

**Keystone Human Services International
Moldova Association**

Special Purpose Financial Information Prepared
for Consolidation Purposes as at and for the
period ended 30 June 2016

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 2016
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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 2016 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 2016 and should not be used for any other purpose.

KPMG Moldova SRL
Chisinau, Republic of Moldova
8 December 2016

Ref.: 16030

Keystone Human Services International – Moldova Association

Statement of Financial Position as at 30 June 2016

(All amounts are in USD, unless stated otherwise)

	<u>30 June 2016</u>	<u>30 June 2015</u>
Assets		
Current assets		
Cash and cash equivalents	169,210	101,714
Accounts receivable	23,352	10,267
Inventories	8,389	4,839
Prepaid expenses	68	425
Total current assets	<u>201,019</u>	<u>117,245</u>
Property, equipment and intangible assets		
Buildings and improvements	1,053,246	834,401
Construction in progress	1,822	213,498
Motor vehicles	39,610	42,088
Furniture, fixtures, and equipment	95,232	49,115
Intangible assets	29,036	30,852
Less: accumulated depreciation and impairment	(206,169)	(149,439)
Less: accumulated amortization	(28,329)	(29,502)
Property, equipment and intangible assets, net	<u>984,448</u>	<u>991,013</u>
Total assets	<u>1,185,467</u>	<u>1,108,258</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	13,994	17,907
Accrued salaries and benefits	52,684	36,137
Deferred revenue	179,961	115,485
Loans and borrowings	28,241	20,341
Total current liabilities	<u>274,880</u>	<u>189,870</u>
Non-current liabilities		
Loans and borrowings	147,959	174,459
Total non-current liabilities	<u>147,959</u>	<u>174,459</u>
Net assets		
Unrestricted	829,841	826,733
Accumulated losses	(91,662)	(102,445)
Foreign currency translation differences	24,449	19,641
Total net assets	<u>762,628</u>	<u>743,929</u>
Total liabilities and net assets	<u>1,185,467</u>	<u>1,108,258</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 2016

(All amounts are in USD, unless stated otherwise)

	12 months ended 30 June 2016	12 months ended 30 June 2015
Revenues and support		
Grant revenue	550,143	933,819
In-kind revenue	76	295
Total revenues and support	550,219	934,114
Expenses		
Program services	(421,420)	(603,345)
Net finance gain/(loss)	792	(3,495)
Administration	(272,835)	(314,252)
In-kind expenses	(76)	(295)
Total expenses	(693,539)	(921,387)
Excess / (deficit) of revenues and support over expenses	(143,320)	12,727
Other revenues / (expense) – not program related		
Income from economic activity	90,339	3,626
Expenses related to economic activity	(68,111)	-
Net finance gain/(loss)	(11,444)	(67,060)
Total other revenues / (expenses)	10,784	(63,434)
Other changes		
Net asset transfer from Affiliates	195,434	169,888
Total other changes	195,434	169,888
Change in net assets	62,898	119,181
Net assets, beginning of period	743,929	854,015
Translation differences	(44,199)	(229,267)
Net assets, end of period	762,628	743,929

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 2016

(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 2016 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 8 December 2016.

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 2016 and 30 June 2015 were as follows:

	<u>30 June 2016</u>	<u>30 June 2015</u>
<i>(in US Dollars per unit of foreign currency)</i>		
EUR	1.1088	1.1123
MDL	0.0503	0.0535

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 2016

(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.

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 2016

(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 2016 and 30 June 2015.

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 undiscounted 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 2016

(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 postretirement 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 2016

(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 at 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 at 30 June 2015	213,498	834,401	49,115	42,088	1,139,102	30,852	1,169,954
Additions	61,667	7,641	49,321	-	118,629	-	118,629
Transfers	(262,044)	262,044	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Effect of movements in exchange rates	(11,299)	(50,840)	(3,205)	(2,478)	(67,822)	(1,816)	(69,638)
Balance as at 30 June 2016	1,822	1,053,246	95,232	39,610	1,189,909	29,036	1,218,945
<i>Accumulated Depreciation and Impairment</i>							
Balance as at 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 at 30 June 2015	1,936	96,238	20,289	30,976	149,439	29,502	178,941
Charge for the period	-	43,191	17,447	5,309	65,947	567	66,514
Disposals	-	-	-	-	-	-	-
Effect of movements in exchange rates	(114)	(5,940)	(1,306)	(1,857)	(9,217)	(1,740)	(10,957)
Balance as at 30 June 2016	1,822	133,489	36,430	34,428	206,169	28,329	234,498
<i>Carrying amounts</i>							
Balance as at 30 June 2014	-	968,910	74,674	65,244	1,108,828	1,120	1,109,948
Balance as at 30 June 2015	211,562	738,163	28,826	11,112	989,663	1,350	991,013
Balance as at 30 June 2016	-	919,757	58,802	5,182	983,740	707	984,447

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 2016
(All amounts are in USD, unless stated otherwise)

Note 5 - Funds balance

	Deferred revenues	Net assets	Total
Balance as at 1 July 2014	113,388	854,015	967,403
I. Funds received, including:	1,108,905	-	1,108,905
Soros Foundation Moldova	733,870	-	733,870
Keystone International	169,888	-	169,888
SOIR Moldova	56,260	-	56,260
European Commission	30,135	-	30,135
Pas cu Pas	28,457	-	28,457
East Europe Foundation	19,845	-	19,845
Family Health International	12,501	-	12,501
U.N.D.P. Moldova	4,485	-	4,485
Other Donors	1,385	-	1,385
II. Goods received	3,325	-	3,325
III. Return of sub-grants from Beneficiaries	4,663	-	4,663
IV. Netting of long term borrowings from funds received	44,091	-	44,091
V. Funds consumed, including:	(1,073,893)	182,615	(891,278)
Total charged to Statement of Activities, less sub-grants	(750,593)	(123,787)*	(874,380)
Transfer to deferred income (acquisition of assets)	(306,402)	306,402	-
Expense related to sub-granted amounts	(43,512)	-	(43,512)
Transfers (to) / from short term deferred income	43,040	-	43,040
Return of grants received from Donors	(3,938)	-	(3,938)
Transferred from grant receivables from beneficiaries	-	-	-
Transferred to grant payables to beneficiaries	-	-	-
Transferred to beneficiaries not yet expensed	(7,885)	-	(7,885)
Other	(1,108)	-	(1,108)
VI. FX losses from loans and borrowings	-	(67,060)	(67,060)
VII. Profit from economic activity	-	3,626	3,626
Translation difference	(36,410)	(229,267)	(265,677)
Balance as at 30 June 2015	115,485	743,929	859,414

*) 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 2016
(All amounts are in USD, unless stated otherwise)

Note 5 - Funds balance (continued)

	Deferred revenues	Net assets	Total
Balance as at 1 July 2015	115,485	743,929	859,414
I. Funds received, including:	802,445	-	802,445
Soros Foundation Moldova	335,801	-	335,801
Keystone International	176,813	-	176,813
European Union	118,567	-	118,567
SOIR Moldova	75,088	-	75,088
Pas cu Pas	51,071	-	51,071
Family Health International	16,612	-	16,612
East Europe Foundation	9,479	-	9,479
II. Goods received	76	-	76
III. Return of sub-grants from Beneficiaries	317	-	317
IV. Netting of long term borrowings from funds received	18,621	-	18,621
V. Funds consumed, including:	(730,716)	52,115	(678,601)
Total charged to Statement of Activities, less sub-grants	(610,055)	(66,514)*	(676,569)
Transfer to deferred income (acquisition of assets)	(118,629)	118,629	-
Expense related to sub-granted amounts	(17,761)	-	(17,761)
Transfers (to) / from short term deferred income	21,164	-	21,017
Return of grants received from Donors	(6,079)	-	(6,079)
Other	(147)	-	(147)
VI. FX losses from loans and borrowings	-	(11,445)	(11,445)
VII. Profit from economic activity	-	22,228	22,228
Translation difference	(6,462)	(49,199)	(50,661)
Balance as at 30 June 2016	179,961	762,628	942,589

*) 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 2016

(All amounts are in USD, unless stated otherwise)

Note 6 - Related parties

Outstanding balances as at 30 June 2016 and 30 June 2015 and the volume of transactions for the 12 month periods then ending with related parties are as follows:

<u>Related party</u>	<u>30-Jun-2016</u>	<u>30-Jun-2015</u>
Funds received		
Keystone Human Services International	<u>176,813</u>	<u>169,888</u>
Additional support instead of repayment of the loan		
Keystone Human Services International	<u>18,600</u>	<u>38,400</u>
Outstanding balance of funds received		
Keystone Human Services International	<u>1,517</u>	<u>35,942</u>
Loans and Borrowings		
Keystone Human Services	<u>176,200</u>	<u>194,800</u>

The amount of USD 18,600 (30-Jun-2015: 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.