

**Keystone Human Services International
Moldova Association**

Special Purpose Financial Information Prepared
for Consolidation Purposes as of and for the
period ended 30 June 2015

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 of and for the period ended 30 June 2015

Prepared in accordance with Group Accounting Policies

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Keystone Human Services International – Moldova Association

Statement of Financial Position as of 30 June 2015

(All amounts are in USD, unless stated otherwise)

	30 June 2015	30 June 2014
Assets		
Current assets		
Cash and cash equivalents	101,714	145,118
Accounts receivable	10,267	48,137
Inventories	4,839	3,911
Prepaid expenses	425	96
Total current assets	117,245	197,262
Property, equipment and intangible assets		
Buildings and improvements	834,401	1,047,758
Construction in progress	213,498	2,583
Motor vehicles	42,088	102,135
Furniture, fixtures, and equipment	49,115	138,341
Intangible assets	30,852	39,798
Less: accumulated depreciation and impairment	(149,439)	(181,989)
Less: accumulated amortization	(29,502)	(38,678)
Property, equipment and intangible assets, net	991,013	1,109,948
Total assets	1,108,258	1,307,210
Liabilities and Net Assets		
Current liabilities		
Accounts payable	17,907	63,250
Accrued salaries and benefits	36,137	43,357
Deferred revenue	115,485	113,388
Loans and borrowings	20,341	32,241
Total current liabilities	189,870	252,236
Non-current liabilities		
Loans and borrowings	174,459	200,959
Total non-current liabilities	174,459	200,959
Net assets		
Unrestricted	826,733	890,781
Accumulated losses	(102,445)	(39,011)
Foreign currency translation differences	19,641	2,245
Total net assets	743,929	854,015
Total liabilities and net assets	1,108,258	1,307,210

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 2015

(All amounts are in USD, unless stated otherwise)

	<u>12 months ended 30 June 2015</u>	<u>12 months ended 30 June 2014</u>
Revenues and support		
Grant revenue	933,819	1,415,365
In-kind revenue	295	13,051
Total revenues and support	<u>934,114</u>	<u>1,428,416</u>
Expenses		
Program services	(603,345)	(717,836)
Net finance gain/(loss)	(3,495)	6,050
Administration	(314,252)	(429,492)
In-kind expenses	(295)	(13,051)
Total expenses	<u>(921,387)</u>	<u>(1,154,329)</u>
Excess of revenues and support over expenses	<u>12,727</u>	<u>274,087</u>
Other revenues / (expense) – not program related		
Net gain/(loss) from other activities	3,626	61
Net finance gain/(loss)	(67,060)	(39,072)
Total other revenues / (expenses)	<u>(63,434)</u>	<u>(39,011)</u>
Other changes		
Net asset transfer from Affiliates	169,888	104,705
Total other changes	<u>169,888</u>	<u>104,705</u>
Change in net assets	<u>119,181</u>	<u>339,781</u>
Net assets, beginning of period	854,015	597,282
Translation differences	(229,267)	(83,048)
Net assets, end of period	<u>743,929</u>	<u>854,015</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

Notes to the Special Purpose Financial Information prepared for Consolidation Purposes

as of and for the period ended 30 June 2015

(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 2015 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 11 December 2015.

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 2015 and 30 June 2014 were as follows:

	<u>30 June 2015</u>	<u>30 June 2014</u>
<i>(in US Dollars per unit of foreign currency)</i>		
EUR	1.1123	1.3612
MDL	0.0535	0.0713

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, and 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. Contributions with donor-imposed restrictions, including those met in the same year as received or earned, are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction.

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.

Keystone Human Services International – Moldova Association

Notes to the Special Purpose Financial Information prepared for Consolidation Purposes

as of and for the period ended 30 June 2015

(All amounts are in USD, unless stated otherwise)

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 2015 and 30 June 2014.

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 of and for the period ended 30 June 2015

(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 of and for the period ended 30 June 2015

(All amounts are in USD, unless stated otherwise)

Note 4 - Property, equipment and intangible assets

	Construction in progress	Buildings and improvements	Furniture, fixtures, and equipment	Motor vehicles	Total property and equipment	Intangibles assets	Total
<i>Cost</i>							
Balance as of 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 of 30 June 2014	2,583	1,047,758	138,341	102,135	1,290,817	39,798	1,330,615
Additions	242,916*	56,317	5,996	-	305,229	1,173	306,402
Transfers	-	-	-	-	-	-	-
Disposals	-	-	(68,664)	(39,577)**	(108,241)	-	(108,241)
Effect of movements in exchange rates	(32,001)	(269,674)	(26,558)	(20,470)	348,703)	(10,119)	(358,822)
Balance as of 30 June 2015	213,498	834,401	49,115	42,088	1,139,102	30,852	1,169,954
<i>Accumulated Depreciation and Impairment</i>							
Balance as of 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)	(6,856)	(6,807)	(3,704)	(17,674)	(4,024)	(21,698)
Balance as of 30 June 2014	2,583	78,848	63,667	36,891	181,989	38,678	220,667
Charge for the period	-	42,641	15,852	8,971	67,464	587	68,051
Disposals	-	-	(47,351)	(5,154)	(52,505)	-	(52,505)
Effect of movements in exchange rates	(647)	(25,251)	(11,879)	(9,732)	(47,509)	(9,763)	(57,272)
Balance as of 30 June 2015	1,936	96,238	20,289	30,976	149,439	29,502	178,941
<i>Carrying amounts</i>							
Balance as of 30 June 2013	-	773,006	23,949	34,778	831,733	10,782	842,515
Balance as of 30 June 2014	-	968,910	74,674	65,244	1,108,828	1,120	1,109,948
Balance as of 30 June 2015	211,562	738,163	28,826	11,112	989,663	1,350	991,013

Keystone Human Services International – Moldova Association

Notes to the Special Purpose Financial Information prepared for Consolidation Purposes
as of and for the period ended 30 June 2015

(All amounts are in USD, unless stated otherwise)

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

*) During the 12 month period ended 30 June 2015 the Organization acquired a new office space for the development of a Training Center, located on Albisoara street, no 42/1, Chisinau, Republic of Moldova (acquisition cost USD 243 thousand) within the Project “Community for all Moldova - Bridge” financed by Soros Foundation - Moldova. As of 30 June 2015 the office is not yet available for use as capital repairs are needed in order to bring it to the condition necessary for it to be capable of operating in the manner intended by the management.

**) During the 12 month period ended 30 June 2015 the Organization disposed-off the five cars acquired within the Project “Public-Private Partnership for the Sustainable Development of Locally Governed Disability Services: Supporting Decentralization Reform” financed by European Union. As stated in the Grant Agreement, the cars shall be transferred to local Public Administrations - the final Beneficiaries of the Project.

Note 5 - Funds balance

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

Keystone Human Services International – Moldova Association

Notes to the Special Purpose Financial Information prepared for Consolidation Purposes
as of and for the period ended 30 June 2015

(All amounts are in USD, unless stated otherwise)

Note 5 - Funds balance (continued)

*) 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).

	Deferred revenues	Unrestricted net assets
Balance as of 1 July 2014	113,388	890,781
Funds received, including:	1,108,905	-
Soros Foundation Moldova	733,870	-
Keystone International	169,888	-
SOIR Moldova	56,260	-
European Comission	30,135	-
Pas cu Pas	28,457	-
Fundatia Est-Europeana	19,845	-
Family Health International	12,501	-
U.N.D.P. Moldova	4,485	-
Other Donors	1,385	-
Goods received as donations	3,325	-
Return of sub-grants from Beneficiaries	4,663	-
Netting of long term borrowings from funds received	44,091	-
Funds consumed, including:	(1,070,398)	182,615
Total charged to Statement of Activities, less sub-grants	(750,593)	(123,787)*
Transfer to deferred income (acquisition of assets)	(306,402)	306,402
Expense related to sub-granted amounts	(43,512)	-
Transfers (to) / from short term deferred income	43,040	-
Return of grants received from Donors	(3,938)	-
Transferred from grant receivables from beneficiaries	-	-
Transferred to grant payables to beneficiaries	-	-
Transferred to beneficiaries not yet expensed	(7,885)	-
Other	(1,108)	-
Translation difference	(36,410)	(246,663)
Balance as of 30 June 2015	115,485	826,733

*) 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 of and for the period ended 30 June 2015

(All amounts are in USD, unless stated otherwise)

Note 6 - Related parties

Outstanding balances as of 30 June 2015 and 30 June 2014 and the volume of transactions for the 12 month periods then ending with related parties are as follows:

Related party	2015	2014
Funds received		
Keystone Human Services International	169,888	104,705
Additional support instead of repayment of the loan		
Keystone Human Services International	38,400	33,743
Outstanding balance of funds received		
Keystone Human Services International	35,942	6,644
Loans and Borrowings		
Keystone Human Services	194,800	233,200

The amount of USD 38,400 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.