, plant and equipment.** Intangible assets and property, plant and equipment are amortized or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.
- **Income taxes.** During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Organization recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Organization's belief that its tax return positions are supportable, the Organization believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result Organization minimizes the risks related to this fact. The Organization believes that its accruals for tax liabilities are adequate for open audit year based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.
- **Legal proceedings.** In accordance with IFRSs the Organization only recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realization of any contingent liabilities not currently recognized or disclosed in the financial statements could have a material effect on the Organization's financial position. Application of these accounting principles to legal cases requires the Organization management to make determinations about various factual and legal matters beyond its control. The Company reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Organization's management as to how it will respond to the litigation, claim or assessment.

3. Significant accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively 'IFRSs') issued by the International Accounting Standards Board (IASB) as adopted by the European Union (adopted IFRSs), and are in accordance with IFRSs as issued by the IASB.

The Organization adopts IFRS-s first time in 2010. IFRS 1 states that, "Entity's first IFRS financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information." The Organization did not present for the year ended December 31, 2008 the statement of financial position that is a departure from IFRS 1.

These financial statements have been prepared on the assumption that the Organization is a going concern and will continue its operations for the foreseeable future. The management and founders have the intention to further develop the activities of the Organization in Georgia. The management believes that the going concern assumption is appropriate for the Organization.

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

The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires Organization management to exercise judgment in the most appropriate application in applying the Organization's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

The Organization keeps its books and records in Georgian lari (GEL) in accordance with the requirements to the accounting in Georgia. The aforesaid financial statements are prepared on the basis of the Organization's accounting records, which are respectively adjusted and re-classified for the reliable presentation in accordance with IFRSs.

The reporting period for the Organization is the calendar year from January 1 to December 31.

Measurement and Presentation Currencies

Standing Interpretation Committee (hereinafter 'SIC') included into the International Financial Reporting Standards Committee has accepted the interpretation SIC 19 "Reporting currency: measurement and presentation of financial statements under IAS 21 and IAS 29". This interpretation determines that measurement currency should provide information about the entity that is useful and reflects the economic substance of the underlying events and circumstances relevant to the entity. When certain currency is used to a significant extent in, or has a significant impact on, the entity, it is appropriate to use it as the measurement currency.

During its operating activities the Organization uses Georgian Lari as a functional currency that has a significant impact on the Organization's transactions. Presentation currency is different from functional currency and is USD.

Transactions in currencies different from the measurement currency are considered as foreign currency transactions and should be accounted in accordance with the requirement of IAS 21 - "Effects of changes in foreign exchange rates".

Effect of hyperinflation

IAS 29 "Financial reporting in hyperinflation economies" does not establish the absolute criteria for definition of hyperinflation economy. One of such criteria is when the cumulative inflation index achieves the level of 100% for last three years. Georgian inflation indexes for the last years are presented in the table below:

Period	Inflation index, %
2009	3,00
2010	11,20

The decision as to recalculation of the financial statements under IAS 29 is taken by the Organization's management. The Organization does not consider Georgian economy to be of hyperinflation nature and does not adjust its financial statements to the degree of change in consumer prices as at the date of its preparation.

Foreign Currencies Conversion

Assets and liabilities denominated in foreign currencies are subject to recalculation under the official exchange rates established by the National Bank of Georgia at the year-end. Exchange rate adjustments originating due to the converting are reported in the Income statement. Results denominated in foreign currencies are recalculated under the exchange rates at the date of transaction.

	Official rate of the National Bank of Georgia	
	USD	EUR
Exchange rate as at 31.12.09	1.6858	2.4195
Average exchange rate for 2009	1.6705	2.3295
Exchange rate as at 31.12.10	1.7728	2.3500
Average exchange rate for 2010	1.7823	2.3643

Revenues

Donors' contributions represent the Organization's sole source of income although member and voluntary contributions are permissible by the charter.

Most donor contributions are in the form of grant or cooperative agreements. The management of CIPDD considers such grant agreements as contributions and they are recognized as soon as the promise is made.

All contributions, including pledges, are recognized as revenue upon receipt and are considered to be unrestricted unless they are received with donor stipulations that limit their use either through purpose or time restrictions. Contributions received are measured at fair value.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions.

Expenses

The Organization incurs business expenses in the course of its normal operations, as well as other expenses not related to the main activity of the Organization.

Expenses are recognized in the income statement if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.

Expenses are recognized in the income statement on the basis of direct comparison of expenses incurred and income on certain items.

If economic profit is expected to arise during several reporting periods and association with income can be traced only as a whole or indirectly, expenses in the income statement are recognized based on the method of rational distribution.

Expenses are recognized in the income statement immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

Net Assets and Classification by Donor-imposed Restrictions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Temporarily restricted net assets are subject to donor- imposed restrictions that permit CIPDD to use or expend assets as specified. These restrictions are satisfied either by the passage of time or by actions of CIPDD.

Fixed and Intangible Assets

An item of property, plant and equipment that qualifies for recognition as an asset are measured at its cost.

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is recognized in the carrying amount of the item.

After recognition as an asset, an item of property, plant and equipment are carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is accrued by equal parts during the term of property, plant and equipment useful life not including the expected residual value.

The Organization's intangible assets are represented by software. Intangible assets are recorded at their cost value net of accumulated amortization.

Amortization is accrued by equal parts during the term of the intangible assets useful life.

Below are the useful lives of fixed and intangible assets by categories:

Group	Useful life
Building	20
Vehicles	5
Equipment	5

Impairment of fixed and intangible assets

The Organization's accompanying financial statements reflect the effect of the requirements of IAS 36 "Impairment of assets" in force for the reporting periods starting from January 1, 2005 and after this date. The above standard stipulates that the cost of fixed assets and intangibles should be revised when indications of possible impairment of the asset cost exist.

According to the requirements of IAS 36 the asset cost should be calculated as the higher of the net selling price or profitability of the asset use. The net selling price is the amount obtainable from the sale of an asset to non-related parties in an arm's length transaction less direct sales expenses. Profit from an asset use is the current value of expected cash flows from an asset use during its useful life and its disposal.

The above standard stipulates that during determination of an asset use profitability the Organization should apply expected cash flows which should reflect current state of an asset and present qualitative estimation made by the management regarding the totality of economic conditions existed during remaining useful life of an asset. Expected cash flows should be discounted at the rate that reflects current market assessments of the value of money in time and risks associated with the asset.

Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Financial assets

The Organization classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Organization has not classified any of its financial assets as held to maturity.

The Organization's accounting policy for each category is as follows:

(a) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers and loans granted, but also incorporate other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Organization will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables and loans granted, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income. On confirmation that the trade receivable and loan granted will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Organization's loans and receivables comprise temporary restricted contributions receivable, accounts receivable and cash and cash equivalents in the statement of financial position.

Cash and cash equivalents include cash in hand and at bank accounts.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than:

(a) those that the entity upon initial recognition designates as at fair value through profit or loss

(b) those that the entity designates as available for sale; and

(c) those that meet the definition of loans and receivables.

In current period the Organization does not have held-to-maturity investments.

(c) Fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

(a) It is classified as held for trading. A financial asset is classified as held for trading if it is:

  (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term

  (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only:

(i) If a contract contains one or more embedded derivatives. In this case an entity may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss unless:

- the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
- it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost; or

(ii) when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

In current period the Organization does not have financial assets at fair value through profit or loss.

(d) Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

In current period the Organization does not have available-for-sale financial assets.

Financial liabilities

The Organization classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Organization's accounting policy for each category is as follows:

(a) Fair value through profit or loss

A financial liability at fair value through profit or loss is a financial liability that meets either of the following conditions (see financial assets for detailed information):

(a) It is classified as held for trading

(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss.

In current period the Organization does not have financial liabilities at fair value through profit or loss.

(b) *Other financial liabilities*

Other financial liabilities include trade payables and other short-term monetary liabilities, which are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

4. Financial Instruments - Risk Management

The Organization is exposed to risks that arise from its use of financial instruments:

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk.

This note describes the Organization's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Organization, from which financial instrument risk arises, are as follows:

- Grants receivable
- Accounts receivable
- Cash and cash equivalents
- Accounts payable
- Borrowings.

A summary of the financial instruments held by category is provided below:

Financial assets

	Loans and receivables	
	2010	2009 (unaudited)
Grants receivable	2,046,724	1,737,410
Accounts receivable	685	41,712
Cash and cash equivalents	103,837	174,537
	2,151,247	**1,953,659**

Financial Liabilities

	Financial liabilities at amortized cost	
	2010	2009 (unaudited)
Accounts payable	12,267	39,372
Short-term borrowings	-	76,191
	12,267	115,563

General objectives, policies and processes

The Organization does not have significant risks associated with its financial instruments. Top management maintains control to the risks. It is possible to get more accurate information about the Organization risk management approach below.

Credit risk

Credit risk is the risk of financial loss to the Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organization has only a few customers with credit sales. The management believes it does not pose the risk for the Organization since it studies the credit history of its clients before granting them credit terms.

In recent period there was no one case of when the Organization's own property was pledged, neither there were any similar cases noted.

Cash and cash equivalents also give a rise to credit risk since banks may fail to fulfill their obligations towards the Organization. Furthermore, the fair value of cash and cash equivalents are exposed to credit risk at the reporting date as well. However, since the Organization undertakes to assess the quality and creditworthiness of the banks, the risk of a bank defaulting on its obligations to the Organization and the fair value impairment remains immaterial in the Organization's view.

Liquidity risk

Liquidity risk arises from the Organization's management of working capital. It is the risk that the Organization will encounter difficulty in meeting its current financial obligations as they fall due and this may affect adversely the Organization's on-going operations and performance. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

At the reporting period the Organization has significant amounts due to its accounts liabilities, however, its financial assets are significant as well.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

As at 31 December 2010	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Assets				
Grants receivable	-	2,046,724	-	2,046,724
Accounts receivables	685			685
Cash and cash equivalents	103,837	-	-	103,837
	104,523	2,046,724	-	2,151,247
Liabilities				
Accounts payable	12,267			12,267
Short-term borrowings	-	-	-	-
	12,267	-	-	12,267
Net liquidity gap	92,255	2,046,724	-	2,138,980
Cumulative liquidity gap	92,255	2,138,980	2,138,980	2,138,980

As at 31 December 2009 (unaudited)	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Assets				
Grants receivable		1,737,410	-	**1,737,410**
Accounts receivables	41,712			**41,712**
Cash and cash equivalents	174,537		-	**174,537**
	216,249	**1,737,410**	-	**1,953,659**
Liabilities				
Accounts payable	39,374	-		**39,374**
Short-term borrowings		76,191	-	**76,191**
	39,374	**76,191**	-	**115,564**
Net liquidity gap	**176,876**	**1,661,219**	-	**1,838,095**
Cumulative liquidity gap	**176,876**	**1,838,095**	**1,838,095**	**1,838,095**

Borrowed fund that was taken from the Bank of Georgia was intended to be paid in 2011, however, the Organization settled its obligation fully in 2010.

Market risk

Market risk may arise from the Organization's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk). Currency risk is discussed below:

Currency risk

The Organization performs its main operations in Georgia, subsequently, its main operations are performed in Georgian Lari. However, the Organization receives financing from donors in other currencies as well.

The Organization management considers the currency risk is not significant for the Organization at this time and is unlikely to change it in the nearest future.

As of 31 December 2010 the Organization's financial assets and financial liabilities were denominated in the following currencies:

	GEL	USD	EUR	Total
	2010	2010	2010	2010
Financial assets				
Grants receivable	-	20,070	2,026,654	**2,046,724**
Accounts receivables	685	-	-	**685**
Cash and cash equivalents	33,556	40,998	29,283	**103,838**
	34,241	**61,068**	**2,055,938**	**2,151,247**
Financial liabilities				
Accounts payable	12,267	-	-	**12,267**
Short-term borrowings	-	-	-	-
	12,267	-	-	**12,267**

As of 31 December 2009 the Organization's financial assets and financial liabilities were denominated in the following currencies:

	GEL	USD	EUR	Total
	2009 (unaudited)	2009 (unaudited)	2009 (unaudited)	2009 (unaudited)
Financial assets				
Grants receivable	-	50	1,737,360	**1,737,410**
Accounts receivables	41,712	-	-	**41,712**
Cash and cash equivalents	93,410	17,229	63,898	**174,537**
	135,122	**17,279**	**1,801,258**	**1,953,659**
Financial liabilities				
Accounts payable	39,374	-	-	**39,374**
Short-term borrowings		76,191	-	**76,191**
	39,374	**76,191**	**-**	**115,564**

Interest rate risk

The interest rate risk is the risk (with variable value) related to the interest-bearing assets and liabilities because of the variable rate. The Organization does not have interest bearing assets or liabilities with variable value at the reporting period so changes in market rate will not affect its operations.

Capital disclosures

The Organization's definition of the capital is Retained reserves and Temporary restricted revenues. The Management views its role as that of corporate supervisors responsible for preservation and growth of the capital for increasing and fulfilling its core activities.

5. Cash and cash equivalents

Cash and cash equivalents as for 31 December 2010 can be presented as follows:

	2010	2009 (unaudited)
Cash on hand		
In GEL	-	-
In other currencies	-	-
Cash in bank		
In GEL	37,262	96,674
In other currencies	66,575	77,863
	103,837	**174,537**

6. Grants receivable

Grants receivable as for 31 December 2010 can be presented as follows:

By Donor

	2010	2009 (unaudited)
EED	3,930	197,397
SaferW/2009	1,247,033	1,485,701
IFS-RRM	26,509	28,701
MATRA	743,638	-
SaferW/2010	2,260	-
NED2010	15,000	-
PASOS	5,020	-
Swedish Conf.	3,334	-
KAS	-	12,656
DDH2	-	12,854
IS2009/2010	-	50
CIVICUS	-	50
	2,046,724	**1,737,410**

7. Accounts and other receivables

Accounts and other receivables as for 31 December 2010 can be presented as follows:

	2010	2009 (unaudited)
Receivables from suppliers	685	41,712
Receivables from accountable persons	6,664	7,887
Prepaid taxes	32,114	18,798
Paid advances	18,286	12,634
	57,750	**81,031**

8. Property, plant and equipment

Property, plant and equipment as for 31 December 2010 can be presented as follows:

Historical cost	Equipment	Motor Vehicle	Building	Total
As at 31 December 2009	171,923	42,217	389,237	603,377
Inflows	8,726	2,465	-	11,191
Outflows	-	(3,091)	(39,122)	(42,213)
As at December 31, 2010	180,649	41,591	350,116	572,355
Depreciation				
As at 31 December 2009	(119,656)	(21,669)	(38,115)	(179,440)
Accrued for the year	(15,098)	(6,586)	(16,443)	(38,127)
Depreciation of disposed fixed assets	-	3,091	2,074	5,165
As at December 31, 2010	(134,754)	(25,163)	(52,484)	(212,402)
Net book value				
Exchange rate difference from currency translation	(2,649)	(1,045)	(17,322)	(21,016)
As at 31 December 2009 (unaudited)	52,267	20,548	351,122	423,937
As at December 31, 2010	43,246	15,383	280,310	338,939

9. Accounts and other payables

Accounts and other payables as for 31 December 2010 can be presented as follows:

	2010	2009 (unaudited)
Payables towards customers	12,267	39,372
Salary and similar payable	1,694	4,653
Payables towards accountable persons	13,636	(604)
Taxes payable	62,614	47,252
Interest payable	-	741
Other payable	674	-
	90,885	91,414

10. Short-term borrowings

Borrowings as for 31 December 2010 can be presented as follows:

Loans received	Rate	2010	2009 (unaudited)
Principal payable			
Loan received from Bank of Georgia	16%	-	76,191
		-	**76,191**
Interest payable			
Loan received from Bank of Georgia	16%	-	741
		-	**741**

In 2007 the Organization bought an office space in Tbilisi, at Tsereteli st. #72. On the 9th of March in 2007 Organization took 200,000 USD amount loans, with annual 16 percent, from Bank of Georgia to purchase the office space. The loan was to be paid on the 9th of March in 2011, however, the Organization fully settled its obligation in 2010.

11. Deferred income tax liability

Recognized assets and liabilities subject to deferred taxation as at December 31 can be presented as follows:

	2010	2009 (unaudited)
At 1 January	(230)	-
Recognized in profit and loss	(786)	(232)
Exchange rate difference from currency translation	7	2
At 31 December	**(1,010)**	**(230)**

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2010	2010	2010	2010	2010
Fixed assets		(1,010)	(1,010)	(780)	-
Exchange rate difference from currency translation				(7)	
Tax asset/(liabilities)	-	(1,010)	(1,010)	(787)	-
Net tax assets/(liabilities)	-	(1,010)	(1,010)	(787)	-

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2009 (unaudited)	2009 (unaudited)	2009 (unaudited)	2009 (unaudited)	2009 (unaudited)
Fixed assets		(230)	(230)	(230)	-
Exchange rate difference from currency translation				(2)	
Tax asset/(liabilities)	-	(230)	(230)	(232)	-
Net tax assets/(liabilities)	-	(230)	(230)	(232)	-

12. Temporary restricted revenue

Temporary restricted revenue as for 31 December 2010 can be presented as follows:

	2010	2009 (unaudited)
SaferW/2009	1,278,834	1,458,557
MATRA	819,464	-
SaferW/2010	11,968	-
NED2010	27,949	-
PASOS	14,378	-
Swedish Conf.	12,311	-
CIVICUS	-	18,599
NIMD2009	-	2,272
CSONetwork	-	69
IFS-RRM	-	46,454
KAS	-	17,869
DDH2	-	92,414
EED	-	229,730
MM/02/08	-	4,134
IS2009/2010	-	24,418
OSCE/09	-	44
OSIMigration	-	282
Fellowship	-	98
	2,164,904	1,894,940

13. Unrestricted revenue

Unrestricted revenue for 2010 can be presented as follows:

	2010	2009 (unaudited)
DDH2	84,953	284,146
EED	169,627	116,972
MM/02/08	1,191	13,496
IS2009/2010	11,297	55,407
OSCE/09	42	35,182
CSONetwork	60	21,753
CIVICUS	16,159	13,452
NIMD2009	107	3,159
SaferW/2009	107,943	27,727
IFS-RRM	40,271	11,269
KAS	4,466	-
OSCE/10	47,219	-
NIMD2010	4,342	-
Effective...	8,669	-
MATRA	70,533	-
SaferW/2010	13,667	-
NED2010	12,443	-
PASOS	2,126	-
OSIMigration	239	14,136
Pnk5	-	14,332
PA/N/	-	9,826
OSCE/08	-	12,291
NIMD5	-	8,911
S-GE800-08	-	9,586
Fellowship	91	1,677
	595,445	653,322

14. Revenues from economic activities

Revenues from economic activities mainly comprise revenues from realization of books and providing other similar services.

15. Contributions and gifts

Contributions and gifts comprise sums that are usually gifted by donors at the end of the project, as the remaining balances that donors do not require be transferring back or expensing.

16. Program expenses

Program expenses for 2010 can be presented as follows:

	2010	2009 (unaudited)
Salary expenses	(386,583)	(386,596)
Business trip expenses	(9,613)	(7,991)
Publication expenses	(6,355)	(5,534)
Office expenses	(6,728)	(7,164)
Training and seminar related expenses	(131,169)	(186,918)
Utilities	(4,927)	(5,110)
Depreciation and amortization expenses	(17,344)	(17,832)
Bank charges	(1,288)	(1,273)
Communication expenses	(9,478)	(12,012)
Insurance expenses	(612)	(1,928)
Transportation expenses	(12,724)	(12,475)
Professional service fees	(8,625)	(8,489)
	(595,446)	**(653,322)**

17. General and administrative expenses

General and administrative expenses for 2010 can be presented as follows:

	2010	2009 (unaudited)
Office expenses	(1,538)	(171)
Training and seminar related expenses	(651)	(2,099)
Depreciation and amortization expenses	(20,782)	(28,286)
Communication expenses	(176)	(1,662)
Transportation expenses	(174)	(2,409)
Bank charges	(3)	(106)
Salary expenses	-	(5,374)
Business trip expenses	-	(304)
Office expenses	-	(2,132)
Utilities	-	(213)
Professional service fees	-	(62)
Property tax expenses	(3,690)	(4,400)
	(27,014)	(47,218)

18. Income tax expenses

Expenses on taxation of the Organization activities during 2010 included:

	2010	2009 (unaudited)
Current tax	(1,220)	(81)
Effect of temporary differences	(786)	(232)
	(2,006)	**(314)**

Reconciliation of income tax expense:

	2010	2009 (unaudited)
Profit before income tax	(44,049)	(48,018)
Applicable tax rate	15%	15%
Theoretical income tax	6,607	7,203
Effect of changes in not recognized deferred tax and tax effect of expenses that are not include for tax purposes	(8,613)	(7,517)
	(2,006)	**(314)**

19. Contingencies

Georgian economic trends

Georgian economy is still inherent in features and risks of developing market. These features include inadequately developed business infrastructure and normative base regulating activities of entities, limited convertibility of the national currency and limitations of performance of foreign currency transactions as well as the low level of liquidity on the capital market. The Government has undertaken certain measures targeted at such issues, however up to this moment the reforms necessary to establish financial, legal and regulatory systems are not completed yet.

Legal Liabilities

In the course of its business activity the Organization does not deal with material court suits or claims. In addition, the management of the Organization is convinced that the ultimate responsibility for the commitments, which might result from suits and claims, should they arise, will not have any significant effect to the financial position or future business transactions of the Organization.

20. Going Concern Assumption

The Organization's financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Respective, the financial statements do not include any adjustments related to the recorded asset amounts that would have been necessary should the Organization either had been unable to continue as a going concern or if the Company had disposed the assets outside the normal course of its operating plan.