Georgian Federation of Professional Accountants and Auditors

(GFPAA)

Independent Auditor's Report

and

Consolidated Financial Statements

for the Reporting Year Ended on

December 31, 2018

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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 consolidated statement of financial position as at December 31, 2018, and the consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated 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 of 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 Reports. 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.
Responsibilities of the Management and Persons in Charge of Governance 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 in charge of governance are responsible for overseeing the process for preparation and presentation of GFPAA's financial statements.

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 the users taken on the basis of these financial statements.

Engagement Partner

Lasha Vepkhvadze

On behalf of Intelect Audit

Tbilisi, Georgia

16/04/2019

Consolidated Comprehensive Income Statement

for the year ended December 31, 2018 (GEL)

		2018	*2017*
Revenue	1)	**1407501**	**1430178**
Other Income	2)	**361403**	**373623**
Changes in Inventory Balance		**120641**	**(4078)**
Purchase of Inventory		(93626)	(96133)
Salary Expense		(843062)	(893831)
Depreciation and Amortization Expense		(40965)	(42120)
Other Expense	3)	(811341)	(564304)
Profit-Loss Before Tax		100551	203335
Tax Expense		(32490)	(1,729)
Net Profit-Loss of the Reporting Period		68061	201606
Share of parent company		(22062)	95590
Non-controlling Interest		90123	106016

Consolidated Statement of Financial Position

as of December 31, 2018 (GEL)

Assets			31.12.2018		31.12.2017
Non-Current Assets					
Property, Plant and Equipment, Net	4)	755702		685343	
Intangible Assets	5)	18534		24225	
Deferred Tax Asset		0		42582	
Investments in Other Entities		400		400	
Total Non-Current Assets			774636		752550
Current Assets					
Inventory	6)	189576		69838	
Trade and Other Receivables	7)	181296		211897	
Loans Receivable	8)	12570		37415	
Cash and Cash Equivalents	9)	986699		1076662	
Total Current Assets:			1370141		1395812
Total Assets:			***2144777***		***2148362***
Equity and Liabilities					
Capital and Reserves					
GFPAA Development Fund		1476759		1454866	
Retained Earnings		68061		112016	
Non-controlling Interest		402531		415799	
Total Capital and Reserves			1947351		1982681
Non-current Liabilities					
Deferred Income Tax		0		4905	
Deferred Income	10)	35932		38410	
Total Non-current Liabilities			35932		43315
Current Liabilities					
Trade and Other Payables	11)	150293		113023	
Tax Liabilities	12)	11201		9343	
Total Current Liabilities			161494		122366
Total Equity and Liabilities			**2144777**		**2148362**

Consolidated Cash Flow Statement

for the Year Ended on December 31, 2018 (GEL)

	2018		2017	
Cash Flows from Operating Activities				
Cash receipts from customers	1632665		1695332	
Membership fees	148735		164828	
Dividends issued	(98150)		(83790)	
Other operating income	68472		76229	
Rent paid	(88620)		(108283)	
Cash paid to suppliers	(130519)		(139433)	
Salaries paid	(728835)		(767017)	
Membership fees paid	(12836)		(13527)	
Payment of administrative and other non-operating expenses	(326335)		(148720)	
Taxes paid	(468371)		(447711)	
Net cash from operating activities		(3794)		227908
Cash flows from investing activities				
Repayment of issued loan	27300		20550	
Proceeds from disposal of non-current assets	17000		0	
Purchase of property, plant and equipment	(130470)		(11607)	
Net cash flows from investing activities		(86170)		8943
Net increase in cash and cash equivalents		(89964)		236851
Cash and cash equivalents at the beginning of the reporting period		1076662		839811
Cash and cash equivalents at the end of the reporting period		986699		1076662

Statement of Changes in Equity

for the Year Ended on December 31, 2018 (GEL)

	GFPAA Development Fund	Non-controlling Interest	Total
Balance at 31.12.2016	***1471293***	***397982***	***1869275***
Current period net profit-loss	*95590*	*106016*	*201606*
Dividends issued	*0*	*(88200)*	*(88200)*
Balance at 31.12.2017	***1566883***	***415798***	***1982681***
Current period net profit-loss	*(22062)*	*90123*	*68061*
Dividends issued	*0*	*(103390)*	*(103390)*
Balance at 31.12.2018	***1544821***	***402531***	***1947352***

Accounting Policy Used in Preparing Consolidated Financial Statements and Disclosures for the Year Ended on December 31, 2018

1. Background

In line with 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 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 its headquarters, 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 another 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 for Small and Medium-sized Entities issued by the Service for Accounting, Reporting and Auditing Supervision.

Georgian Lari is reporting currency. Quantitative data in the financial statements is rounded to the nearest Lari. 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 (%)	
				31/12/2018	31/12/2017
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 Principles

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

4. Accounting Policy

4.1 Income Recognition

Income is recognized by fair value of received or receivable income. It excludes sales discounts as well as discounts for early settlment and batch volume. Income includes only total amount received or receivable under its name.

service fees are recognised based on completion stage of the applicable service contracts, at the end of the reporting period, if it is possible to reliably estimate results of the services rendered. Otherwise income is recognized only in the amount of already recognized expenses.

Income from sale of goods is recognized when the following conditions are met:

(a) the entity transferes to the buyer substantially all risks and rewards of ownership the goods;
(b) the entity does not retain continious menegerial involvement to the level, which is associated with ownership and does not excersize effective control on the goods sold;
(c) Income can be estimated reliably;
(d) It is expected that the entity will receive economic benefit from the operation; and
(e) Reliable estimation of already incurred and future costs related to the operation is possible;

4.2 Financial Instruments

Issued loans:

Receivables related to issued long term and short term loans are recognzed based on present value of the cash receivable (including interest and principal repayments) and at the end of the reporting period it is measured by amortized cost using effective interest rate method, with consideration of impairment (possibility of the amount becoming uncollectable).

Receivables related to issued short term loans are recognzed based on undiscounted value of receivable cash or other type of compensation reduced by impairment if the agreement is not a financial operation by nature.

Trade Receivables

Receivables arising from short term credit sales of services to clients is recognized by undiscounted amount of receivable cash with consideration of impairment (the amount is uncollectable).

Trade Payables

Receivables arising from short term credit purchase of goods and services from suppliers is recognized by undiscounted amount of payables to the supplier.

Impairment Loss of Financial Assets

Impairment loss of financial assets measured at amortized cost is difference between the asset's carrying value and present value of estimated cash flows discounted by initial effeqtive interest rate of the asset. When a financial asset has variable interest rate discount rate used for measurement of impairment loss is current effective interest rate set by the agreement.

Impairment loss of financial assets measured at cost reduced by the amount of impairment loss is difference between the asset's carrying value and best estimate (which will be an approximate amount) of the amount that the entity would receive during the reporting period if the asset were sold.

4.3 Property, Plant and Equipment

Property, plant and equipment (PPP) is reflected in the balance at purchase cost, reduced by accumulated depreciation and impairment loss. 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:

N	Category	Depreciation Rate, %
1	Office equipment	20-30
2	Furniture and fixtures	25-50
3	Vehicles	10-15

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

4.4 Intangible Assets

Intangible assets are measured at cost, reduced by accumulated amortization and accumulated impairment loss.

Amortization is charged on straight line bases for allocation of amortized value on a systemic bases. 10-15% rate is used to charge annual amortization.

Asset's carrying value, amortization method or usefull life is adjusted prospectively in case of indications of changes in carrying value or useful life of intangible assets.

4.5 Inventory

Inventory is measured at the lower of cost and estimated net realization value reduced by completion and selling costs.

Reduction of inventory value represents impairment loss and it is immediately recognized in profit or loss. If the realization value of inventory, reduced by completion and selling costs, is increased during measurement at the next reporting date, then impairment loss is reinstated so that new carrying value is lower of cost and adjusted selling price reduced by completion and selling costs.

FIFO method is used for measurement of inventory.

4.6 Lease

A lease is classified as financial lease if essentially all risks and economic benefits associated with ownership of assets is transferred to the entity. All other leases are classified as ordinary (operational) leases.

Lease payments under the ordinary lease are reflected in profit or loss during the lease term using straight line method.

Income under ordinary lease is reflected in profit or loss during the lease term using straight line method.

4.7 Investments in Associates

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

4.8 Impairment of Assets

Property, plant and equipment (that are not accounted in line with revaluation model), intangible assets, investments in associates and investments in joint ventures are reviewed at each reporting date in order to indentify whether there are indications of impairment of the assets. Recoverable amount is of any asset (or groups of related assets) is estimated if impairment indications exist and then it is compared to its carrying value. If recoverable amount is less then carrying value is reduced to recoverable value and impairment loss is immediately recognized in profit or loss.

If impairment loss is recovered/compensated afterwards then carrying value of asset (or group of similar assets) is increased to adjusted recoverable amount (to adjusted selling price, reduced by completion and selling costs in case of inventory) of the asset but not to the amount, which is higher than the amount that would be defined if impairment loss of the asset (or group of similar assets) were not recognized during previous years. Recovered impairment loss is immediately recognized in profit or loss.

4.9 Employee Short Term Benefits

All types of expenditures related to employees short term benefits that employees are entitled to receive for rendering services during the reporting period is recognized as liability and expense (excluding the expenditures, which is recognized in the cost of inventory, property, plant and equipment or other assets).

Amounts recognized as employees short term benefits during the reporting period are measured by undiscounted amount of the short term benefits that are payable to employees for rendering the above mentioned services.

4.10 Foreign Currency Operations

Foreign currency operations are accounted in functional currency at initial recognition. Amount denominated in foreign currency is translated into functional currency using spot exchange rate at the date of the operation.

Cash items denominated in foreign currency are measured using closing exchange rate at the end of the reporting period.

Exchange differences arising from settlement of cash items or from their translation using the exchange rate that is different from the exchange rate used for translation of the items at initial recognition during the period or previous periods is recognized in the reporting period when is arises.

4.11 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 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 essentially 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. Subsidiary recognizes profit tax expense: distributed profit; incurred expense or other payment that is not related to the economic activity; supply of goods/rendering of services free of charge and/or transfer of cash; representation costs above the limits set by the Tax Code.

For the entity that is subject to income tax, along with tax on distributed profit, is taxed as soon as tax object arises and tax liability is recognized at the end of each reporting month. Current tax liability in relation to dividends to be distributed to its partners is measured by using income tax rate on the amount of dividends that is to be distributed until the entity recognizes obligation to pay the dividends.

5. Annexes to Comprehensive Income Statement

5.1. Revenue   Note .1

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

Revenue

Item	2018	2017
Selling of goods	126290	121198
Rendering services	1162730	1081458
Other operating income	118481	227522
Total revenue:	**1407501**	**1430178**

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.

5.2. Other Income   Note .2

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

Name	2018	2017
Membership fee of corporate members	95667	94350
Membership fee of physical entities	148802	142473
Membership initiation fee	4065	4185
Interest Income	92369	77033
Contributions and income from realization of books purchased by grants	0	3583
Contributions and depreciation of property, plant and equipment purchased by grants	0	247
Non-claim income	14005	51746
Gifts for anniversary	1188	0
Contributions	1000	0
Adjustment of differed income	4905	0
Other income	590	0
Total other income:	**361403**	**373623**

5. 3 Other Expenses   Note 3

Other expenses includes purchased services, expenses related to members and other non-operating expenses, as follows:

Name	**2018**	**2017**
Membership fee paid	12836	13527
Written off membership fees	176632	175990
Members conference costs	8618	6924
Written off carrying amount of PPE	8776	1486
Charity and support	1960	4713
Bad debts	446	11143
Non-operating expenses	590	1100
Representational expenses	9081	638
Adjustment of differed tax active	42582	0
Tax expense	7266	7081
Foreign exchange difference	840	675
Income tax paid on behalf of non-resident legal entities	913	1128
Income tax on dividends received 5%	5381	4590
Purchased service	534232	335309
Total other expenses:	**811341**	**564304**

6. Notes to the Balance Sheet

6.1 Non-current Assets

1) Property, Plant and Equipment Note 4

	Name	Balance at 31.12.18	Additions	Disposals	Balance at 31.12.17
	Cost				
1	Library	1329	0	7955	9284
2	Office equipment	171494	13975	17916	175435
3	Furniture and fixtures	145193	9220	13552	149525
4	Vehicles	105775	105775	48739	48,739
5	Buildings	662887	-	-	662887
	Total	**1086678**	**128970**	**88162**	**1045870**
	Depreciation	Balance at 31.12.18	Additions	Disposals	Balance at 31.12.17
1	Library	328	63	1735	2000
2	Office equipment	132076	9225	16923	139774
3	Furniture and fixtures	108068	6181	12481	114368
4	Vehicles	7875	8675	30800	30000
5	Buildings	82629	8244	-	74385
	Total	**330976**	**32388**	**61939**	**360527**
	Carrying Amount	**755702**			**685343**

Initial cost of property, plant and equipment is cash or cash equivalents paid (or to be paid) for purchase of the asset at the moment of purchase or fair value of transferred compensation. The following items are considered in measurement of initial cost:

(a) Purchase price, including legal and broker service cost, import duties and irrevocable purchase payments, excluding trade discounts and rebates;

(b) Any expenditure that is directly related to delivery of the asset to its location and condition;

(c) Initial estimates of costs related to dismantle of asset, liquidation and restoration that the entity committed at the moment of purchase or afterwards.

6.2 Intangible Assets Note 5

	Name	Balance at 31.12.18	Additions	Disposals	Balance at 31.12.17
	Cost				

1	Accounting software 'Oris'	3400	250	596	3746
2	Video lectures administration software	5000	-		5000
3	Software for recording lectures	552			552
4	Video lectures	26076	2636	-	23440
5	Software ICS (management system)	4450	-	-	4450
6	License of Strados Studio	5467	-	-	5467
	Total	**44945**	**2886**	**596**	**42655**
	Amortization	Balance at 31.12.18	Additions	Disposals	Balance at 31.12.17
1	Accounting software 'Oris'	2319	173	595	2741
2	Video lectures administration software	1998	499	-	1499
3	Software for recording lectures	453	99		354
4	Video lectures	16243	7128	-	9115
5	Software ICS (management system)	3280	200	-	3080
6	License of Stradios Studio	2118	477	-	1641
	Total	**26411**	**8576**	**595**	**18430**
	Carrying Amount	**18534**			**24225**

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

Current Assets Note 6

Inventory consists of the following main groups:

6.3 Inventory

Name	Amount 2018	Amount 2017
Goods, audit standards	5885	8878
Finished goods, books	106723	50685
Other inventory	76968	10275
Total inventory:	**189576**	**69838**

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.

6.4 Trade and other Receivables

Note 7

Accounts receivables is broken down as follows:

Name	2018	2017
Receivables from supply and services	54441	19761
Receivables from members	246482	356371
Adjustment of the doubtful receivables (membership)	-151247	-180185
Personnel receivables	0	35
Prepayments to suppliers	12597	5399
Prepaid taxes	19023	10516
Total Receivables and Prepayments:	**181296**	**211897**

Trade receivables include ordinary lease receivable

Future minimal lease payments related to irrevocable ordinary lease agreements by periods:

	2018	2017
Not later than one year	466	466
After one year but no later than five years	1,864	1,864
After five years		466
Total	2,330	2,796

6.5 Issued Loans

Note 8

Issued loans measured at amortized cost

	2018	2017
Long term loans	12,570	37,415
Total	12,570	37,415

Interest income from issued loans measured at amortized cost amounted to GEL 2455 during the reporting period.

6.6 Cash and cash equivalents

Note 9

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:

Name	2018	2017
Cash at hand	2081	941
Cash at current accounts in banks	26965	25943
Short term bank deposits	957653	1049778
Total cash and cash equivalents	**986699**	**1076662**

6.7 Deferred Income Note 10

Deferred income includes the following future incomes:

Deferred Income

Name	2018	2017
Financial income of next year	35932	38410
	35932	38410

6.8 Trade and other payables Note 11

Trade and other payables are broken down as follows:

Name	2018	2017
Liabilities for supplies and services received	32403	7153
Advances received	110220	97967
Outstanding salaries	2400	1600
Liabilities against personnel	0	20
Other liabilities	5270	6283
	150293	113023

Ordinary lease liability included under trade payables

The entity has rented office space under ordinary lease with 5-year remaining lease term. Lease payments are made in fixed amounts. Lease payments recognized as expenses are as follows:

	2018	2017
Short term liability	89760	89370

At the end of the year the entity has the folowing future minimal lease payment liabilities related to irrevocable ordinary lease agreements:

Not later than one year	74755	74755
After one year but no later than five years	373775	373775
After five years		74755
Total	488530	523585

The entity is entitled to renew the lease agreement after the lease term is expired.

6.9 Tax Liabilities Note 12

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	**2018**	**2017**
Property tax payable	283	0
Income tax payable	3103	400
VAT payable	7815	8943
	11201	9343

Income Received as Dividends from the Subsidiary

Dividend received by GFPAA as income from the subsidiary amounted to GEL 91800 in 2017; GEL 107610 - in 2018.

Compensation for Highest Rank Managers

Total amount of compensation for the highest rank managers of GFPAA amounted to GEL 93400 in 2017; and GEL 97430 – in 2018.

Total amount of compensation for the highest rank managers of the subsidiary LTD Institute of Professional Accountants amounted to GEL 79300 in 2017; and GEL 83640 – in 2018.

The audited consolidated financial statement is signed for issue on 16 April 2019.

Georgian Federation of Professional Accountants and Auditors

Ketevan Abesalashvili
Chief Accountant

Levrenti Chumburidze
Executive Director