

Georgian Federation of Professional Accountants and Auditors (GFPAA)

Independent Auditor's Report

and

Consolidated Financial Statements

for the Year that Ended on December 31, 2017

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Intellect Audit

Audit Company

Independent Auditor's Report

To the management of Georgian Federation of Professional Accountants and Auditors (GFPAA),
NCLE

Auditor's Report on Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Georgian Federation of Professional Accountants and Auditors (GFPAA), NCLE, which comprise statement of financial position as at December 31, 2017, and the comprehensive 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 disclosures.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Georgian Federation of Professional Accountants and Auditors (GFPAA), NCLE, as at December 31, 2017, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards for Small and Medium Enterprises (IFRS of SMEs).

Basis for Auditor's Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities as defined under the standards are described in detail in the section 'Auditor's Responsibility for the Audit of Financial Statement' of the Auditor's conclusion. We are independent from the Georgian Federation of Professional Accountants and Auditors in compliance with the Code of Ethics issued by International Ethics Standards Board for Accountants (IESBA) and those ethical norms, which are related to the audit of the financial statements conducted by us. Besides, we fulfilled other ethical obligations required by the norms and the Code of Ethics by IESBA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's and Persons' Charged with Governance Responsibility for the Financial Statements

Management is responsible for preparation and fair presentation of the financial statements in accordance with with International Financial Reporting Standards for Small and Medium Enterprises (IFRS of SMEs), as well as for establishment of such internal control that it considers necessary for 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 GFPAA'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 Company or to cease operations, or has no realistic alternative but to do so.

The persons charged with governance are responsible for overseeing the GFPAA's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement whether due to fraud or error and to prepare auditor's report, which contains our opinion. The reasonable assurance represents high level assurance but it is not a guarantee that audit conducted in accordance with ISA will always reveal any such misstatement. The misstatements might be caused due to fraud or error and they are considered material if it is reasonably expected that they, together or separately, will have impact on the economic decisions of those users taken on the basis of these financial statements.

Lasha Vepkhvadze
[signed]
Engagement Partner
11/05/2018

Audited Consolidated Financial Statements of Georgian Federation of Professional Accountants and Auditors (GFPAA), as of December 31, 2017

Consolidated Comprehensive Income Statement
for the year ended December 31, 2017 (GEL)

		<i>2017</i>	<i>2016</i>
Revenue	1)	1,430,178	1,200,760
Other Income	2)	373,623	321,454
Changes in Inventory and Work-in-progress		(4,078)	(31,891)
Work Completed and Capitalized		–	–
Purchase of Inventory		(96,133)	(90,097)
Salary Expense		(893,831)	(873,418)
Depreciation and Amortization Expense		(42,120)	(47,639)
Purchased Service Expense		(335,309)	(295,282)
Foreign Exchange Difference Expense		(675)	(22,383)
Tax Expense		(7,081)	(7,337)
Other Operating Expense	3)	(221,239)	(90,150)
Profit-Loss from Operating Activities		203,335	64,017
Financial Costs		–	
Profit-Loss Before Taxes		203,335	64,017
Profit Tax		(1,729)	44,936
Net Profit-Loss of the Reporting Period		201,606	108,953
Share of parent company		95,590	20,418
Non-controlling share		106,016	88,535

Consolidated Statement of Financial Position
as of December 31, 2017 (GEL)

Assets		31.12.2017	31.12.2016
Non-Current Assets			
Property, Plant and Equipment, Net	4)	685343	713169
Intangible Assets	5)	24225	30562
Deferred Tax Asset		42582	40088
Investments in Other Entities		400	400
Total Non-Current Assets		752550	784219
Current Assets			
Inventory	6)	69838	73915
Receivables and Prepayments	7)	249312	384978
Cash and Cash Equivalents	8)	1076662	839811
Total Current Assets		1395812	1298704
Total Assets		<i>2148362</i>	<i>2082923</i>
Equity and Liabilities			
Capital and Reserves			
GFPAA Development Fund		1,454,866	1,434,797
Retained Earnings		112,016	36,495
Non-controlling share		415,799	397,982
Total Capital and Reserves		1,982,681	1,869,274
Non-current Liabilities			
Deferred Income Tax		4905	5925
Deferred Income	9)	38410	47559
Total Non-current Liabilities		43315	53484
Current Liabilities			
Trade and Other Payables	10)	113023	139864
Tax Liabilities	11)	9343	20301
Total Current Liabilities		122366	160165
Total Equity and Liabilities		<i>2148362</i>	<i>2082923</i>

Consolidated Cash Flow Statement
for the Year Ended on December 31, 2017 (GEL)

	2017	2016	
Cash Flows from Operating Activities			
Cash receipts from customers	1707332	1421603	12)
Membership fees	164828	130133	
Dividends issued	(83790)	(80066)	
Other operating income	108773	73977	
Exchange rate difference	6	(20178)	
Cash paid to suppliers	(139433)	(142966)	
Salaries paid	(767017)	(738821)	
Membership fees paid	(13527)	(12087)	13)
Payment of administrative and other non-operating expenses	(281003)	(299976)	14)
Taxes paid	(447711)	(400872)	15)
<i>Net cash from operating activities</i>	248458	(69253)	
Cash flows from investing activities			
Proceeds from disposal of non-current assets	0	0	
Purchase of property, plant and equipment	(11607)	(16439)	
<i>Net cash flows from investing activities</i>	(11607)	(16439)	
Net increase in cash and cash equivalents	236851	(85692)	
Cash and cash equivalents at the beginning of the reporting period	839811	925503	
Cash and cash equivalents at the end of the reporting period	1076662	839811	

Statement of Changes in Equity
for the Year Ended on December 31, 2017 (GEL)

	GFPAA Development Fund	Non-controlling share	Total
Balance at 31.12.2015	<i>1450874</i>	<i>393727</i>	<i>1844601</i>
Current period net profit-loss	<i>20419</i>	<i>88535</i>	<i>108954</i>
Dividends issued	<i>0</i>	<i>(84280)</i>	<i>(84280)</i>
Balance at 31.12.2016	<i>1471293</i>	<i>397982</i>	<i>1869274</i>
Current period net profit-loss	<i>95590</i>	<i>106016</i>	<i>201606</i>
Dividends issued	<i>0</i>	<i>(88200)</i>	<i>(88200)</i>
Balance at 31.12.2017	<i>1566882</i>	<i>415799</i>	<i>1982681</i>

Accounting Policy Used in Preparing Consolidated Financial Statements and Disclosures for the Year Ended on December 31, 2017

1. Background

According to the Georgian legislation **Georgian Federation of Accountants and Auditors (GFPAA)** represents membership based professional organization (registered union). Legal address and location of the GFPAA is 61 Tsereteli Avenue, Tbilisi, Georgia. Activities of the GFPAA are mainly related to training, re-training, professional certification and continuous education of accountants and auditors. This consolidated financial statements represents Annual Consolidated Financial Statements of GFPAA and its subsidiary LTD Institute of Professional Accountants. The institute carries out educational activities.

Economic activities of the GFPAA are mainly related to training, re-training, professional certification and continuous education of accountants and auditors.

GFPAA operates through headquarters of its subsidiary LTD Institute of Professional Accountants and the following regional and district branches:

- Ajara Autonomous Republic Branch;
- Imereti Regional Branch;
- Samegrelo-Zemo Svaneti Regional Branch;
- Kakheti Regional Branch;
- Rustavi District Branch
- Poti District Branch;
- Gori District Branch

GFPAA owns shares (20%) also of legal entity – LTD Accounting Magazine.

2. Basis for preparation of financial statements and accounting policy

This Consolidated Financial Statement is prepared in accordance with International Financial Reporting Standards issued by the Service for Accounting, Reporting and Auditing Supervision.

GFPAA applied IFRS for SMEs for the first time for preparation of 2017 Consolidated Financial Statements. GFPAA used simplified accounting standards for small entities approved by the Accounting Standards Commission of the Parliament of Georgia in previous periods. Respectively, Consolidated Financial Statements as of December 31, 2016 was not presented.

Georgian Lari is reporting currency. Quantitative data in the financial statements is rounded to the nearest one. The reporting period coincides with calendar year.

Basis for Consolidation

The Consolidated Financial Statements includes Financial Statements of GFPAA and its subsidiary LTD Institute of Professional Accountants. It is prepared on the basis of going concern principle and accrual accounting. All intragroup transactions, balances, income and expenses are eliminated in the financial statements.

Information on the subsidiary of GFPAA:

##	Name	Main Activity	Place of Registration and Operations	Owned share/voting shares (%)	
				31/12/2017	31/12/2016
1	LTD Institute of Professional Accountants	Training, re-training of accountants	Georgia	51	51

3. Methods used in Preparation of the Financial Statements and Assessments

Consolidation Principle

The consolidated financial statement reflects financial information of the GFPAA group as a whole economic entity. In preparing the Consolidated Financial Statements:

- (a) Financial Statements of GFPAA and its subsidiary are unified item by item, by summing up similar assets, liabilities, and equity, income and expense items;
- (b) Balance of the investment by GFPAA in the subsidiary is eliminated as well as share of GFPAA in equity of its subsidiary;
- (c) Non-controlling share is assessed and reflected in the reporting period income or loss of the consolidated subsidiary, separately from GFPAA's share;
- (d) Non-controlling share in net assets of the consolidated subsidiary is assessed and reflected separately from GFPAA's share.

Property, Plant and Equipment

Property, plant and equipment (PPP) is reflected in the balance at purchase cost, reduced by accumulated depreciation. Depreciation is calculated using straight-line depreciation method. Useful life of the property, plant and equipment is defined individually and varies from 2 to 10 years. Depreciation rate by the PPE groups are as follows:

¹¹	Group	Depreciation Rate %
1	Office equipment	20-30
2	Furniture and fixtures	25-50
3	Vehicles	10-15

Investments in other entities are reflected in the balance sheet at nominal cost.

Inventory

Inventory is reflected in the balance sheet at lower of the cost of purchase/production and net realization value at the balance sheet date. FIFO method was used in valuing the inventory.

Receivables and prepayments

Receivables and prepayments are carried at nominal value.

Cash and cash equivalents

Cash is carried at nominal value. Foreign currency denominated cash is translated into local currency using exchange rate at the balance sheet date.

Liabilities

Short term liabilities are carried at the amount, which is due within 12 months after the balance sheet date. Long term liabilities represent deferred income (which equals to the book value of assets received as grant or contributions).

Income

Income from sales is recognized when the risks are transferred. Income is reduced by discounts and returns. Such income as cash grant is reflected in income when it is used. Non-cash income received as assets is carried in the financial statements in line with their sale and depreciation. Membership fees are accrued as of the last day of the reporting period.

Expenses

Expenses related to the generation of income in the period are represented as expense items in the financial statements.

Investments in Associates

Investment in associate is accounted using cost model. Investments in associates is measured by accumulated impairment loss reduced by cost.

Income Tax

Income tax expense is sum of income tax payable during current period and deferred income tax. Current income tax payable is based on taxable profit.

Deferred tax is recognized with regard to the difference between carrying amount of assets and liabilities reflected in the financial statements and their respective tax base (so called temporary difference). Deferred

tax liability is recognized for each temporary difference that is expected to increase future taxable profit. Deferred tax assets are recognized for each temporary difference that is expected to decrease future taxable profit and with regard to unused tax credit as well. Deferred tax assets are measured at maximum possible amount that is more likely to recover based on current taxable profit or future taxable profit.

Net carrying amount of deferred tax assets is reviewed for each reporting date and it is adjusted in order to reflect current assessment of future taxable profit. Any adjustment is recognized in profit or loss.

Deferred tax is calculated using the tax rates, which will probably apply to taxable profit (taxable loss) of the periods, when the entity expects to use deferred tax asset or to pay deferred tax liability and is valid or materially valid by the reporting date.

Accounting policy related to profit tax is applied in the consolidated financial statements only to the parent company as different approach is used for recognition of profit tax as expense with regard to the subsidiary. Profit tax of the subsidiary is recognized as expense when dividends are paid and settlements are made.

Adoption of IFRSs for SMEs has not caused material changes to the Consolidated Financial Statements, except those described in Note 16.

4. Annexes to Comprehensive Income Statement

1. Revenue

Note 1

Revenue received through selling of goods, services and works is broken down as follows:

Revenue

Name	2017	2016
Realization	121198	105445
Teaching process	1081458	960985
Other operating income	227522	134330
Total Revenue:	1430178	1200760

Realization includes revenue from sale of goods as well as own produce. Teaching process revenue includes all revenues generated from all types of educational programs and examinations of GFPAA and LTD Institute of Professional Accountants.

2. Other Income

Note 2

Other income includes income received from various sources. They are broken down as follows:

3. Other Operating Income

Name	2017	2016
Membership fee of corporate members	94350	131080
Membership fee of physical entities	142473	108184
Membership initiation fee	4185	3740
Dividend	0	263
Interest Income	77033	75048
Contributions and income from realization of books purchased by and grants	3583	0
Contributions and depreciation of property, plant and equipment purchased by grants	247	0
Non-claim income	51746	1800
Contributions	0	0
Exchange rate difference	6	1339
Total other operating income:	373623	321454

4. Other Operating Expense

Note 3

Other operating expenses includes expenses related to members and non-operating expenses.

Other Operating Expense

Name	2017	2016
Membership fee paid	13527	11983
Written off membership fees	175990	307
Written off carrying amount of PPE	1486	98
Charity and assistance	4713	1743
Bad debts	11143	6369
Non-operating expenses	1100	1249
Representational expenses	638	2272
Income tax paid on behalf of non-resident legal entities	1128	4348
Income tax on dividends received 5%	4590	4399
Members conference costs	6924	57382
Total other operating expenses	221239	90150

5. Notes to the Balance Sheet

Non-current Assets

1) Property, Plant and Equipment

Note 4

	Name	Balance at 31.12.17	Additions	Disposals	Balance at 31.12.16
	Purchase Cost				
1	Library	9284	0	698	9982
2	Office equipment	175435	7161	24065	192339
3	Furniture and fixtures	149525	2281	4874	152118
4	Vehicles	48,739	-	-	48,739
5	Buildings	662887	-	-	662887
	Total	1045870	9442	29637	1066065
	Depreciation	Balance at 31.12.17	Depreciation charged	Depr. written off	Balance at 31.12.16
1	Library	2000	477	-	1523
2	Office equipment	139774	15202	25211	149783
3	Furniture and fixtures	114368	8804	4685	110249
4	Vehicles	30000	4,800	-	25200
5	Buildings	74385	8244	-	66141
	Total	360527	29283	29896	352896
	Carrying Amount	685343			713169

Depreciation of property, plant and equipment is charged using straight-line method, assets are reflected in the balance sheet at cost reduced by accumulated depreciation. Assets have not been tested on impairment.

2) Intangible Assets

Note 15

	Name	Balance at 31.12.17	Additions	Disposals	Balance at 31.12.16
	Purchase cost				
1	Accounting software 'Oris'	3746	-	616	4362
2	Video lectures administration software	5000	-	-	5000
3	Video lectures	23440	-	-	23440
4	Software ICS	4450	-	-	4450
5	License of Strados Studio	6019	-	-	6019
	Total	42655	-	616-	43271

	Amortization	Balance at 31.12.17	Amortization charged	Amortiz. written off	Balance at 31.12.16
1	Accounting software 'Oris'	2741	251	618	3108
2	Video lectures administration software	1499	500	-	999
3	Video lectures	9115	4693	-	4422
4	Software ICS	3080	230	-	2850
5	License of Strados Studio	1995	665	-	1330
	Total	18430	6339	618	12709
	Carrying Amount	24225			30562

Amortization of intangible assets is charged using straight-line method, assets are carried in the balance sheet at cost reduced by accumulated amortization.

Current Assets

Note 6

Inventory consists of the following main groups:

1. Inventory

Name	Amount	
	2017	2016
Goods, audit standards	294	843
Oris software	8584	1724
Products, books	50685	69180
Other inventory	10275	2168
Total Inventory:	69838	73915

Books received as contribution and accounting software Oris make up the goods balance. Products balance includes – International Financial Reporting Standards, Quality Assurance and Audit Standards and ACCA textbooks, and other inventory consists of stationery and fuel balances of GFPAA and LTD Institute of Professional Accountants.

2. Receivables and prepayments

Note 7

Accounts receivables is broken down as follows:

Name	2017	2016
Receivables from supply and services	19761	38991
Receivables from members	356371	348894
Adjustment of the doubtful receivables (membership)	-180185	-69013
Personnel receivables	35	250
Issued loan	37415	52894
Prepayments to suppliers	5399	7990
Prepaid expenses		0
Prepaid taxes	10516	4972
Total Receivables and Prepayments:	249312	384978

3. Cash and cash equivalents

Note 8

Cash and cash equivalents of GFPAA and Institute of Professional Accountants are deposited in Georgia's banks in national and foreign currencies in Tbilisi and at the locations of the branches. Its structure is as follows:

Cash and cash equivalents

Name	2017	2016
Cash at hand	941	55
Local currency in bank	1075675	828807
Foreign currency in bank	46	10949
Total cash and cash equivalents	1076662	839811

The practice of converting cash to foreign currency is used in order to avoid expected loss due to local currency devaluation.

Deferred Income

Note 9

Deferred income includes the following future incomes:

Deferred Income

Name	2017	2016
Financial income of next year	38410	43729
Property, Plant and Equipment purchased with grant		19
Contributed books		615
Contributed Property, Plant and Equipment		229
Books published using grant money		2967
	38410	47559

Property, Plant and Equipment purchased by grants and contributed will be recognized in future with consideration of depreciation charge, and contributed books and books published using grants – at cost of sold products.

Trade and other liabilities

Note 10

Trade and other liabilities are broken down as follows:

Name	2017	2016
Liabilities for supplies and services received	7153	14409
Advances received	97967	121717
Outstanding salaries	1600	0
Liabilities against personnel	20	0
Other liabilities	6283	3738
	113023	139864

Tax Liabilities

Note 11

The tax liabilities include taxes to be paid at the end of the reporting period, which are not due by the balance sheet date. They are broken down as follows:

Structure of tax liabilities:

Name	2017	2016
Income tax payable	0	479
Property tax payable	0	0
Income tax payable	400	4624
VAT payable	8943	15198
	9343	20301

6. Annexes to the Cash Flow Statement

Note 12

1. Cash received from customers

Name	2017	2016
Realization of literature	120445	99614
Cash received for teaching and certification	1016960	909672
ACCA examinations	283062	260247
Payment of accounts payables	18147	11070
Installation of Oris software	147527	112167
Translation of IFRSs	81478	0
Advances received	39713	28833
Total cash received from customers:	1707332	1421603

Note 13

2. Membership Fees Paid

Name	2017	2016
IFAC membership fee paid	13713	12087

Membership fee paid to international organizations/International Federation of Accountants.

Note 14

3. Payment of administrative and other non-operating expenses:

Name	2017	2016
Rent	132283	110487
Public utilities	22417	21422
Administrative overheads of teaching process	2676	6160
Server for video lectures	2400	2400
Translation and publication of materials	60994	15965
Update of software "Codex"	855	680
Royalty	16505	10165
Business trip	10293	5090
Advertisement	3555	4152
Copying costs	615	132
Computer expenses	316	2050
Representation costs	639	696
Bank charges	1963	2224
Charity	4413	1753
Conference and meetings	6606	57173
Vehicle maintenance costs	1915	4751
Audit services	4900	3956
Seminar for corporate members	3025	45326

Enhancement of qualification of personnel	1070	560
Repair works	2512	4250
Exchange rate difference	639	31
Other non-operating costs	412	553
Total	281003	299976

4. Taxes Paid

Note 15

Name	2017	2016
Profit tax	6678	20760
Property tax	7336	7658
VAT due	223239	171884
Income tax	210458	200570
Total taxes:	447711	400872

Note 16

Income Received as Dividends from the Subsidiary

Dividend received by GFPAA as income from the subsidiary amounted to GEL 87,720 in 2016; GEL 91,800 - in 2017;

Note 17

Compensation for Highest Rank Managers

Total amount of compensation for the highest rank managers of GFPAA amounted to GEL 69505 in 2016; and GEL 70000 – in 2017.

Total amount of compensation for the highest rank managers of the subsidiary LTD Institute of Professional Accountants amounted to GEL 54100 in 2016; and GEL 54100 – in 2017.

Note 18

Impact of First Time Adoption of IFRSs for SMEs on Comparable Consolidated Income Items

	Effect of Adoption of IFRSs for SMEs	2016 by IFRSs for SMEs
Revenue		1200760
Other income		321454

Changes in inventory and work in progress		-31891
Completed and capitalized work		0
Purchase of inventory		-90097
Salary expense		-873418
Depreciation and amortization expenses		-47639
Purchased service expense		-295282
Foreign Exchange Difference Expense		-22383
Tax Expense		-7337
Other Operating Expenses		-90150
Profit-Loss from Operating Activities		64017
Financial Costs		
Profit-Loss Before Taxation		64017
Profit Tax	40559	44935.65
Net Profit-Loss of the Reporting Period		108953
Share of parent entity		20417
Non-controlling share		88535

Note 19

Impact of First Time Adoption of IFRSs for SMEs on Comparable Financial Position Items

Information on Impact of First Time Adoption of IFRSs for SMEs on comparable financial position items is provided below. The information is provided solely for the purpose of review of impact on the comparable indicators as the standards applied in previous period did not require consolidation of accounts and respectively GFPAA did not submit consolidated report.

Impact of First Time Adoption of IFRSs for SMEs on Comparable Financial Position Items

	01.01.2016		31.12.2017	
	Effect of Adoption of IFRSs for SMEs	2016 by IFRSs for SMEs	Effect of Adoption of IFRSs for SMEs	2016 by IFRSs for SMEs
Property, Plant and Equipment, Net		742094		713,169
Intangible Assets		27476		30,562
Investments in Other Entities		400		400
Deferred Tax Asset	223	223	39,866	40,088
Inventory		105806		73,915
Receivables and Prepayments		277508		384,978
Cash and Cash Equivalents		925503		839,811
Total Assets:		2,079,010		2,082,923.3
GFPAA Development Fund	-6396	1,481,288	40,559	1,434,797
Retained Earnings		-30414		36,495
Non-controlling share		393727		397,982

Deferred Income Tax	6618	35142	-693.15	5,925
Deferred Income		44721		47,559
Trade and Other Payables		133924		139,864
Tax Liabilities		20621		20,301
Total Short Term Liabilities				
Total Equity and Liabilities		2,079,010		2,082,923.3



Levrenti Chumburidze

[signed]

Executive Director