

**ARMENIAN CARITAS
BENEVOLENT NON-GOVERNMENTAL
ORGANIZATION**

FINANCIAL STATEMENTS

In Armenian Drams

31 DECEMBER 2009



**BAKER TILLY
ARMENIA**

YEREVAN 2010

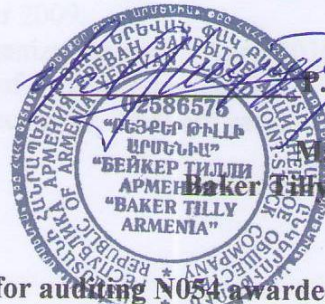


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29 June 2010
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CONFIRMED BY:



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Finance and Economy of the Republic of Armenia

INDEPENDENT AUDITOR'S REPORT

To the President of Armenian Caritas BNGO

In accordance with the Contract signed between us on 15 April 2010, we have audited the accompanying financial statements of Armenian Caritas Benevolent NGO as at 31 December, 2009.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Organization's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

1. We were appointed as auditors of the Organization for the year ended 31 December, 2009 and in consequence did not report on the financial statements of the previous years. The 2008 figures appearing in these financial statements are for comparative purposes only and have not been audited by us. Any adjustment to these figures would have a consequential effect on the results for the year ended 31 December 2009.
2. Because we were appointed as auditors of the Organization on 15 April 2010, we did not observe the counting of the physical inventories as of 31 December 2009.
3. Carrying amounts of some fixed assets as of 31 December, 2009 are zero, though they are used by the Organization.

Opinion

In our opinion, except for the effect on the financial statements of the matters mentioned above, the financial statements give a true and fair view of the financial position of Armenian Caritas Benevolent NGO as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

M. Mkrtchyan



Auditor

Balance sheet

	Note	As of December 31, 2009	<i>AMD ths.</i> As of December 31, 2008
Assets			
<i>Non-current assets</i>			
Property and equipment	4	79,463	85,506
Intangible assets			-
Prepayments		15,036	-
		<u>94,499</u>	<u>85,506</u>
<i>Current assets</i>			
Accounts receivable		2,000	155
Materials		4,393	-
Receivables from donors	5	29,259	21,620
Cash and bank balance	6	138,157	124,936
		<u>173,809</u>	<u>146,711</u>
Total assets		<u>268,308</u>	<u>232,217</u>
 <i>Reserves and liabilities</i>			
<i>Non-current liabilities</i>			
Grants related to assets	7	94,499	85,506
		<u>94,499</u>	<u>85,506</u>
<i>Current liabilities</i>			
Grants related to income	8	171,400	146,555
Accounts payable		363	225
		<u>171,763</u>	<u>146,780</u>
 Retained surplus/(deficit)		2,046	(69)
		<u>2,046</u>	<u>(69)</u>
Total funds and liabilities		<u>268,308</u>	<u>232,217</u>

The financial statements were approved on April 15, 2010 by:

Anahit Mkhoyan
Executive Director

Vardan Muradyan
Head of financial department



The attached notes 1 to 15 form an inseparable part of these financial statements

Income statement

		Year ended December 31, 2009	<u>AMD ths.</u> Year ended December 31, 2008
	Note		
<i>Donations</i>			
Income from grants		499,758	476,233
		<u>499,758</u>	<u>476,233</u>
<i>Expenses</i>			
Program expenses	9	(451,952)	(413,893)
Administration expenses	10	(65,884)	(58,878)
Non-operating income (expenses)		21,637	(3,541)
Surplus/(deficit) for the year		<u>3,559</u>	<u>(79)</u>

Anahit Mkhoyan
Executive Director



Vardan Muradyan
Head of financial department




Statement of Changes in Reserve

	Retained surplus/(deficit)	<u>AMD ths.</u> Total
as of January 1, 2008	10	10
Surplus for the year	(79)	(79)
as of December 31, 2008	(69)	(69)
Deficit for the year	2,115	2,115
as of December 31, 2009	2,046	2,046

Anahit Mkhoyan
Executive Director



Vardan Muradyan
Head of financial department




The attached notes 1 to 15 form an inseparable part of these financial statements

Cash flow statement

	Year ended December 31, 2009	<i>AMD ths.</i> Year ended December 31, 2008
Cash receipts from donors	542,114	525,296
Total cash receipts from operations	542,114	525,296
<i>Cash used in operations</i>		
Cash paid to and on behalf of employees	(131,825)	(129,226)
Cash used in project implementation	(345,217)	(285,018)
Cash paid to the State budget	(28,379)	(18,780)
Other cash payments	(18,140)	(41,542)
Total cash used in operations	(523,561)	(474,566)
<i>Net cash from operating activities</i>	18,553	50,730
Cash flows from investing activities		
Acquisition of non-current assets	(26,367)	(9,011)
<i>Net cash used in investing activities</i>	(26,367)	(9,011)
Cash flows from financial activities		
(Repayment)/receipt of loans	(7,770)	-
Other cash inflow	525	-
<i>Net cash used in financing activities</i>	(7,245)	-
Net increase in cash and bank balances	(15,059)	41,719
Foreign exchange effect on cash	28,280	1,515
<i>Cash and bank balances at the beginning of the year</i>	124,936	81,702
<i>Cash and bank balances at the end of the year</i>	138,157	124,936

Anahit Mkhoyan
Executive Director

Vardan Muradyan
Head of financial department



The attached notes 1 to 15 form an inseparable part of these financial statements

Notes to Financial Statements

1 Nature of operations and general information

“Armenian Caritas” NGO (the “Organization”) is a benevolent non-governmental organization based in the Republic of Armenia. The Organization has been registered according to the decree number 19/2-7 dated May 23, 1997 issued by the Colleague of the Ministry of Justice of the Republic of Armenia. The Organization was reregistered by the order number 2147 dated December 24, 1999 of the Minister of Justice of the Republic of Armenia. The main office of the Organization is located at 8 Sarkissian Street, Gyumri, Republic of Armenia.

The Organization receives its funding from local and foreign charitable foundations and carries out charitable projects in a number of regions throughout the Republic of Armenia.

During 2009 the organization implemented 46 projects (2008: 50), among which are “Primary Health Care Center”, “Aramazd”, “Home Care”, “Day Care Center in Gyumri”, “Capacity Building of 7 Centers”, “Water and Sanitation”, “Day Care Centre for People with Multiple Disabilities in Gyumri”, etc.

The Organization receives grants primarily from the following donors: Caritas Spain, Caritas Germany, Renovabis, Caritas Belgium, Caritas Austria and Cordaid.

The average number of employees of the Organization during 2009 was 71 (2008: 68).

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared based on the accounting records maintained under the requirements of the Armenian legislation and presented in accordance with accounting standards of the Republic of Armenia (“ASRA”).

Currently, ASRA do not contain specific guidance for non-profit organizations and non-governmental organizations concerning the accounting treatment and the presentation of financial statements. Where ASRA is silent or does not give guidance on how to treat transactions specific to the non-for-profit sector, accounting policies have been based on the general principles of ASRA.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram (“dram”), which is the Organization’s functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Organization.

These financial statements are presented in Armenian drams (unless otherwise stated); since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with ASRA requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

3 Significant accounting policies

3.1 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the balance sheet date, which is 377.89 drams for 1 US dollar as of December 31, 2009 (December 31, 2008: 306.73 drams for 1 US dollar) and 542.23 drams for 1 Euro as of December 31, 2009 (December 31, 2008: 435.00 drams for 1 Euro). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historic cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

3.2 Property and equipment

Property and equipment stated at cost

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the income statement as incurred.

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

- Buildings 20 years
- Vehicles 5 years
- Furniture, computers, equipment 3-5 years.

3.3 Intangible assets

Intangible assets, which are acquired by the Organization and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to the income statement on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 3 years for accounting software.

The attached notes 1 to 15 form an inseparable part of these financial statements

3.4 Financial instruments

Financial assets and financial liabilities are recognized when the Organization becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets financial liabilities are measured subsequently as described below.

Financial assets

Financial assets other than hedging instruments are loans and receivables

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognized in profit or loss or directly in equity. See note 11.2 for a summary of Organization's financial assets by category.

Generally, the Organization recognizes all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognized in the income statement line item "finance costs" or "finance income", respectively.

i Receivables

Current accounts receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Organization will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to the statement of income of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

Financial liabilities

The Organization's financial liabilities include accounts payables which are measured at amortized cost using the effective interest rate method. A summary of Organization's financial liabilities by category is given in note 11.2.

i Accounts payables

Accounts payables are stated at fair value and subsequently stated at amortized cost.

3.5 Impairment

Impairment of property and equipment, intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

3.6 Accounts payables

Trade and other payables are stated at fair value and subsequently stated at cost.

3.7 Employee benefits

The Organization makes contributions for the benefit of employees to the Armenian State pension fund. The contributions are expenses as incurred.

3.8 Government grants

Government grants are not recognized until there is reasonable assurance that the Organization will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Organization should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as income over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Organization with no future related costs are recognized in profit or loss in the period in which they become receivable.

Receivables from donors arise when the Organization expenses more than it receives from the donors and it is certain that the Organization will receive compensation from the donors for the expenses incurred.

Reversals of grants previously accrued are accounted for, when reimbursement for expenses made previously for projects are received from donors.

The attached notes 1 to 15 form an inseparable part of these financial statements

Unused balance for grants arises, when the Organization expenses less than it receives from the donor and is returned when the donor does not allow it to be used for another project and requires it to be paid back and is included in “Grants related to income” item of the balance sheet.

4 Property and equipment

	<i>AMD ths.</i>			
	Buildings	Transportation means	Furniture, computers, equipment	Total
Cost				
as of January 1, 2008	18,404	35,604	71,813	125,821
Additions	45,000	-	9,121	54,121
Disposals	-	-	(2,543)	(2,543)
as of December 31, 2008	63,404	35,604	78,391	177,399
Additions			12,386	12,386
Disposals		(858)	(2,686)	(3,544)
as of December 31, 2009	63,404	34,746	88,091	186,241
Accumulated depreciation				
as of January 1, 2008	6,407	16,651	53,386	76,444
Charge for the year	2,233	5,919	9,828	17,980
Eliminated on disposal	-	-	(2,531)	(2,531)
as of December 31, 2008	8,640	22,570	60,683	91,893
Charge for the year	3,170	5,239	9,845	18,254
Eliminated on disposal		(858)	(2,511)	(3,369)
as of December 31, 2009	11,810	26,951	68,017	106,778
Carrying amount				
as of December 31, 2008	54,764	13,034	17,708	85,506
as of December 31, 2009	51,594	7,795	20,074	79,463

Depreciation expense has been fully allocated to administrative expenses.

Additions to building relate to the acquisition of a private house, located in Gyumri, Sargssian str, House 27, Side street 2., purchased by the Organization and paid by Caritas Austria for the implementation of “Day Care Centre for People with Multiple Disabilities in Gyumri” (refer to note 7). The house was purchased on May 15, 2008 for 93,000 Euro. The house belongs solely to the Organization and may serve exclusively to the purposes of caring for people with multiple disabilities in Gyumri. The approval of Caritas Austria is necessary for any change in the reason for the purpose of the purchase before May 31, 2033. If the approval is not given, the Organization must pay reimbursement for the remaining lifespan of the house, which is set by the contract as 25 years. After June 1, 2033 the Organization has the right of disposal, with the stipulation that the amount of sale or the financial profit may only used for social purposes.

5 Receivables from donors

	As of December 31, 2009	<u>AMD ths.</u> As of December 31, 2008
Caritas Belgium	6596	5,817
Caritas Germany	15650	-
Caritas France	-	1,943
Caritas Spain	-	5,595
Kirche in Not	5422	-
Caritas Austria	1591	6,681
Other donors	-	1,584
	<u>29,259</u>	<u>21,620</u>

These are expenses for projects incurred by the Organization but not yet reimbursed by the donors.

The major part of the Organization's projects is financed at the same time by several donors. Additionally, a donor at the same time may finance several projects.

6 Cash and bank balances

	As of December 31, 2009	<u>AMD ths.</u> As of December 31, 2008
Cash in hand	3987	3,621
Bank accounts	134170	121,315
	<u>138157</u>	<u>124,936</u>

7 Grants related to assets

	<u>2009</u>	<u>AMD ths.</u> 2008
Balance at the beginning of the year	85,506	49,521
Grants received during the year (refer to note 4)	-	45,000
Transferred from grants related to income	27,422	9,011
Realized to income	(18,428)	(18,026)
Balance at the end of the year	<u>94,499</u>	<u>85,506</u>

Grants realized to income include:

I	Year ended December 31, 2009	<u>AMD ths.</u> Year ended December 31, 2008
Depreciation of property and equipment	18,253	17,980
Amortization of intangible assets	-	34
Loss on disposal of property and equipment	175	12
	<u>18,428</u>	<u>18,026</u>

The attached notes 1 to 15 form an inseparable part of these financial statements

8 Grants related to income

		<u>AMD ths.</u>
	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	146,555	105,499
Donations received from donors	547,271	525,094
Other donations received	1,268	372
Realized to income	(496,907)	(458,207)
Transferred to grants related to assets	(27,422)	(9,011)
Reversal of grants previously accrued	(21,620)	(19,462)
Gain from revaluation of grants balances realized to income, net	23,019	2,377
Unused balance returned to donors	(764)	(107)
Balance at the end of the year	<u>171,400</u>	<u>146,555</u>

The details of the donations received during the year are presented below.

The equivalent of amounts in Euros for donations received and expenses incurred are presented for the convenience of the users of the financial information.

Donations/grants received for the Projects are follows:

	2009		2008	
	In thousand drams	Equivalent in Euros	In thousand drams	Equivalent in Euros
<u>Projects</u>				
Assistance to the children	145,544	278,959	106,957	234,944
Water and sanitation	-	-	33,827	79,000
Support to elderly	128,896	247,968	158,632	365,415
Primary care dispensary	48,615	92,908	33,182	75,902
Trafficking and domestic violence	21,282	45,000	30,184	56,637
Community development	119,616	248,377	83,222	196,953
Parent school partnership	24,865	50,000	28,122	62,500
Other	19,984	41,973	14,917	31,815
	<u>508,802</u>	<u>1,005,185</u>	<u>489,043</u>	<u>1,103,166</u>
Administrative expenses	35,530	73,959	36,051	77,610
	<u>544,332</u>	<u>1,079,144</u>	<u>525,094</u>	<u>1,180,776</u>

Donations made by the Donors are detailed below:

The attached notes 1 to 15 form an inseparable part of these financial statements

	2009		2008	
	In thousand drams	Equivalent in Euros	In thousand drams	Equivalent in Euros
<i><u>Donors</u></i>				
Cordaid	18,576	36,000	26,874	58,296
Soros	8632	15,543	-	-
Caritas Europe	2142	4,222	3,817	8,637
Caritas Italy	780	1,500	7,630	17,000
Caritas Spain	98,533	192,908	85,153	196,313
Caritas Germany	126,804	242,442	138,602	307,984
Caritas France	47,798	97,650	16,566	35,692
EU	23,675	55,368	-	-
Renovabis	6,932	13,652	37,090	85,528
JMF	-	-	4,964	11,123
Bishops Conferans	-	-	35,667	89,020
CRS	-	-	20,101	44,364
Caritas Belgium	56,420	116,172	28,678	65,392
Caritas Austria	124,238	243,446	47,089	104,429
Caritas Innsbruck	-	-	24,804	50,999
L'Oeuvre d'Orient	-	-	21,337	46,710
Kardinal FR. Gym	15,777	29,672	7,458	15,384
Action of 3 kings	6,251	15,975	-	-
Local Guvernment	1,262	2,318		
Privat	4,282	8,125	-	-
Other	2,230	4,151	19,264	43,905
	<u>544,332</u>	<u>1,079,144</u>	<u>525,094</u>	<u>1,180,776</u>

9 Program expenses

	2009		2008	
	In thousand drams	Equivalent in Euros	In thousand drams	Equivalent in Euros
<i><u>Projects</u></i>				
Assistance to the children	120,925	293,153	88,660	202,480
Water and sanitation	4,151	9,364	29,561	65,620
Support to elderly	144,714	282,603	139,970	316,673
Primary care dispensary	27,723	28,996	26,575	58,669
Trafficking and domestic violence	16,463	32,665	32,979	78,266
Community development	81,935	165,878	62,052	140,579
Parent school partnership	29,998	62,061	11,556	22,820
Other	26,043	80,984	22,540	59,168
	<u>451,952</u>	<u>955,704</u>	<u>413,893</u>	<u>944,275</u>

The attached notes 1 to 15 form an inseparable part of these financial statements

10 Administration expenses

	2009		2008	
	In thousand drams	Equivalent in Euros	In thousand drams	Equivalent in Euros
Salaries and benefits	26,547	52,322	22,537	51,809
Office expenses	4,344	8,562	5,628	12,938
Depreciation and amortization	18,253	35,975	18,014	41,411
Travel and accommodation	4,810	9,480	3,218	7,398
Audit and consulting	2,553	5,032	3,360	7,724
Bank charges	3,150	6,208	441	1,014
Other	6,227	12,273	5,680	13,057
	<u>65,884</u>	<u>129,852</u>	<u>58,878</u>	<u>135,351</u>

11 Financial instruments

11.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the note 3.4.

11.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

	As of December 31, 2009	<u>AMD ths.</u> As of December 31, 2008
Loans and receivables:		
Receivables	31,259	21,775
Cash and bank balances	138,157	
	<u>169,416</u>	<u>146,711</u>

Financial liabilities

	As of December 31, 2009	<u>AMD ths.</u> As of December 31, 2008
Financial liabilities measured at amortized costs:		
Accounts payables	363	225
	<u>363</u>	<u>225</u>

The attached notes 1 to 15 form an inseparable part of these financial statements

12 Financial risk management objectives

Exposure to market risk (currency risk) arises in the normal course of the Organization's activity.

12.1 Foreign currency risk management

The Organization undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The exposure of the Organization's financial assets and financial liabilities to the foreign currency risk is as follows:

Item	Armenian drams	US dollars	Euro
2009			
<i>Financial assets</i>			
Cash and bank balances	30.978	661	10.6518
Receivables from donors	-	-	29.259
Accounts receivables	2.000	-	-
	<u>32.978</u>	<u>661</u>	<u>135.777</u>
<i>Financial liabilities</i>			
Accounts payable	<u>363</u>		
	<u>363</u>		
Net position	<u>32,615</u>	<u>661</u>	<u>135,777</u>
Item	Armenian		
2008	drams	US dollars	Euro
<i>Financial assets</i>			
Cash and bank balances	65.149	227	59.560
Receivables from donors	-	-	21.620
Accounts receivables	155	-	-
	<u>65.304</u>	<u>227</u>	<u>81.180</u>
<i>Financial liabilities</i>			
Accounts payable	<u>225</u>	-	-
	<u>225</u>	-	-
Net position	<u>65,079</u>	<u>227</u>	<u>81,180</u>

13 Commitments

13.1 Capital commitments

The Organization has not entered into contracts to purchase property and equipment during the years 2007 and 2008. There are no future capital expenditure commitments of the Organization with related parties as of December 31, 2008 and December 31, 2007.

13.2 Legal commitments

There are no claims outstanding against the Organization as of December 31, 2008 and December 31, 2007.

14 Contingencies

14.1 Operating environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base and regional instability.

The international rating agency Moody's Investors Service has assessed Armenia's sovereign rating *Ba2* "Stable Outlook" in its annual report produced at the end of 2008. According to the report, the country's low government debt and minimal refinancing risks are allowing its rating to maintain a stable outlook in the current environment. A weak revenue base is the main fiscal risk, although it is ameliorated by the very comfortable debt service profile, its good relations with its official creditors, and the liquidity provided by the Diaspora.

Due to smaller extent of the involvement of foreign capital in the equities of Armenian businesses, as well as the comparably small foreign investments in the Armenian economy and the isolation of its relevant sectors from the rest of the world, the ongoing financial crisis observable in more developed and mature economies is not particularly severe and observable in Armenia as of the reporting date.

Accordingly, the financial statements of the Organization do not include the effects of adjustments, if any, which might have been considered necessary, had the effects of the current global crisis become observable and reliably measurable in Armenia.

14.2 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Organization does not have full coverage for third party liability in respect of property or environmental damage arising from accidents on the Organization property or relating to the Organization operations. Until the Organization obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse affect on the Organization's operations and financial position.

14.3 Tax contingencies

The taxation system in Armenia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties.

These facts may create tax risks in Armenia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

The Organization has not been inspected by tax authorities during the last 3 years. The financial statements of the Organization do not include the effects of possible adjustments, which might be considered necessary, had tax authorities conducted tax inspection for the last 3 years.

15 *Related party transactions*

15.1 Transactions with management and close family members

Key management received the following remuneration during the year, which is included in payroll and employee benefits.

	<u>Year ended December 31, 2009</u>	<u><i>AMD ths.</i> Year ended December 31, 2008</u>
Salaries and bonuses, including contributions to Social State fund	<u>22,537</u>	<u>19,133</u>