

**Keystone Human Services International
Moldova Association**

**Special Purpose Financial Information Prepared
for Consolidation Purposes as at and for the
period ended 30 June 2014**

**prepared in accordance with International
Financial Reporting Standards Group
Accounting Policies**

Keystone Human Services International – Moldova Association

Special Purpose Financial Information Prepared for Consolidation Purposes as at and for the period ended
30 June 2014

Prepared in accordance with Group Accounting Policies

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Interoffice Audit Report on Financial Information Prepared for Consolidation Purposes

To: KPMG Harrisburg, PA

We have audited the special purpose financial information prepared for consolidation purposes of Keystone Human Services International – Moldova Association (“the Organization”), on pages 3 to 12 of the accompanying financial reporting package. Except as explained in the following paragraph, we conducted our audit in accordance with the KPMG Audit Manual – International.

In accordance with your instructions, we applied such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances based on materiality provided in those instructions.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we performed our audit procedures applying materiality applicable to the Organization, the financial information prepared for consolidation purposes as at and for the period ended 30 June 2014 has been prepared in conformity with the instructions issued by group management of Keystone Human Services International Group to components.

This report is intended solely for use by KPMG Harrisburg, PA in connection with its audit of Keystone Human Services International Group’s consolidated financial statements as at and for the period ended 30 June 2014 and should not be used for any other purpose.

KPMG Moldova SRL
Chisinau, Republic of Moldova
10 December 2014

Keystone Human Services International – Moldova Association

Statement of Financial Position as at 30 June 2014

(All amounts are in USD, unless stated otherwise)

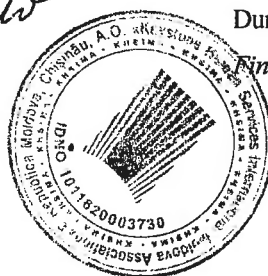
	<u>30 June 2014</u>	<u>30 June 2013</u>
Assets		
Current assets		
Cash and cash equivalents	145,118	473,822
Accounts receivable	48,137	82,746
Inventories	3,911	13,806
Prepaid expenses	96	151
Total current assets	<u>197,262</u>	<u>570,525</u>
Property, equipment and intangible assets		
Buildings and improvements	1,047,758	812,446
Construction in progress	2,583	2,890
Motor vehicles	102,135	62,828
Furniture, fixtures, and equipment	138,341	80,398
Intangible assets	39,798	42,934
Less: accumulated depreciation and impairment	(181,989)	(126,829)
Less: accumulated amortization	(38,678)	(32,152)
Property, equipment and intangible assets, net	<u>1,109,948</u>	<u>842,515</u>
Total assets	<u>1,307,210</u>	<u>1,413,040</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	63,250	155,585
Accrued salaries and benefits	43,357	69,990
Deferred revenue	113,388	325,234
Loans and borrowings	32,241	37,490
Total current liabilities	<u>252,236</u>	<u>588,299</u>
Non-current liabilities		
Loans and borrowings	200,959	227,459
Total non-current liabilities	<u>200,959</u>	<u>227,459</u>
Net assets		
Unrestricted	890,781	597,282
Accumulated losses	(39,011)	-
Foreign currency translation differences	2,245	-
Total net assets	<u>854,015</u>	<u>597,282</u>
Total liabilities and net assets	<u>1,307,210</u>	<u>1,413,040</u>

The accompanying notes on pages 5 to 12 form an integral part of the Special Purpose Financial Information.

Ludmila Malcoci
Executive director



Dumitru Pogor
Financial Director

Keystone Human Services International – Moldova Association

Statement of Activities for the period ended 30 June 2014

(All amounts are in USD, unless stated otherwise)

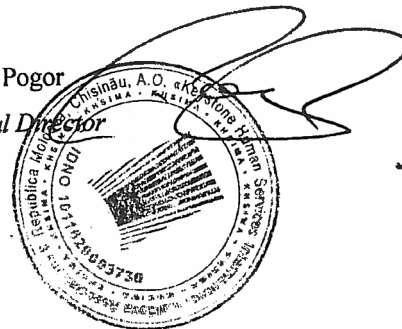
	12 months ended 30 June 2014	12 months ended 30 June 2013
Revenues and support		
Grant revenue	1,415,365	1,344,956
In-kind revenue	13,051	-
Total revenues and support	1,428,416	1,344,956
Expenses		
Program services	(717,836)	(562,183)
Net finance gain/(loss)	6,050	(8,933)
Administration	(429,492)	(743,283)
In-kind expenses	(13,051)	-
Total expenses	(1,154,329)	(1,314,399)
Excess of revenues and support over expenses	274,087	30,557
Other revenues / (expense) – not program related		
Net gain/(loss) from other activities	61	-
Net finance gain/(loss)	(39,072)	-
Total other revenues / (expenses)	(39,011)	-
Other changes		
Net asset transfer from Affiliates	104,705	84,621
Total other changes	104,705	84,621
Change in net assets	339,781	115,178
Net assets, beginning of period	597,282	494,574
Translation differences	(83,048)	(12,470)
Net assets, end of period	854,015	597,282

The accompanying notes on pages 5 to 12 form an integral part of the Special Purpose Financial Information.

Ludmila Malcoci
Executive director



Dumitru Pogor
Financial Director



Keystone Human Services International – Moldova Association

Notes to the Special Purpose Financial Information prepared for Consolidation Purposes
as at and for the period ended 30 June 2014

(All amounts are in USD, unless stated otherwise)

Note 1 - Reporting entity

Keystone Human Services International - Moldova Association ("The Organization" or "KHSI-MA") was founded as a non-profit, non-governmental public institution in 2004 by Keystone Human Services International ("KHSI"). KHSI is located in the United States of America and is the Organization's parent. The Organization is domiciled in Moldova, its legal address is: V.Crasescu, 61, Chisinau, Moldova and postal address: Sfintul Gheorghe street, no. 20, Chisinau, Moldova. The Organization's activity is social, charity, cultural and educational oriented and its beneficiaries are social vulnerable people who need support due to physical incapacity, poverty, abandonment or other social conditions on the entire territory of the Republic of Moldova.

Note 2 - Basis of preparation**Statement of compliance**

The Special Purpose Financial Information Prepared for Consolidation Purposes for the period ended 30 June 2014 has been prepared in accordance with the Group's Accounting Policies as disclosed in Note 3 (hereinafter referred to as the "Special Purpose Financial Information"). The Special Purpose Financial Information was authorized for issue by the Organization's management on 10 December 2014.

Basis of measurement

The Special Purpose Financial Information has been prepared on the historical cost basis.

Functional and presentation currency

The Organization's management considers the functional currency to be the Moldovan Leu ("MDL" or "LEU").

The Special Purpose Financial Information is presented in US Dollars ("USD") by translating the MDL Special Purpose Financial Information to USD in accordance with Group Accounting Policies, as detailed below. The Organization decided to present the Special Purpose Financial Information in other currency than its functional one in order to facilitate consolidation reporting with Keystone Human Services International ("KHSI").

In order to translate the Moldovan statutory accounts into USD, the following procedures were followed:

- assets and liabilities, both monetary and non-monetary have been translated using the period end exchange rates;
- incomes and expenses items have been translated using the average exchange rate for the period;

The above-described method of translation of the statutory accounts stated in historical MDL into USD should not be considered as a representation that the MDL amounts could have been or could be converted into USD at the closing MDL/USD rate, or any other rate.

The official exchange rates at 30 June 2014 and 30 June 2013 were as follows:

	<u>30 June 2014</u>	<u>30 June 2013</u>
<i>(in US Dollars per unit of foreign currency)</i>		
EUR	1.3612	1.3022
MDL	0.0713	0.0798

Keystone Human Services International – Moldova Association

Notes to the Special Purpose Financial Information prepared for Consolidation Purposes

as at and for the period ended 30 June 2014

(All amounts are in USD, unless stated otherwise)

Note 2 - Basis of preparation (continued)

Use of estimates and judgments

The preparation of Special Purpose Financial Information in conformity with disclosed accounting policies requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Note 3 - Significant accounting policies

a. Basis of Accounting

The Organization uses the accrual basis of accounting, recognizing income when earned and expenses when incurred. It reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Special Purpose Financial Information of activities as net assets released from restrictions.

b. Revenues

The Organization receives funding from various grants on a program-funded basis, donor-restricted contributions. Revenues for program-funded operations are recorded as qualified expenses are incurred or program assets are purchased and are reduced to program funding limitations.

c. Expenses

Part of the expenses reported in the Statement of Activities represent expenses associated with those services being distributed to beneficiaries that fulfill the purposes or mission for which the Organization exists. Expenses are charged directly to programs where identifiable with a specific program, or are allocated to programs if not directly identifiable based on management's cost allocation plan. The other part of the expenses in the Statement of Activities represents expenses for centralized administration expenses related to functions such as executive leadership, finance, technology, human resources, compliance, quality management, community outreach, and property management and are reported in the Special Purpose Financial Information as expenses incurred by the Organization, which are not identifiable to specific programs but which provide support to the Organization's continuing operations.

d. Cash and Cash Equivalents

The Organization considers all highly liquid investments with initial maturity of three months or less to be cash equivalents.

Note 3 - Significant accounting policies (continued)

e. Accounts Receivable and Allowances

Accounts receivable represent grant funds due from private foundations for program expenses incurred and revenue earned. An allowance for doubtful accounts is established for all accounts considered doubtful as to collection based on the review of management. All accounts receivable are deemed collectable; therefore, no allowance for doubtful accounts was accrued as at 30 June 2014 and 30 June 2013.

f. Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight - line method over the estimated useful lives of the assets. Depreciable lives are as follows:

Buildings and improvements	15-25 years
Furniture, fixtures, and equipment	3 – 7 years
Motor vehicles	7 years

Maintenance and repairs are charged to expense as incurred. The Organization recognizes in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Organization and the cost of the item can be measured reliably. All other costs are recognized in the Statement of Activities as expense as incurred.

g. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined based on weighted average principles and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition.

h. Impairment of Non-Current Assets

Non-current assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset with estimated discounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

i. Deferred Revenue

The Organization records installment payments received from grant funders as deferred revenue. As grant project expenses are incurred and revenue is earned, deferred revenue is reduced by the amount of revenue recognized.

j. Intangible Assets

Intangible assets which are acquired by the Organization are stated at cost less accumulated amortization and impairment losses. Amortization is computed using the straight - line method over the estimated useful lives of those intangible assets, which ranges from 3 to 7 years.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Keystone Human Services International – Moldova Association

Notes to the Special Purpose Financial Information prepared for Consolidation Purposes

as at and for the period ended 30 June 2014

(All amounts are in USD, unless stated otherwise)

Note 3 - Significant accounting policies (continued)

k. Short term service benefits

The Organization's short term employment benefits include wages, holiday pay and social security contributions and are recognized as expense as incurred.

l. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the Statement of Activities as incurred. The Organization, in the normal course of business, makes payments to the National House of Social Insurance and to the National House of Medical Insurance on behalf of its Moldovan employees for pension, health care and unemployment benefits. All employees of the Organization are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Moldovan State pension plan (a State defined contribution plan). All relevant contributions to the Moldovan State pension plan are recognized as an expense in the Statement of Activities as incurred. The Organization does not have any further obligations. The Organization does not operate any independent pension scheme and, consequently, has no obligation in respect of pensions. The Organization does not operate any other defined benefit plan or post retirement benefit plan. The Organization has no obligation to provide further services to current or former employees.

m. Income Taxes

According to local legislation non-commercial organizations are not subject to income tax. The Organization submits each fiscal year a request to Tax Authorities for exemption from payment of income taxes.

n. Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

o. Loans and borrowings

Loans and borrowings incorporate loans from affiliates and are initially measured at fair value plus incremental direct transaction costs.

Keystone Human Services International – Moldova Association
Notes to the Special Purpose Financial Information prepared for Consolidation Purposes
as at and for the period ended 30 June 2014
(All amounts are in USD, unless stated otherwise)

Note 4 - Property, equipment and intangible assets

As at 30 June 2014 and 30 June 2013 property, equipment and intangible assets were as follows:

	Construction in progress	Buildings and improvements	Furniture, fixtures, and equipment	Motor vehicles	Total property and equipment	Intangibles assets ¹⁾	Total
<i>Cost</i>							
Balance as at 30 June 2012	10,469	381,372	100,365	64,192	556,398	44,197	600,595
Additions	-	443,392**)	7,173	-	450,565	-	450,565
Transfers	(3,398)	3,398	-	-	-	-	-
Disposals	(4,086)	-	(25,317)	-	(29,403)	(329)	(29,732)
Effect of movements in exchange rates	(95)	(15,716)	(1,823)	(1,364)	(18,998)	(934)	(19,932)
Balance as at 30 June 2013	2,890	812,446	80,398	62,828	958,562	42,934	1,001,496
Additions	-	341,317***)	76,606	48,794	466,717	1,514	468,231
Transfers	-	-	-	-	-	-	-
Disposals	-	-	(6,056)	-	(6,056)	-	(6,056)
Effect of movements in exchange rates	(307)	(106,005)	(12,607)	(9,487)	(128,406)	(4,650)	(133,056)
Balance as at 30 June 2014	2,583	1,047,758	138,341	102,135	1,290,817	39,798	1,330,615
<i>Accumulated Depreciation and Impairment</i>							
Balance as at 30 June 2012	7,056	14,395	47,149	18,976	87,576	18,445	106,021
Charge for the period	-	25,791	17,662	9,642	53,095	14,672	67,767
Disposals	(4,086)	-	(7,183)	-	(11,269)	(329)	(11,598)
Effect of movements in exchange rates	(80)	(746)	(1,179)	(568)	(2,573)	(636)	(3,209)
Balance as at 30 June 2013	2,890	39,440	56,449	28,050	126,829	32,152	158,981
Charge for the period	-	46,264	19,069	12,545	77,878	10,550	88,428
Disposals	-	-	(5,044)	-	(5,044)	-	(5,044)
Effect of movements in exchange rates	(307)	(6,857)	(6,807)	(3,704)	(17,674)	(4,024)	(21,698)
Balance as at 30 June 2014	2,583	78,848	63,667	36,891	181,989	38,678	220,667
<i>Carrying amounts</i>							
Balance as at 30 June 2012	3,413	366,977	53,216	45,216	468,822	25,752	494,574
Balance as at 30 June 2013	-	773,006	23,949	34,778	831,733	10,782	842,515
Balance as at 30 June 2014	-	968,910	74,674	65,244	1,108,828	1,120	1,109,948

Keystone Human Services International – Moldova Association

Notes to the Special Purpose Financial Information prepared for Consolidation Purposes
as at and for the period ended 30 June 2014
(All amounts are in USD, unless stated otherwise)

Note 4 - Property, equipment and intangible assets (continued)

^{*)} Intangible assets mainly include software donated to the Organization and used in its daily activity. As at 30 June 2014 the software is fully amortized (as at 30 June 2013 the NBV was USD 10.6 thousand);

^{**)} During the 12 month period ended 30 June 2013 the Organization acquired a new office building, located in Sfintul Gheorghe street, no 20, Chisinau, Republic of Moldova (acquisition cost USD 249 thousand, NBV as at 30 June 2013: USD 247 thousand). Previous office premises were rented. The acquisition cost was financed through a loan received from Keystone Human Services, the parent entity. The remaining additions amounting to USD 194 thousand represent acquisitions of four community houses for beneficiaries, financed by donations;

^{***)} During the 12 month period ended 30 June 2014 the Organization acquired 2 community houses, amounting to USD 170 thousand and capitalized USD 171 thousand for improvements to existing community houses.

Note 5 - Funds balance

	Deferred revenues	Net assets	Total
Balance as at 1 July 2012	53,638	494,574	548,212
Funds received, including:	1,815,443	-	1,815,443
SOROS Foundation Moldova	1,309,904	-	1,309,904
Open Society Institute	235,726	-	235,726
European Commission	172,780	-	172,780
Keystone Human Services International	84,621	-	84,621
Crossroads Foundation Limited	7,194	-	7,194
Pas cu Pas	2,163	-	2,163
CNAS	351	-	351
Return of sub-grants from beneficiaries	2,704	-	2,704
Funds consumed, including:	(1,529,045)	115,178	(1,413,867)
Total charged to Statement of Activities, less sub-grants	(1,140,065)	(85,902) ^{*)}	(1,225,967)
Transfer to deferred income (acquisition of assets)	(201,080)	201,080	-
Sub-granted amounts	(79,499)	-	(79,499)
Transfers to / from short term deferred income	18,606	-	18,606
Return of grants received from Donors	(4,642)	-	(4,642)
Transferred to grant payables to beneficiaries	(53,475)	-	(53,475)
Transferred to beneficiaries not yet expensed	(72,168)	-	(72,168)
Other	3,278	-	3,278
Translation difference	(14,802)	(12,470)	(27,272)
Balance as at 30 June 2013	325,234	597,282	922,516

^{*)} the amounts charged to the Statement of Activities represent the depreciation expenses, the amortization expenses, the impairment charges/ reversals and net book value of disposed property, equipment and intangible assets (see Note 4).

Keystone Human Services International – Moldova Association

Notes to the Special Purpose Financial Information prepared for Consolidation Purposes
as at and for the period ended 30 June 2014
(All amounts are in USD, unless stated otherwise)

Note 5 - Funds balance (continued)

	Deferred revenues	Net assets	Total
Balance as at 1 July 2013	325,234	597,282	922,516
Funds received, including:	1,279,049	-	1,279,049
SOROS Foundation Moldova	906,260	-	906,260
European Commission	119,059	-	119,059
Keystone Human Services International	104,705	-	104,705
Open Society Institute	45,220	-	45,220
U.N.D.P. Moldova	28,544	-	28,544
Fundatia Est-Europeana	10,129	-	10,129
Other Donors	5,252	-	5,252
Goods Received as donations	13,051	-	13,051
Return of sub-grants from beneficiaries	13,086	-	13,086
Netting of long term borrowings from funds received	33,743	-	33,743
Funds consumed, including:	(1,473,208)	378,792	(1,094,416)
Total charged to Statement of Activities, less sub-grants	(944,285)	(89,440) ^{*)}	(1,033,725)
Transfer to deferred income (acquisition of assets)	(468,232)	468,232	-
Sub-granted amounts	(126,654)	-	(126,654)
Transfers to / from short term deferred income	21,739	-	21,739
Return of grants received from Donors	(1,035)	-	(1,035)
Transferred from grant receivables from beneficiaries	126,654	-	126,654
Transferred to grant payables to beneficiaries	(34,175)	-	(34,175)
Transferred to beneficiaries not yet expensed	(47,011)	-	(47,011)
Other	(209)	-	(209)
Translation difference	(17,689)	(85,293)	(102,980)
Balance as at 30 June 2014	113,388	890,781	(1,004,169)

^{*)} the amounts charged to the Statement of Activities represent the depreciation expenses, the amortization expenses, the impairment charges/ reversals and net book value of disposed property, equipment and intangible assets (see Note 4).

Keystone Human Services International – Moldova Association

Notes to the Special Purpose Financial Information prepared for Consolidation Purposes
as at and for the period ended 30 June 2014
(All amounts are in USD, unless stated otherwise)

Note 6 - Related parties

Outstanding balances as at 30 June 2014 and 30 June 2013 and the volume of transactions for the 12 month periods then ending with related parties are as follows:

<u>Related party</u>	<u>2014</u>	<u>2013</u>
Funds received		
Keystone Human Services International	<u>104,705</u>	<u>84,621</u>
Additional support instead of repayment of the loan		
Keystone Human Services International	<u>33,743</u>	<u>-</u>
Outstanding balance of funds received		
Keystone Human Services International	<u>6,644</u>	<u>6,746</u>
Loans and Borrowings		
Keystone Human Services	<u>233,200</u>	<u>264,949</u>

The amount of USD 33,743 represents the additional support granted by Keystone Human Services International (KHSI), which was not directly transferred to the Keystone Human Services International – Moldova Association (KHSI-MA) bank accounts, but was considered as a repayment of the loan.