Crowe Horwath

Crowe Horwath GE LLC
Member Crowe Horwath International

Axis Business Palace, 4th floor
2, D. Gamrekeli Str., Tbilisi 0160, Georgia
+995 32 290 4522 Tel
+995 32 290 4523 Fax
www.crowehorwath.ge

FIRST STEP GEORGIA

FINANCIAL STATEMENTS

for the year ended 31 December 2017

and the Independent Auditors' Report

FIRST STEP GEORGIA

FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

CONTENTS:

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INDEPENDENT AUDITOR'S REPORT

To the Management of FIRST STEP GEORGIA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of FIRST STEP GEORGIA (the Organization) which comprise the statement of financial position as at 31 December 2017, and the statement of activities and changes in net assets, statement of changes in accumulated funds and statement of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2017, and its activities and changes in net assets and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants" Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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.

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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 skepticism 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 Organization'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 Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Organization to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Other Matter

The financial statements of the Organization for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements.

Crowe Horwath GE LLC

Natela Tchigladze
Partner

N. Tchigladze

Crowe Horwath GE LLC

31 March 2018

FIRST STEP GEORGIA

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(In GEL)

	Note	31 December 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents	3	469,559	444,799
Receivables	4	104,701	101,320
Inventories	5	792	13,341
Prepaid Tax		6,402	842
Prepaid expenses		16	2,149
Total current assets		**581,470**	**562,451**
Non-current assets			
Fixed assets	6	579,191	559,845
Intangible assets	7	9,261	9,009
Total non-current assets		**588,452**	**568,854**
Total assets		**1,169,922**	**1,131,305**
ACCUMULATED FUNDS AND LIABILITIES			
Current liabilities			
Accounts payable	8	35,104	16,114
Taxes payables			3,122
Accrued liabilities	9	7,713	8,313
Total current liabilities		**42,817**	**27,549**
Accumulated Funds			
Restricted funds		987,324	887,318
Unrestricted funds		139,781	216,438
Total accumulated funds		**1,127,105**	**1,103,756**
Total accumulated funds and liabilities		**1,169,922**	**1,131,305**

The financial statements for the year ended 31 December 2017 were approved on behalf of the management on 31 March 2018 by:

Director _______________ Tamar Zaalishvili

Accountant _______________ Lali Svimonishvili

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

FIRST STEP GEORGIA

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended 31 December 2017

(In GEL)

	Note	2017			2016		
		Restricted	Unrestricted	Total 2017	Restricted	Unrestricted	Total 2016
Revenue from Child Care Activities		-	1,039,136	1,039,136	-	760,783	760,783
Contribution from Donors	10	470,484	-	470,484	435,028	-	435,028
Income from donations	11	-	221,059	221,059	-	288,901	288,901
Total Incoming Resources		**470,484**	**1,260,194**	**1,730,679**	**435,028**	**1,049,684**	**1,484,712**
Program expenses	12	(430,087)	(971,903)	(1,401,990)	(250,234)	(688,331)	(938,565)
Administrative expenses	13	(138,735)	(67,941)	(206,676)	(126,672)	(77,755)	(204,427)
Depreciation expenses		(63,347)	(115)	(63,462)	(50,695)	(743)	(51,438)
Total Expenditures		**(632,169)**	**(1,039,959)**	**(1,672,128)**	**(427,602)**	**(766,829)**	**(1,194,430)**
Net surplus/deficit on operating activities		**(161,685)**	**220,236**	**58,551**	**7,426**	**282,856**	**290,282**
Non-operating expenses		(8,951)	(56,261)	(65,212)	-	(27,422)	(27,422)
Non-operating income		8,900	22,521	31,421	24,903	18,606	43,510
Total Financial Activities		**(51)**	**(33,740)**	**(33,791)**	**24,903**	**(8,816)**	**16,088**
Net surplus/deficit before tax		**(161,736)**	**186,496**	**24,760**	**32,330**	**274,040**	**306,370**
Income tax expenses							
Net surplus/deficit After tax		**(161,736)**	**186,496**	**24,760**	**32,330**	**274,040**	**306,370**

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

FIRST STEP GEORGIA

STATEMENT OF CHANGES IN ACCUMULATED FUNDS

For the year ended 31 December 2017

(In GEL)

Statement of changes in equity

	Note	Restricted	Unrestricted	Total
1 January 2017		**887,318**	**216,438**	**1,103,756**
Addition in Charter capital		(161,734)	186,493	**24,759**
Prior year differences			(1,410)	**(1,410)**
Total comprehensive loss for the year				**-**
31 December 2017		**725,584**	**401,521**	**1,127,105**

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

FIRST STEP GEORGIA

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(In GEL)

	Note	2017	2016
Cash flows from operating activities			
Net surplus before tax		**24,760**	**306,370**
Adjustments for:			
Depreciation and amortization		63,462	51,438
Cash inflows from operating activities before changes in operating assets and liabilities		**88,222**	**357,808**
Movements in working capital			
Increase in accounts receivable		(3,381)	(82,828)
Decrease (increase) in inventories		12,549	1,859
Decrease in prepaid tax		(5,560)	1,860
Increase in prepaid expenses		2,133	(2,133)
Increase in accounts payable		17,580	9,137
Increase in taxes payable		(3,122)	804
Decrease in accrued liabilities		(600)	(600)
Cash inflow from operating activities		**107,821**	**285,907**
Cash flows from investing activities			
Purchase of property, plant and equipment		(95,931)	(51,675)
Proceeds from intangible assets disposals		12,870	-
Net cash inflow/(outflow) from investing activities		**(83,061)**	**(51,675)**
Net increase in cash and cash equivalents		**24,760**	**234,232**
Cash and cash equivalents at the beginning of the year	3	**444,799**	**210,567**
Cash and cash equivalents at the end of the year	3	**469,559**	**444,799**

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

FIRST STEP GEORGIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

1. General information

First Step Georgia ("the Organization") is a non-profit organization dedicated to enhancing the quality of life for children with special need by providing direct care, public advocacy, family support services and training.

The Organization exits to create safe, supportive and nurturing environments for children with mental and physical disabilities so they can receive the specific educational, physical, mental and medical support their conditions require.

The Organization strives to create these environments in several ways:

- In day care centers, where organization provides direct services to and for disabled children;
- In the private homes of disabled children, where organization provides services, training and support to children and the families of these children, lessening their isolation;
- In broader society, where organization works to de-stigmatize disabilities in general;
- On policy levels, where organization lobbies the government to be more aware, inclusive, supportive and responsive to the particular needs of this group of Georgian citizens.

The legal address of the Organization is 150 ave Agmashenebeli, Tbilisi, Georgia. The Organization is registered in November 6, 1998 year and the tax code is 202 061 838.

Donor: The Next Step

Project period: 2017 Year

Budget: 63,968 USD

Project goals and description: By funding of TNS First Step provides special services, projects, trainings, new initiatives, administrative work, fundraising activities, and collaboration with the government and other stake holders provided and implemented by First Step Georgia in 2017.

Donor: AMERICAN FRIENDS OF GEORGIA

Project period: 2017 Year

Budget: 19,000 USD

Project goals and description: By funding of TNS First Step provides special services, projects, trainings, new initiatives, administrative work, fundraising activities, and collaboration with the government and other stake holders provided and implemented by First Step Georgia in 2017.

Donor: Open Society Foundation

Project budget: 236,810 GEL

Project period: 2017 Years

Project goals and description: Development of professional supervision, service monitoring and quality management system in the framework of Early Childhood Intervention program, Funder –Open Society Foundation Georgia.

Project implements supervision and monitoring on already launched Early Childhood Development program in Tbilisi as well as in regions –Telavi, Kutaisi and Batumi.

Main directions are to supervise specialists, attend working sessions, provide recommendations and promote the process of awareness rising regarding early intervention across the country.

FIRST STEP GEORGIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

2. Summary of significant accounting policies

Principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs)

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies.

b) Basis of measurement

The financial statements have been prepared under the historical cost bases.

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

c) Going concern

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

2.2 Adoption of new or revised standards and interpretations

a) New standards, interpretations and amendments effective from 1 January 2017

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12);
Disclosure Initiative (Amendments to IAS 7);
Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)

None of the amendments to Standards noted above that is effective from that date had a significant effect on the Organization's financial statements.

b) New standards, interpretations and amendments not yet effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017, and which the Organization has not early adopted. This listing of standards and interpretations issued, which the Organization reasonably expects to be applicable at a future date, therefore intends to adopt those standards when they become effective:

IFRS 15 Revenue from Contracts with Customers.

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. This standard is effective for annual periods beginning on or after 1 January 2018.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when „control" of the goods or services underlying the particular performance obligation is transferred to the customer. The Organization is currently assessing the possible impact of the new standard on its financial statements.

FIRST STEP GEORGIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

2. Summary of significant accounting policies (continued)

IFRS 9 "Financial Instruments: Classification and Measurement"

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a „three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

The Organization is currently assessing the possible impact of the new standard on its financial statements.
This standard is effective for annual periods beginning on or after 1 January 2018.

Principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Organization operates („the functional currency"). Financial statements are presented in Georgian Lari (GEL), which is the Organization's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are included in the statement of profit or loss and other comprehensive income for the period.

Foreign exchange gains and losses resulted from monetary assets/liabilities are presented in the statement of comprehensive income within "Non-operating income and Non-operating expenses".

	Official rate of the National Bank of Georgia
	USD
Exchange rate as at 31.12.2017	2.5922
Exchange rate as at 31.12.2016	2.6468

FIRST STEP GEORGIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

2. Summary of significant accounting policies (continued)

2.4 Revenue

2.4.1 Rendering of service

Revenue from rendering of services is recognized when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably

2.4.2 Grants received

Received grants are presented in the statement of financial position as restricted fund and is recognized as Contribution from Donors in statement of activity and changes in net assets over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

2.4.3 Donation

Donations collected, including cash and goods for resale, are recognized as revenue when the Organization gains control, economic benefits are probable and the amount of the donation can be measured reliably.

2.4.4 Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Organization and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2.5 Income Tax

Income tax expense represents the sum of the tax currently payable. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are not taxable or deductible in current period. The Organization's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.6 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences, except where the Organization is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.[1]

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

[1] Not applicable for the Organization. Practices of the recognition of the differed tax assets or liabilities are not implemented.

FIRST STEP GEORGIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

2.7 Taxes other than income tax

Taxes other than income tax are recognized when obligating events have occurred. The obligating events are an event that raises a liability to pay a tax. Taxes are calculated in accordance with Georgian legislation. Prepaid taxes are recognized as assets.

2.8 Property, plant and equipment

All Property, plant and equipment is carried at its historical cost less any accumulated depreciation and accumulated impairment losses. The historical cost of an item of Property, plant and equipment comprises (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; (b) any costs directly attributable to bringing the item to the location and condition necessary for it to be capable of operating in the manner intended by the management of the Organization; (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, (d) the obligation for which the Organization incurs either when the item is acquired or as a consequence of having used the item during a particular period.

Subsequently capitalized costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the statement of profit or loss and other comprehensive income as incurred.

Charging depreciation on the Property, plant and equipment or particular items starts when such Property, plant and equipment are ready to use in the manner intended by the management of the Organization. Depreciation of Property, plant and equipment is charged so as to write off the depreciable amount over the useful life of an asset and is calculated using a straight line method.

2. Summary of significant accounting policies (continued)

Useful lives of Property, plant and equipment are as follows:

	Useful lives
Building	4%
Vehicles	33%
Office equipment	20%
Computers & accessories	30%
Furniture and Equipment	25%
Outdoor infrastructure	20%

2.9 Intangible assets

Intangible assets are carried at cost less accumulated amortization. Amortization is recognized on a straight-line basis over 15%. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal; or when no future economic benefits are expected from use or disposal. Gains or losses arising from recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in the statement of activity.

FIRST STEP GEORGIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

2. Summary of significant accounting policies (continued)

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the Organization from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The weighted average cost method is used for inventories.

Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.11 Financial instruments

Financial assets

The Organization classifies its financial assets into one of the following categories: financial assets „at fair value through profit or loss (FVTPL), „held-to-maturity' investments, „available-for-sale' (AFS) financial assets and „loans and receivables', depending on the purpose for which the asset was acquired.

The Organization's financial assets represent 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 (e.g. trade receivables), 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, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized within general and administrative expenses in the statement of activities. On confirmation that the trade receivable 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 trade and other receivables and cash and cash equivalents in the statement of financial position. Cash and cash equivalents include cash on hand and current accounts with banks. Cash and cash equivalents are carried at fair value.

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 financial liabilities represent financial liabilities at cost. Financial liabilities at cost includes trade payables and other short-term monetary liabilities, which are initially recognized at fair value.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

FIRST STEP GEORGIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

2. Summary of significant accounting policies (continued)

2.12 Recognition of 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.

3. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Cash in GEL in banks	99,922	221,117
Cash in USD in banks	339,283	201,597
Cash in EUR in banks	30,354	20,774
Total cash in banks	**469,559**	**443,488**
Petty cash in Gel		1,311
Total petty cash		**1,311**
Total Cash & Bank	**469,559**	**444,799**

4. Accounts receivables

Accounts receivables as at 31 December 2017 and 2016 can be presented as follows:

Carrying amounts of financial receivables within accounts receivables approximate fair values due to their short term maturities. All parts of accounts receivables are not past due and not impaired.

	2017	2016
Trade receivables	97,495	61,249
Advances to suppliers	939	29,434
Receivable from proceeds of fixed assets	2,550	2,550
Receivable from donors	3,394	8,062
Receivable from personnel	323	25
Net trade and other receivables	**104,701**	**101,320**

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

5. Inventories

Inventories as at 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Donated gifts for sale	7,935	12,500
Advertising materials		841
Total	**7,935**	**13,341**

FIRST STEP GEORGIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

6. Fixed assets

Fixed assets as at 31 December 2017 can be presented as follows:

Historical cost	Land	Buildings	Office equipment	Computers & accessories	Outdoor infrastructure	Furniture and Equipment	Vehicles	Total
Historical cost 01.01.2017	**1,600**	**921,953**	**15,761**	**50,263**	**25,210**	**136,920**	**77,758**	**1,229,465**
Additions				2,354	39,407	38,609	11,361	**91,731**
Disposals						(12,870)		**(12,870)**
Historical cost 31.12.2017	**1,600**	**921,953**	**15,761**	**52,617**	**64,617**	**162,659**	**89,119**	**1,308,326**
Accumulated depreciation								
Accumulated depreciation 01.01.2017		**(418,049)**	**(9,666)**	**(45,176)**	**(20,911)**	**(132,607)**	**(43,211)**	**(669,620)**
Depreciation charge for the year		(37,850)	(155)	(3,073)	(368)	(7,416)	(10,654)	**(59,515)**
Disposals								
Accumulated depreciation 31.12.2017		**(455,899)**	**(9,821)**	**(48,249)**	**(21,279)**	**(140,023)**	**(53,865)**	**(729,135)**
Net book value								
Net book value 31.12.2016	**1,600**	**503,904**	**6,095**	**5,087**	**4,299**	**4,313**	**34,547**	**559,845**
Net book value 31.12.2017	**1,600**	**466,054**	**5,940**	**4,368**	**43,338**	**22,636**	**35,254**	**579,191**

7. Intangible assets

Intangible assets as at 31 December 2017 can be presented as follows:

Historical cost	Social Clip	Accounting Software	Communication Software	Other	Total
Historical cost 01.01.2017	**14,673**	**1,700**	**1,000**	**13,976**	**31,349**
Additions	-	4,200	-	-	4,200
Historical cost 31.12.2017	**14,673**	**5,900**	**1,000**	**13,976**	**35,549**
Accumulated amortization					
Accumulated amortization 31.12.2016	**(12,132)**	**(1,336)**	**(729)**	**(8,143)**	**(22,340)**
Amortization charge for the year	(1,434)	(12)	(405)	(2,096)	(3,948)
Accumulated amortization 31.12.2017	**(13,566)**	**(1,348)**	**(1,134)**	**(10,239)**	**(26,288)**
Net book value					
Net book value 31.12. 2016	**2,541**	**364**	**271**	**5,833**	**9,009**
Net book value 31.12.2017	**1,107**	**4,552**	**(134)**	**3,737**	**9,261**

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NOTES TO THE FINANCIAL STATEMENTS

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8. Accounts payables

Accounts payables as at 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Trade payables	6,849	4,897
Salaries payable	-	2,327
Other payables	35,968	8,890
Total	**42,817**	**16,114**

Carrying amounts of financial liabilities within trade and other payables approximate their fair value due to short term maturities.

9. Accrued liabilities

Accrued liabilities as at 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Penalty payable to the Ministry of Labor Health & Social Affairs of Georgia	7,712	8,313
Total	**7,712**	**8,313**

10. Contribution from Donors

Contribution from donors for the year ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Irish Fund TNS	153,799	320,312
DEPT OF FOREIGN AFFAIRS/BOL		44,504
Germany Embassy		28,017
Coalition For Independent Living		22,466
OSGF		15,820
European Fund		3,909
Open Society Georgia	236,810	
Women International Association IWA	5,151	
US Embassy	28,779	
American Friends for Georgia	45,944	
Total	**470,484**	**435,028**

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11. Income from donations

Income from donations for the year ended 31 December 2017 and 2016 can be presented as follows:

Cash Based Donations	**2017**	**2016**
Individuals	168,931	142,552
Charity Action		58,255
JSC MFO Crystal	5,000	23,679
Tbilisi culture events center		15,000
JSC Bank Republic		4,120
LLC EY		1,850
LLC Gulf		1,000
LLC Nova Technologies	169	440
LLC Emoney Georgia		235
Colliers International Georgia		215
Finka bank	5,001	
Industrial Group Georgia	4,300	
Liberty Bank	11,356	
LLC "DIO"	1,600	
LLC "Oriflame"	1,000	
Vissol	5,000	
Germany Embassy	2,721	
Non-Cash based donations	7,090	
Other donations and related income	8,891	
Total Cash Based Donations	**221,059**	**247,346**

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

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

12. Program expenses

Program expenses for the year ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Staff salary	(1,116,751)	(749,795)
Utilities expense	(14,039)	(34,267)
Repairing expense	(25,096)	(23,160)
Fuel expense	(26,354)	(20,673)
PR expense	(8,035)	(6,703)
Vehicle maintenance expense	(8,148)	(2,934)
Insurance expense	(5,968)	(1,709)
Business trip expense	(31,448)	(850)
Communication expense	(5,067)	(239)
Other expense	(161,085)	(98,235)
Total	**(1,401,991)**	**(938,565)**

13. Administrative expenses

Administrative expenses for the year ended 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Administration salary	(139,040)	(117,040)
Representation expense	(10,668)	(32,653)
Tax expense	(8,759)	(10,135)
Communication expense	(5,193)	(9,167)
Stationary expense	(3,080)	(5,391)
Consulting expense	(660)	(5,180)
Printing expense	(331)	(4,748)
Bank commission	(891)	(3,790)
Hygiene material expense	(10,207)	(3,046)
Transporting expense	(847)	(1,576)
Hotel expense		(1,603)
Computer expense	(1,341)	(1,674)
Administrative insurance expense		(1,785)
Training expense		(763)
Vehicle maintenance expense		(250)
Business trip expense	(719)	
Utilities	(18,236)	
Other expenses	(6,703)	(5,625)
Total	**206,674)**	**(204,426)**

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

14. Financial instruments - Risk Management

The Organization is exposed through its operations to the following financial risks:

- Credit risk
- Interest rate risk
- Foreign currency risk
- Liquidity risk

In common with all other businesses, the Organization is exposed to risks that arise from its use of financial instruments. 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.

There have been no substantive changes in the Organization's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Major categories of financial instruments

The Organization's principal financial liabilities comprise trade and other payables. The main purpose of these financial instruments is to raise finance for the Organization's operations. The Organization has various financial assets such as accounts receivables, cash and cash equivalents.

Major categories of financial instruments as at 31 December 2017 and 2016 can be presented as follows:

	2017	2016
Financial assets		
Trade and other receivables	103,439	71,861
Cash and cash equivalents	469,559	444,799
Total financial assets	**572,998**	**516,660**

	2017	2016
Financial liabilities		
Trade and other payables	42,817	16,114
Total financial liabilities	**42,817**	**16,114**

Fair value of financial instruments

A number of assets and liabilities included in the Organization's financial statements require disclosure of, fair value. The fair value measurement of the Organization's financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the „fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

Fair value is 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. The estimated fair values of financial instruments have been determined by the Organization using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(In GEL)

14. Financial instruments – Risk Management (continued)

Financial assets carried at amortized cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. **Carrying amounts of accounts receivables approximate fair value due to their short term maturities.**

Liabilities carried at amortized cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Management of the Organization considers that the carrying amounts of financial liabilities recorded in the financial statements approximate their fair value.

The fair value of cash and cash equivalents were determined using level 1 measurement and the fair value of other financial assets and liabilities were determined using level 3 measurement.

General objectives, policies and processes

The directors has overall responsibility for the determination of the Organization's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Organization's finance function.

Foreign currency risk

Currency risk is the risk that the financial results of the Organization will be adversely impacted by changes in exchange rates to which the Organization is exposed. The Organization undertakes certain transactions denominated in foreign currencies. The Organization does not use any derivatives to manage foreign currency risk exposure.

The carrying amounts of the Organization's foreign currency denominated monetary assets and liabilities as at 31 December 2017 and 2016 were as follows:

	2017		**2016**	
	USD	**EUR**	**USD**	**EUR**
Financial assets				
Cash and cash equivalents	339,283	30,354	201,597	20,774
Total financial assets	**339,283**	**30,354**	**201,597**	**20,774**

The following table details the Organization's sensitivity to a 20% increase and decrease in the GEL against the relevant foreign currencies. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. Impact on profit before tax based on asset values is presented in the table below:

	USD impact		**EUR impact**	
	USD/GEL + 20%	USD/GEL – 20%	EUR/GEL + 20%	EUR/GEL – 20%
Profit/(loss) before tax 2017	67,857	(67,857)	6,071	(6,071)
Profit/(loss) before tax 2016	40,319	(40,319)	4,155	(4,155)

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Organization. The Organization has not floating or fixed interest rates financial instruments.

FIRST STEP GEORGIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017
(In GEL)

14. Financial instruments – Risk Management

(continued) Credit risk

Credit risk is the risk of financial loss to the Organization if counterparty to a financial instrument fails to meet its contractual obligations. The Organization is mainly exposed to credit risk from its accounts receivables, cash, and cash equivalents (excluding cash on hand).

The Organization's management has established a credit policy under which each customer is analyzed individually for creditworthiness before the Organization's standard payment and delivery terms and conditions are offered.

In monitoring customer credit risk, customers are grouped according to their overdue status, including whether they are an individual or legal entity. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the Management, and future sales are made necessary on a prepayment basis. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 31 December 2017 and 2016 were as follows:

	2017	**2016**
Trade receivable and other receivable	103,439	71,861
Cash and cash equivalents except cash on hand	469,559	444,799
Total	**572,998**	**516,660**

Liquidity risk

Liquidity risk is the risk that the Organization will not be able to settle all liabilities as they are due. The following tables detail the Organization's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as at 31 December 2017 and 2016:

Less than 1 year	**2017**	**2016**
Non-interest bearing financial liabilities:		
Accounts payables	35,103	16,114
Total financial liabilities	**35,103**	**16,114**

15. Related party transaction

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Company and other related parties are disclosed below:

Key management personnel compensation for the year ended 31 December 2017 can be presented as follows:

	2017	**2016**
Key management personnel compensation:	**(41 875)**	**(35,621)**
Short-term employee benefits	(41 875)	(35,621)

16. Commitments and contingencies

Capital commitments- the management is not aware of any commitments and contingencies. Which would have a material impact on the financial statements of the Organization for the year ended 31 December 2017 and 2016.

Operating environment- the Organization's principal activities are within Georgia. Laws and regulations affecting the business environment in Georgia are subject to rapid changes and the Organization's assets and operations could be at risk due to negative changes in the political and business environment.

17. Events after the reporting period

There were no significant events subsequent to the balance sheet date.

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