

COAF

THE CHILDREN OF ARMENIA FUND

FINANCIAL STATEMENTS
IN ARMENIAN DRAMS

DECEMBER 31, 2008



**BAKER TILLY
ARMENIA**

Yerevan 2009



BAKER TILLY ARMENIA

22 Hanrapetutyan Street
Area 16, 5th floor
0010 Yerevan
Republic of Armenia
Tel: +374(10) 582-487
Tel: +374(10) 582-478
Fax: +374(10) 562-404
Email: info@bakertillyarmenia.com
www.bakertillyarmenia.com

APPROVED



P. Gevorgyan
Managing Partner
Baker Tilly Armenia CJSC

License for auditing N054 awarded by Ministry of
Finance and Economy of the Republic of Armenia

INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees of COAF
the Children of Armenia Fund**

We have audited the accompanying balance sheet of the Children of Armenia Fund (COAF) as of December 31, 2008, and the related statements of income, changes in equity capital, and cash flows for the year then ended. These financial statements are the responsibility of the COAF's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the National auditing standards and professional practice. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

THE AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Children of Armenia Fund (COAF) as of 31 December 2008, and the results of its operations, changes in equity capital, and cash flows for the year then ended, in accordance with the requirements of the Law "On Accounting", Accounting Principles and the Accounting Standards of the Republic of Armenia.

Deputy Director
Auditor

K. Beglaryan

A handwritten signature in blue ink, appearing to read 'K. Beglaryan', is written over a horizontal line. The signature is stylized and cursive.



Balance Sheet
31 December, 2008

	Notes	2008	AMD ths. 2007
Assets			
<i>Non-Current Assets</i>			
Fixed assets	3	20,363	21,166
Intangible assets	4	46	138
Total Non-Current Assets		20,409	21,304
<i>Current Assets</i>			
Inventory	5	20,505	19,868
Short-term receivable as regards Budget	6	37	5
Other receivables	7	15,435	465
Current prepayments	8	24,508	34,057
Current financial investments	9	-	2,513
Cash and cash equivalents	10	58,632	34,752
Other current assets	11	67	34
Total current assets		119,184	91,694
Total assets		139,593	112,998
Equity and Liabilities			
<i>Non-current liabilities</i>			
Grants related to assets	12	20,409	21,304
Total non-current liabilities		20,409	21,304
<i>Current liabilities</i>			
Short-term Loans	13	13,500	-
Accounts payable regarding purchases	14	1,523	7,902
Accounts payable regarding Budget	15	-	532
Grants related to income	16	33,969	32,005
Current reserves	17	70,192	51,255
Total current liabilities		119,184	91,694
Total liabilities		139,593	112,998



Aleksanyan
10.03.2009

Arsen Harutyunyan
Arsen Harutyunyan
Chief Accountant



INCOME STATEMENT
Year ended 31 December, 2008

AMD ths.

	Notes	Reporting period	Previous period
Administrative expenses	18	(45,204)	(48,046)
Other operating income	19	435,573	904,923
Other operating expenses	20	(398,109)	(863,399)
Operating profit (loss)		(7,740)	(6,522)
Other non-operating profit(loss)	21	7,740	9,184
Profit before tax		0	2,662
Profit tax expense			532
<i>Net profit (loss) for the financial year</i>		0	2,130



Arsen Harutyunyan

Chief Accountant



CASH FLOW STATEMENT
Year ended 31 December, 2008

	2008	2007
Cash flows from operating activities		
Net profit	-	-
Adjustments		
Depreciation	5,688	4,078
Amortization	92	-
Provisions for employees' annual leaves	1,596	-
Impairment of fixed assets	-	(1,711)
	7,376	2,367
Inventories (increase) decrease	(638)	(8,504)
Accounts receivable (increase) decrease	(5,486)	61,516
Accounts payable (increase) decrease	10,431	48,818
Grants related to income (increase) decrease	1,965	(97,950)
Net cash flows from operating activities	13,648	6,247
Cash flows from investing activities		
Fixed assets (increase) decrease	(4,886)	4,368
Short-term loans (increase) decrease	2,513	-
Grants relating to assets increase (decrease)	(895)	(6,736)
Net cash flows from investing activities	(3,268)	(2,368)
Cash flows from financing activities		
Short term loan received	13,500	-
Current financial investment (increase) decrease	-	(1,050)
Net cash flows from financing activities	13,500	(1,050)
Net increase/decrease in cash and cash equivalents	23,880	2,829

Cash and cash equivalents at the beginning of the period	34,752	31,923
Cash and cash equivalents at the end of the period	58,632	34,752



[Signature]

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Arsen Harutyunyan

Chief Accountant



**Notes to Financial Statements
31 December, 2008**

1 ACTIVITIES

The objective of the Children of Armenia Fund is:

- To support the children welfare, healthcare and education in Armenia by means of assistance to families and environmental protection.

Number of the employees of the Company as of 31.12.2008 is 14.

**2 Accounting Policy
Financial Statements Composing Bases.**

Financial statements are prepared in accordance with the RA legislation in force and RA Accounting Standards.

Applied accounting principles are the following:

Accounting Principles

The financial statements are prepared under the historical cost convention.
Financial statements are presented in Armenian Drams.

Property, Plant and Equipment

At the moment of initial recognition PPE are measured at their initial cost. . The initial cost includes an acquisition cost and all the expenses (import duties. non-refundable taxes and other obligatory payments, transportation costs) incurred for bringing the assets to the working state and location needed for their purposeful use. Launching and similar pre-production charges are not included in the initial cost of non-current assets.

Depreciation

The depreciated amount of the unit of a fixed asset is periodically allocated over the useful life of the asset.

Buildings and Constructions	20 years
Computers	3 years
Transportation means	10 years
Other fixed assets	5 year

Depreciation is calculated on a straight line basis.



Accounts Receivable

Accounts receivable are presented at initial value of the invoice. Doubtful debts are assessed in case of incredibility to return the entire amount. As soon as the amount is considered unrecoverable (bad debt), the amount of the debt is written off.

Accounts Payable and Allocations

Liabilities are acknowledged as regards the amounts to be paid in the future for acquired goods or rendered services irrespective of availability of an invoice provided by the supplier.

Taxes

Taxes are calculated according to the Tax Legislation of the Republic of Armenia.

Foreign Currencies

Foreign currency transactions and balances are recorded in Armenian drams using exchange rates established by the CB RA on the day of transaction.



3 FIXED ASSETS

AMD *th.*

	<u>Machinery and equipment</u>	<u>Transportation means</u>	<u>Production and household equipment</u>	<u>Fixed assets out of operation</u>	<u>Total</u>
<u>Initial Cost</u>					
<i>End of previous period</i>	13,136	16,580	7,505	311	37,532
Increase	-	-	-	6,845	6,845
Internal movement	6,055	-	905	(6,960)	0
Disposal, liquidation	(822)	-	(1,137)		(1,959)
<i>End of current period</i>	18,369	16,580	7,273	196	42,418
<u>Depreciation</u>					
<i>Opening balance</i>	6,945	4,974	4,447	-	16,366
Charge for the year	3,757	1,658	1,450	-	6,865
Disposal, write-off	(481)	-	(695)	-	(1,176)
<i>Closing balance</i>	10,221	6,632	5,202	-	22,055
<u>Net carrying amount</u>					
End of the previous year	6,191	11,606	3,058	311	21,166
End of the current year	8,148	9,948	2,071	196	20,363



4 INTANGIBLE ASSETS

AMD ths.

Assets in operation	Computer Software	Total
Carrying amount		
End of Previous Year	277	277
<i>End of Current Year</i>	277	277
Amortization		
Opening Balance	139	139
Accumulated amortization	92	92
<i>Closing Balance</i>	231	231
Net Carrying Amount		
End of Previous Year	<u>138</u>	<u>138</u>
<i>End of Current Year</i>	<u>46</u>	<u>46</u>

5 INVENTORY

	2008	<i>AMD ths.</i> 2007
Fuel	175	96
Materials of agricultural significance	-	5
Inventory for Dispensary	-	445
Short-life items	2,127	4,953
Goods received or purchased for charitable purpose	18,203	14,369
Total	<u>20,505</u>	<u>19,868</u>

6 ACCOUNTS RECEIVABLE AS REGARDS BUDGET

	2008	<i>AMD ths.</i> 2007
Accounts Receivable as Regards Budget	37	5
Total	<u>37</u>	<u>5</u>



7 OTHER RECEIVABLES

	2008	<i>AMD ths</i> 2007
Receivables regarding Other income	210	-
Receivables regarding Bank interest accrued	-	28
Receivables regarding Grants	15,225	437
Total	15,435	465

8 CURRENT PREPAYMENTS

	2008	<i>AMD ths</i> 2007
Current Prepayment for acquisition of services and inventory	34,229	43,778
Reserves for losses related to bad debts regarding prepayments	(9,721)	(9,721)
Total	24,508	34,057

9 CURRENT FINANCIAL INVESTMENTS

	2008	<i>AMD ths.</i> 2007
Non-interest bearing loan provided to “Lernagogshin” LLC	-	513
Non-interest bearing loan provided to Dalarik community	-	2,000
Total	0	2,513

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents presented in Cash Flow Statement include the following:

	2008	<i>AMD ths.</i> 2007
Cash	1,486	143
Bank accounts	57,146	34,609
Total	58,632	34,752



11 OTHER CURRENT ASSETS INCLUDING

	2008	<i>AMD ths.</i> 2007
Receivables as regards social insurance payments	67	34
Total	67	34

12 GRANTS RELATED TO ASSETS

	<i>AMD ths.</i>
Balance at the beginning of the year	21,304
Transfer of amount from grants related to income	6,845
Acknowledgement of Grant as Income	(7,740)
Balance at the end of the reporting year	20,409

13 SHORT-TERM LOANS

	2008	<i>AMD ths.</i> 2007
Loan borrowed from HEIFER	13,500	-
Total	13,500	0

14 TRADE PAYABLES

	2008	<i>AMD ths.</i> 2007
Payables on received services, accepted works	1,523	6,452
Trade payable regarding purchases	-	1,450
Total	1,523	7,902



15 ACCOUNTS PAYABLE REGARDING BUDGET

As at 31 December 2008 there were no accounts payable in relation to State Budget.

16 GRANTS RELATED TO INCOME

	<i>AMD ths.</i>
Balance at the beginning of the year (01.01.08)	32,005
Grants received during the year	450,040
Transfer of amounts to grants related to assets	(6,845)
Adjustment on currency exchange differences	(1,642)
Recognition of the grant as an income	(439,589)
Balance at the end of the reporting year (31.12.08)	33,969

17 CURRENT PROVISIONS

	<i>AMD ths.</i>	
	2008	2007
Guarantee amounts - "Akhuryan-Koopshin" LLC	21,111	16,565
Guarantee amounts - "Kanaka" OJSC	42,314	31,809
Guarantee amounts - "Z Profile" LLC	2,216	1,878
Guarantee amounts - "Artvilshin" LLC	1,866	-
Guarantee amounts - "Hunan and brothers" LLC	856	856
Guarantee amounts - "VikVah" LLC	233	-
Guarantee amounts - "Arpine-Gor" LLC	-	65
Guarantee amounts - "Levon & Liza" LLC	-	82
Current provisions for employees' annual leaves	1,596	-
Total	70,192	51,255



		<i>AMD ths.</i>	
		2008	2007
18 ADMINISTRATIVE EXPENSES			
	Salary	(13,036)	(9,948)
	Fixed assets depreciation and maintenance expenses	(8,197)	(7,160)
	<i>Business trip expenses</i>	(54)	-
	Entertainment expenses	-	(1,793)
	Office and public utility expenses	(12,178)	(12,802)
	Postage and communication expenses	(5,577)	(5,347)
	Audit and consulting expenses	(2,543)	(1,640)
	IT expenses	(1,226)	(5,865)
	Bank charges	(720)	(2,347)
	Insurance	(1,557)	(1,025)
	Other administrative expenses	(116)	(119)
		(45,204)	(48,046)
19 OTHER OPERATING INCOME			
	Income from grants	435,573	904,923
		435,573	904,923
20 OTHER OPERATING EXPENSES			
	Bad receivables provision	-	(9,721)
	Fine and penalty expenses	-	(300)
	Expenses for statutory purposes	(398,109)	(853,378)
		(398,109)	(863,399)
21 OTHER NON-OPERATING GAIN (LOSS)			
	Income from Fixed Assets' Disposal	-	2,634
	Income from Currency Exchange Differences	2,101	9,332
	Income from Financial Investments	1,140	28
	Income from Grants relating to Assets	7,740	9,300
	Fixed Assets disposal expenses	-	(2,778)
	Currency Exchange Differences Expenses	(3,241)	(9,332)
		7,740	9,184

COAF

THE CHILDREN OF ARMENIA FUND

MANAGEMENT LETTER



**BAKER TILLY
ARMENIA**

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For Managerial Use Only

YEREVAN 2009



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ARMENIA**

22 Hanrapetutyán Street
Area 16, 5th floor
0010 Yerevan
Republic of Armenia
Tel: +374(10) 582-487
Tel: +374(10) 582-478
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www.bakertillyarmenia.com

10 March 2009

N 0294/1

**To Mrs. A. Alexanyan,
Executive Director of COAF
the Children of Armenia Fund**

Dear Mrs. Alexanyan

We have conducted the audit of annual financial statements for the period from 1 January 2008 to 31 December 2008 in accordance with the agreement signed between COAF and Baker Tilly Armenia CJSC on 01.02.2008. During the course of the audit, we also considered the principles of accounting, which the organization currently applies, as well as the accuracy of compiling the financial documentation.

The activities of the audit were planned and carried out in a constructive manner, which enables to reveal the possible shortcomings that exist in the system, irrespective of the extent of their materiality.

Attached please find the final version of the observations, ensuing consequences, and recommendations so as to avoid in future the shortcomings revealed by the audit.

We would appreciate your kindness to provide us with a copy of the document, which describes the actions that the Organization undertakes to eliminate the shortcomings.

Thank you in advance

Parandzem. Gevorgyan
Managing Partner



OBSERVATIONS REGARDING THE PREVIOUS FINANCIAL YEAR

Observation 1.1

According to the RA Government Decision № Ø - 192-², point 2, sub-point b) as of 28 March, 2006, Children of Armenia Fund (COAF) was proposed, by the 25th of the month following each quarter, to submit to the RA Government Charitable Programs Coordination Committee according to the established order an information on goods and services provided and received during the particular quarter by the Organization within the framework of the Project, and after the project close-out, within the period of one month, to submit brief information on implementation of the project implemented by Children of Armenia Fund (COAF) on annual basis.

Consequences

Terms recommended by the point 2, sub-point b) of the RA Government Decision № Ø-192-² have not been maintained.

Recommendation

We recommend to submit brief statements within the terms recommended by the point 2, sub-point b) of the RA Government Decision № Ø-192-²

Management Response

As it is mentioned in the Observation above, the statements must be submitted to the RA Government quarterly, however we present brief statements annually, and no additional requirements have been made by the Government bodies.



Observation 1.2

Depreciation of fixed assets is calculated from the 1st day of the month following the day of their putting into operation (according to the accounting records).

Depreciation of a fixed asset is expensed as of the month's last day according to the calculation's result in case the fixed asset has been written off during that month.

Consequences

The requirements of the RA Accounting Standard 4 "Accounting for Depreciation" have been violated, as a result of which the depreciation expenses have been wrongly recorded, assets and liabilities have been understated (i.e. the carrying amounts of the fixed assets), as well as the point 5, sub point (e) of the Instruction "On Regulation as regards the corporation tax computation and payment by the residents" has been violated, according to which, when entering new fixed assets during the year, the residents calculate their depreciation expenses starting from the date of their putting into operation, based on the Commission Act of the fixed assets.

Recommendation

We recommend to follow the requirements of the RA Accounting Standard 4 "Accounting for Depreciation" and the Instruction "On Regulation as regards the corporation tax computation and payment by the residents", point 5, sub point (e), and to record the depreciation amount not accounted for previously.

Management Response

The Observation will be taken into account, and corresponding adjustments will be made in the accounting software.



Observation 1.3

According to the point 6 of the “COAF” Children of Armenia Fund Memorandum of Association, the Fund’s administrative/management expenses should not exceed 20% of its total annual expenses.

Consequences

According to the Law N HO-109- N as of 26.02.2007, the part 10 of the article 8 of the RA law “On Funds” has been voided, as a result of which “COAF” Children of Armenia Fund’s Memorandum of Association is not in compliance with the RA law “On Funds”.

Recommendation

We recommend to make the Organization’s Memorandum comply with the RA law “On Funds”.

Management Response

The Observation will be taken into account.



OBSERVATIONS REGARDING THE CURRENT FINANCIAL YEAR

Accounting and Internal Control Systems

Observation 2.1

For the “Fund” to be established within the current year for the purpose of future maintenance and development of the Lernagog, Karakert, Shenik and Dalarik villages’ schools, culture houses and kindergartens, sums of money amounting to AMD10,000 each were paid on 01.02.08 and on 07.04.08 to the state register. However, creation of the Fund was not realized.

Consequence

The fact stated above shows that unnecessary expenses have been made.

Recommendation

We recommend to make only essential and targeted expenses.

Management Response

We would like to mention that the process of creation of Funds for the Lernagog, Karakert, Shenik and Dalarik villages is continuing and most probably they will be created in 2009.



Observation 2.2

Inventory holdings have not been entered into the warehouse on the basis of the incoming order forms, and no warehouse requisition forms are completed when writing out the inventory. Inventory holdings are expensed immediately on their acquisition.

Consequences

The requirements have been violated of the Order 151 of RA Ministry of Finance and Economy as of 15 February 2002 where the model forms of the documents and registers for the inventory's initial recording and the rules of their completion are established.

Recommendation

We recommend to prepare incoming and outgoing order forms.

Management Response

The Observation is accepted.



Observation 2.3

The carrying amount of the fixed assets, reflected at their historical cost of AMD 2,753,000 in the analytical accounting, has a zero value as at 31.12.08.

Consequences

The requirements of the Article 10 “Principles of accounting and financial statements compilation”, sub-point (e), of the ”RA law “On Accounting” as of 26.12.2002 as well as of the paragraph 48 of the RA Accounting Standard 16 “Property, Plant and Equipment” have been violated, according to which the useful life of the fixed assets must be reviewed on a regular basis, and if the expected results differ significantly from the previous assessment, then the accrued depreciation for the current and future reporting periods should be adjusted.

Recommendation

We recommend to follow the requirements of the paragraph 48 of the RA Accounting Standard 16 “Property, Plant and Equipment”.

Management Response

Recommendation has been taken into account.



**OBSERVATIONS RELATING TO SOCIAL INSURANCE CONTRIBUTION PAYMENTS
AND CALCULATION OF MEANS DIRECTED TO SALARY PAYMENT (MDSP)**

Observation 3.1

During the reporting period, certain services were rendered to the Fund based on the unilateral purchase acts.

- 01.02.08 5.000 AMD was paid for the repairing of the office conduit.
- 22.07.08 28.000 AMD was paid for the unloading work done.
- 22.07.08 48.000 AMD was paid for the transportation work.
- 26.12.08 10.000 AMD was paid for the repairing of the video camera.

For the above services purchased, no employment contracts and completion acts were signed. No employer's social insurance amounts were deducted from the amounts paid.

Consequences

As a result of the above mentioned, additional tax liabilities could arise relating to social insurance contribution payments.

Recommendation

We recommend to sign civil contracts and completion acts with the natural persons providing services, and to calculate the amounts for the mandatory social insurance payments.

Management Response

Recommendation is accepted.



Observation 3.2

In certain cases, the employees annual leave payments are delayed by 3 days. For example, Ara Amirjanyan was given his annual leave from 08.12.08 and paid the amount on the same date; Naira Gharakhanyan and Hovhannes Mesropyan were given their annual leaves on 05.12.08 and paid the related amounts on the same date.

Consequences

The requirements of the article 169, point 2, of the RA Labor Code have been violated, according to which, if the annual leave payment is not made within the established terms (i.e. 3 days before the start of the annual leave), then the annual leave is extended by the number of days of the delayed payment, and the payment for that extended period is made as in the case of the annual leave.

Recommendation

We recommend to make the annual leave payments on time (i.e 3 days before the start of the annual leave) in accordance with the requirements of the article 169, point 2, of the RA Labor Code.

Management Response

Recommendation has been taken into account.



Observation 3.3

In cases when the last 12 months preceding the annual leave have not been formed completely because of the employee's sick leave and/or any other paid leave, then calculation of the average monthly salary is not made correctly.

Consequences

The requirements of the article 195, point 2, of the RA Labor Code have been violated, according to which, when the last 12 months preceding the annual leave have not been formed completely because of the employee's sick leave, paid leave, or any other excusable absence, then the last complete month's salary rate is taken as a basis for calculation instead of those incomplete months.

Recommendation

We recommend to calculate the average monthly salary in accordance with the article 195, point 2, of the RA Labor Code.

Management Response

Recommendation has been taken into account.

This report is strictly confidential and reserved for the use of the Management of Children of Armenia (COAF) only. Making decisions on the recorded facts is in the authority of the COAF Management.

Parandzem Gevorgyan
Managing Partner
Baker Tilly Armenia CJSC

