Foundation Caucasian Institute for Peace, Democracy and Development

Financial Statements

Together with the Auditor's Report

Year ended 31, December 2011

CONTENT

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

For the year ended 31 December 2011

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 2011 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 2011 were approved on behalf of the management on ___________________ 2011 by:

Executive Director ______________________________ Avto Jokhadze

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 acOrganizationing financial statements of the **Caucasus Institute for Peace, Democracy and Development** (hereinafter - the 'Organization'), which comprise the balance sheet as at December 31, 2011, 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

We did not observe the physical counting of Property, Plant and Equipment as at 31 December 2011, since those dates was prior to the time we were initially engaged as auditors of the Organization. Owing to the nature of the Organization's accounting records we were unable to satisfy ourselves by alternative means concerning the quantities of Property, Plant, Equipment at 31 December 2011 which are stated in the balance sheet.

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 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO LLC

22 July 2012

Foundation Caucasian Institute for Peace, Democracy and Development

Statement of Financial Position

For the year ended 31 December 2011

(In USD)

	Note	2011	2010
Assets			
Current assets			
Cash and cash equivalents	7	82,460	103,837
Grants receivable	8	414,098	284,939
Accounts and other receivables	9	11,134	31,767
		507,692	**420,543**
Non-current assets			
Property, plant and equipment	10	336,044	338,939
		336,044	**338,939**
		843,736	**759,482**
Equity, reserves and liabilities			
Current liabilities			
Accounts and other payable	11	17,305	28,424
		17,305	**28,424**
Net assets			
Retained reserves		287,528	314,886
Temporary restricted revenue	12	511,573	403,119
Translation reserve		27,330	13,053
		826,431	**731,058**
		843,736	**759,482**

Executive Director ________________________________ Avto Jokhadze

Notes on pages 9-22 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 2011

(In USD)

Revenues, gains and other support	Notes	**2011**	**2010**
Unrestricted revenue	13	496,208	595,445
Revenues from economic activities	14	6,378	647
Contributions and gifts	15	3,490	467
Profit from realization of FA (net)		-	9,565
		506,076	**606,124**
Expenses			
Program expenses	16	(496,208)	(595,446)
General and administrative expenses	17	(34,758)	(27,014)
Finansial costs		-	(4,703)
Foreign exchange loss/gain		35	(23,010)
		(530,931)	**(650,173)**
Income before tax		(24,855)	(44,049)
Income tax expenses		(2,503)	(1,220)
Net income		**(27,358)**	**(45,269)**
Translation effect		14,277	18,835
Total comprehensive income		**(13,081)**	**(26,434)**

Executive Director ______________________________ Avto Jokhadze

Notes on pages 9-22 are the integral part of these financial statements.

Foundation Caucasian Institute for Peace, Democracy and Development

Statement of Cash Flows

For the year ended 31 December 2011

(In USD)

Note	2011	2010
Cash flows from operating activities	-	
Loss/income before tax	(24,855)	(44,049)
Adjustments to reconcile change in net assets to net cash used by operating activities:	-	
Depreciation of fixed and intangible assets	38,170	32,961
Profit/loss from realization of FA	-	(9,565)
tax expences	3,445	
Change in temporary restricted revenue	108,454	(184,715)
Expenses of bad debts	1,089	
Interest expenses	-	4,703
Translation reserve effect	27,330	13,053
Operating cash flows before working capital changes	**153,633**	**(187,612)**
Decrease/Increase:	-	
Grants receivable	(141,949)	106,099
Accounts and other receivable	17,187	88,382
Accounts and other payable	(13,592)	(63,366)
Cash provided from operating activities	**15,279**	**(56,497)**
Paid interest	-	(5,459)
Paid income tax	(805)	(841)
Net cash flows from operating activities	**14,474**	**(62,797)**
Cash flows from investing activities	-	
Purchase of Fixed assets	(35,851)	11,191
Realization of Fixed assets	-	57,097
Net cash flows from investing activities	-	
Cash flows from financial activities	-	
Repayment of borrowings	-	(76,191)
Net cash flows from financial activities	**(21,377)**	**(70,700)**
Net Increase/(decrease) in cash and cash equivalents	**(21,377)**	**(70,700)**
Cash and cash equivalents at beginning of year	**103,837**	**174,537**
Cash and cash equivalents at end of year	**82,460**	**103,837**

Executive Director ________________________________ Avto Jokhadze

Notes on pages 9-22 are the integral part of these financial statements.

Statement of Changes in Reserves

For the year ended 31 December 2011

(In USD)

	Temporary restricted revenue	Retained reserves	Reserves for translation	Total reserves
Balance as at December 31 /2009	**549,472**	**398,516**	**(5,782)**	**942,207**
Net income (loss) for year	-	(45,269)	-	**(45,269)**
Transfer from restricted to unrestricted revenue	(184,715)	-	-	**(184,715)**
Exchange differences arising on the translation of the financial statements in US dollars	-	-	18,835	**18,835**
Balance as at December 31 /2010	**364,757**	**353,247**	**13,053**	**731,058**
Net income (loss) for year	-	(27,358)	-	(27,358)
Transfer from restricted to unrestricted revenue	108,454	-	-	108,454
Exchange differences arising on the translation of the financial statements in US dollars	-	-	14,277	14,277
Balance as at December 31 /2011	**473,211**	**325,889**	**27,330**	**826,431**

Executive Director ________________________________ Avto Jokhadze

Notes on pages 9-22 are the integral part of these financial statements.

Foundation Caucasian Institute for Peace, Democracy and Development

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. Adoption of new IFRSs

a) New standards, interpretations and amendments effective from 1 January 2011
None of the new standards, interpretations and amendments, effective for the first time from 1 January 2011, have had a material effect on the financial statements.

b) New standards, interpretations and amendments not yet effective
None of the other new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2011 and which have not been adopted early, are expected to have a material effect on the Organization's future financial statements.

3. 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 property, plant and equipment**. 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.

4. Significant accounting policies

Basis of preparation

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

The Organization, registered in Georgia, maintains accounting records in accordance with IFRS. These financial statements were prepared based on accounting records of the Organization. The Organization keeps its books and records in Georgian lari and the financial statements are also prepared in USD.

These financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value.

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 shareholders have the intention to further develop of the Organization in Georgia. The management believes that the going concern assumption is appropriate for the Organization.

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 3.

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".

Figures of the financial position are translated at the closing rate at the date of financial statements; figures of total comprehensive income are translated at average exchange rates of the reporting year.

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 31.12.10	1.7728	2.3500
Average exchange rate for 2010	1.7823	2.3643
Exchange rate as at 31.12.11	1.6703	2.1614
Average exchange rate for 2011	1.6860	2.3473

Revenues

Donors' contributions represent the Organization's main 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 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.

Property, plant and equipment

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.

Below are the useful lives of Property, plant and equipment by categories:

Group	Useful life
Building	20
Vehicles	5
Equipment	5

Impairment of assets

The Organization's acOrganizationing 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.

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 liabilitie*s

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.

5. 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

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

Financial assets

	Loans and receivables	
	2011	**2010**
Grants receivable	414,098	284,939
Accounts receivable	11,134	31,767
Cash and cash equivalents	82,322	103,837
	507,554	**420,543**

Financial Liabilities

		Financial liabilities
	2011	**2010**
Accounts payable	17,305	28,424
	17,305	**28,424**

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. As the Organization's main activity is managing grants, credit risk is not relevant for this type of organization.

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 2011	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Assets				
Grants receivable		414,098	-	**414,098**
Accounts receivables	11,134			**11,134**
Cash and cash equivalents	82,322	-	-	**82,322**
	93,456	**414,098**	**-**	**507,554**
Liabilities				**-**
Accounts payable	(17,305)			**(17,305)**
	(17,305)	**-**	**-**	**(17,305)**
Net liquidity gap	**76,151**	**414,098**	**-**	**524,859**
Cumulative liquidity gap	**76,151**	**490,249**	**490,249**	**1,015,108**

As at 31 December 2010	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Assets				
Grants receivable		284,939	-	**284,939**
Accounts receivables	31,767			**31,767**
Cash and cash equivalents	103,837	-	-	**103,837**
	135,604	**284,939**	**-**	**420,543**
Liabilities				**-**
Accounts payable	(28,424)			**(28,424)**
	(28,424)	**-**	**-**	**(28,424)**
Net liquidity gap	**107,180**	**284,939**	**-**	**448,967**
Cumulative liquidity gap	**107,180**	**392,119**	**392,119**	**841,086**

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 transactions of the Organization are highly effected by currency translation, though most of the translation effect is compensated by donor organizations.

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 2011 the Organization's financial assets and financial liabilities were denominated in the following currencies:

	GEL	USD	EUR	GBP	Total
	2011	**2011**	**2011**	**2011**	**2011**
Financial assets					
Grants receivable		-	392,045	22,053	**414,098**
Accounts receivables	11,134	-	-		**11,134**
Cash and cash equivalents	71,709	2,386	-	8,227	**82,322**
	82,843	**2,386**	**392,045**	**30,280**	**507,554**
Financial liabilities					
Accounts payable	(17,305)	-	-	-	**(17,305)**
	(17,305)	**-**	**-**	**-**	**- (17,305)**

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

	GEL	USD	EUR	GBP	Total
	2010	2010	2010	2010	2010
Financial assets					
Grants receivable	-	-	284,939	-	**284,939**
Accounts receivables	31,767	-	-	**-**	**31,767**
Cash and cash equivalents	33,556	40,998	29,283	-	**103,837**
	65,323	**40,998**	**314,222**	**-**	**420,543**
Financial liabilities					
Accounts payable	(28,424)	-	-	-	**(28,424)**
	(28,424)	**-**	**-**	**-**	**(28,424)**

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 any interest bearing asset 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.

6. Prior period errors

The Organization corrects prior period material errors retrospectively in the financial statements after their discovery by restating the comparative amounts for the prior period presented in which the error occurred; and if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities, equity and comprehensive income statements components for the earliest prior period presented.

In 2011, the Organization identified an error which effects the reporting period ended 31 December 2010. The effect on the financial statements for the year ended 31 December 2010 as a result of the errors and reclassifications was as follows:

	As previously stated	Adjustment	Restatement	As restated
Grants receivable	2,046,724	(1,761,785)		284,939
Accounts and other receivables	57,750		(25,983)	31,767
Accounts and other payable	(90,885)	36,478	25,983	(28,424)
Deferred income tax liability	(1,010)	1,010		-
Retained reserves	(313,867)	(1,019)		(314,886)
Temporary restricted revenue	(2,164,904)	1,761,785		(403,119)
Translation reserve	(23,416)	10,363		(13,053)

- Prior period core error was caused due to inappropriate recognition and presentation of Grants Receivables as well as Restricted Revenue. The Organization had recognized total amounts contracted by the donor organizations in 2009 and 2010. The amounts exceeded the budget determined for only Foundation Caucasian Institute for Peace, Democracy and Development.
- The Organization had not recognized tax asset (VAT recoverable) in prior years, because of that the Organization had increased Accounts and Other Payables in 2009 and 2010.
- In 2009 and 2010 the differences between accounting and tax bases were permanent, though, the Organization had recognized Deferred Income Tax Liability.

7. Cash and cash equivalents

Cash and cash equivalents as for 31 December 2011 can be presented as follows:

	2011	2010
Cash on hand		
In GEL	138	-
Cash in bank		
In GEL	71,709	37,262
In other currencies	10,613	66,575
	82,460	**103,837**

8. Grants receivable

Grants receivable as for 31 December 2011 can be presented as follows:

By Donor

	2011	2010
EED	-	3,930
SaferW/2009	-	4,346
IFS-RRM	-	26,509
MATRA	129,187	224,540
SaferW/2010	-	2,260
NED2010	-	15,000
PASOS	-	5,020
Swedish Conf.	-	3,334
EED2011	215,088	-

MFSII-22173	7,656	-
DCI-MIGR	42,338	-
OSCE/11	5,432	-
SaferW/2011	14,397	-
	414,098	**284,939**

9. Accounts and other receivables

Accounts and other receivables as for 31 December 2011 can be presented as follows:

	2011	**2010**
Receivables from suppliers	1,254	-
Receivables from accountable persons	601	6,221
Prepaid taxes	3,895	6,132
Paid advances	5,384	19,414
	11,134	**31,767**

10. Property, plant and equipment

Property, plant and equipment as for 31 December 2011 can be presented as follows:

Historical cost	**Equipment**	**Motor Vehicle**	**Building**	**Assets under construction**	**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**	**350,115**	**-**	**572,355**
Inflows	9,020	-	5,818	5,818	20,656
Outflows	-	-	-	- 5,818	5,818
As at December 31, 2011	**189,669**	**41,591**	**355,933**	**-**	**587,193**
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)**	**(25,164)**	**(52,484)**	**-**	**(212,402)**
Accrued for the year	(16,561)	(4,207)	(17,402)	-	(38,170)
As at December 31, 2011	**(151,315)**	**(29,371)**	**(69,886)**	**-**	**(250,572)**
Net book value					
Exchange rate difference from currency translation 2010	(2,649)	(1,045)	(17,322)	-	(21,016)
Exchange rate difference from currency translation 2011	(151.00)	(141.00)	(285.00)	-	**(577)**
As at 31 December 2009 (unaudited)	**52,267**	**20,548**	**351,122**	**-**	**423,937**
As at December 31, 2010	**43,246**	**15,383**	**280,309**	**-**	**338,939**
As at December 31, 2011	**38,203**	**12,079**	**285,762**	**-**	**336,044**

The Organization assessed that there was not any indication for impairment of its assets at the end of the reporting period.

11. Accounts and other payables

Accounts and other payables as for 31 December 2011 can be presented as follows:

	2011	**2010**
Payables towards accountable persons	10,313	12,519
Salary and similar payable	4,641	4,408
Payables to suppliers	699	1,968
Payables towards customers	-	992
Other payable	1,652	8,537
	17,305	**28,424**

12. Temporary restricted revenue

Temporary restricted revenue as for 31 December 2011 can be presented as follows:

	2011	**2010**
SaferW/2009	3,302	36,147
MATRA	180,962	300,366
SaferW/2010	-	11,968
NED2010	2,584	27,949
PASOS	1,739	14,378
Swedish Conf.	-	12,311
DCI-MIGR	50,876	-
IPA/2011	2,898	-
OSCE/11	3,790	-
EED2011	223,500	-
MFSII-22173	6,246	-
SaferW/2011	35,676	-
	511,573	**403,119**

13. Unrestricted revenue

Unrestricted revenue for 2011 can be presented as follows:

	2011	**2010**
DDH2		84,953
EED	13,512	169,627
MM/02/08	-	1,191
IS2009/2010	-	11,297
OSCE/09	-	42
CSONetwork	-	60
CIVICUS	-	16,159
NIMD2009	-	107
SaferW/2009	34,524	107,943
IFS-RRM	496	40,271

KAS	-	4,466
OSCE/10	-	47,219
NIMD2010	-	4,342
Effective...	-	8,669
MATRA	121,115	70,533
SaferW/2010	12,391	13,667
NED2010	25,768	12,443
PASOS	12,981	2,126
OSIMigration	-	239
Fellowship	-	91
EED2011	63,082	-
Swedish Conf.	13,255	-
SaferW/2011	83,427	-
MFSII-22173	29,996	-
IPA/2011	22,266	-
DCI-MIGR	10,096	-
OSCE/11	53,299	-
	496,208	**595,445**

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 2011 can be presented as follows:

	2011	**2010**
Salary expenses	(342,929)	(386,583)
Business trip expenses	(1,635)	(9,613)
Publication expenses	(19,036)	(6,355)
Office expenses	(5,077)	(6,728)
Training and seminar related expenses	(81,852)	(131,169)
Utilities	(3,938)	(4,927)
Depreciation and amortization expenses	(13,262)	(17,344)
Bank charges	(1,118)	(1,288)
Communication expenses	(11,230)	(9,478)
Insurance expenses	(946)	(612)
Transportation expenses	(9,432)	(12,724)
Professional service fees	(5,753)	(8,625)
	(496,208)	**(595,446)**

17. General and administrative expenses

General and administrative expenses for 2011 can be presented as follows:

	2011	2010
Depreciation and amortization expenses	(24,908)	(20,782)
Property tax expenses	(4,181)	(3,690)
Salary expenses	(1,798)	-
Communication expenses	(1,687)	(176)
Transportation expenses	(1,296)	(174)
Training and seminar related expenses	(365)	(651)
Publication expenses	(240)	-
Office expenses	(159)	(1,538)
Bank charges	(124)	(3)
	(34,758)	**(27,014)**

18. 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.