

**Financial Statements  
and Independent Auditor's Report  
“Children of Armenia” Charitable  
Fund**

31 December 2020



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# Independent auditor's report

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To the Board of Trustees of “Children of Armenia” Charitable Fund

## *Opinion*

We have audited the financial statements of “Children of Armenia” Charitable Fund (the “Fund”), which comprise the statement of financial position as of 31 December 2020, and the statement of activities, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as of 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

## *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund’s financial reporting process.



# Members of the Board of Trustees as of 31 December 2020

The list of the members of the Board of Trustees as of 31 December 2020 is presented below:

- Richard Bezjian, *Chairman*
- Ovsanna Yeghoyan, *Member*
- Serob Khachatryan, *Member*
- Bagrat Sargis Balabanyan, *Member*
- Garo H. Armen, *Member*
- Alice Saraydarian, *Member*

# Statement of financial position

In thousand drams	Note	As of 31 December 2020	As of 31 December 2019
<b>Assets</b>			
<i>Non-current assets</i>			
Property and equipment	4	2,885,500	2,743,431
Intangible assets		10,599	11,567
Advances for acquisition of non-current assets		2,913	20,479
		<u>2,899,012</u>	<u>2,775,477</u>
<i>Current assets</i>			
Inventories	5	19,576	29,402
Accounts receivable	6	22,177	9,828
Bank deposits	7	40,837	37,777
Cash and bank balances	8	141,706	45,080
		<u>224,296</u>	<u>122,087</u>
<b>Total assets</b>		<u><u>3,123,308</u></u>	<u><u>2,897,564</u></u>
<b>Liabilities and net assets</b>			
<i>Non-current liabilities</i>			
Grants related to assets	9	2,899,012	2,775,478
		<u>2,899,012</u>	<u>2,775,478</u>
<i>Current liabilities</i>			
Accounts payable	10	37,222	80,708
Grants related to income	11	187,074	41,378
		<u>224,296</u>	<u>122,086</u>
<i>Net assets</i>			
Accumulated result		-	-
		<u>-</u>	<u>-</u>
<b>Total liabilities and net assets</b>		<u><u>3,123,308</u></u>	<u><u>2,897,564</u></u>

The financial statements were approved on 29 March 2021 by:

Korioun Khachadourian  
Executive Director

Hermine Tovmasyan  
Chief Accountant



The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 25.

# Statement of activities

In thousand drams	Note	Year ended 31 December 2020	Year ended 31 December 2019
Sales revenue		35,818	10,543
Income from grants	12	1,380,355	1,316,348
Cost of sales		(60,584)	(20,849)
Program expenses	13	(1,295,268)	(1,237,713)
		<u>60,321</u>	<u>68,329</u>
Other income		122	119
Gain from disposal of property and equipment, net		260	138
Sales expenses		(2,715)	(4,122)
General and administrative expenses	14	(72,029)	(64,396)
Other financial items		11,175	(968)
Finance income		3,918	2,761
Finance costs		-	(8)
		<u>1,052</u>	<u>1,853</u>
Income tax expense		(1,052)	(1,853)
Result for the year		<u>-</u>	<u>-</u>
Other comprehensive result		-	-
Total comprehensive result for the year		<u><u>-</u></u>	<u><u>-</u></u>

The statement of activities is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 25.

# Statement of changes in net assets

In thousand drams	Accumulated result	Total
as of 1 January 2019	18,350	18,350
Result for the year	-	-
Transfer to grants related to income	(18,350)	(18,350)
Total comprehensive result for the year	(18,350)	(18,350)
as of 31 December 2019	-	-
Result for the year	-	-
Total comprehensive result for the year	-	-
as of 31 December 2020	-	-

The statement of changes in net assets is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 25.

# Statement of cash flows

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows from operating activities		
Result for the year	-	-
<i>Adjustments for:</i>		
Depreciation and amortization	197,980	162,497
Loss on disposal of property and equipment	4,066	15,178
Finance income	(3,918)	(2,761)
Income from grants related to assets	(197,982)	(162,497)
Other financial items	(11,175)	968
	<u>(11,029)</u>	<u>13,385</u>
<i>Change in the following items</i>		
Change in inventories	9,826	(6,521)
Change in receivables	(15,409)	234
Change in bank deposits	-	(36,000)
Change in payables	(43,551)	34,276
Grants related to income	145,696	(1,280)
<i>Cash generated from operations</i>	<u>85,533</u>	<u>4,094</u>
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(325,581)	(232,124)
Interest income received	3,918	2,761
Grants received	321,516	216,947
<i>Net cash used in investing activities</i>	<u>(147)</u>	<u>(12,416)</u>
Net increase/(decrease) in cash and bank balances	85,386	(8,322)
Foreign exchange effect on cash	11,240	(962)
Cash and bank balances at the beginning of the year (refer to note 8)	45,080	54,364
Cash and bank balances at the end of the year (refer to note 8)	<u>141,706</u>	<u>45,080</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 25.

# Notes to the financial statements

## 1 Nature of operations and general information

“Children of Armenia” Charitable Fund (the Fund”) was founded in 2003.

The main objective of the Fund is to provide support to children in the fields of welfare, health and education in Armenia through implementation of health, education, infrastructure, economic development and social programs.

The average number of employees of the Fund during 2020 was 103 employees (2019: 55 employees).

The legal address of the Fund is 2/2 Melik-Adamyán, Yerevan, 0001, Republic of Armenia.

## 2 Basis of preparation

### 2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). They have been prepared under the assumption that the Fund operates on a going concern basis.

Currently, IFRSs do not contain specific guidance for non-profit organizations and non-governmental organizations concerning the accounting treatment and presentation of financial statements. Where IFRSs do not give guidance on how to treat transactions specific to not for profit sector, accounting policies have been based on the general principles of IFRSs, as detailed in the International Accounting Standards Board (“IASB”) *The Conceptual Framework for Financial Reporting*.

### 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 Fund’s functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Fund.

These financial statements are presented in Armenian drams, 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 IFRSs 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. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 15 to the financial statements.

### 2.5 Adoption of new and revised standards

In the current year the Fund has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2020.

The nature and the effect of these changes are disclosed below.

**New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2020**

New standards and amendments described below and applied for the first time in 2020 did not have a material impact on the annual financial statements of the Fund:

- *Conceptual Framework for Financial Reporting*
- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *Interest Rate Benchmark Reform (Amendment to IFRS 9 and IFRS 7)*
- *COVID-19 Rent Related Concessions (Amendments to IFRS 16)*

**Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Fund**

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Fund.

Management anticipates that all of the relevant pronouncements will be adopted in the Fund's accounting policies for the first period beginning on or after the effective date of the pronouncement.

Management does not anticipate a material impact on the Bank's financial statements from these Standards and Amendments, they are presented below.

- *Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 16, IFRS 4, IFRS 7)*
- *IFRS 17 Insurance contracts*
- *Proceeds before intended use (Amendments to IAS 16)*
- *References to the conceptual framework (Amendments to IFRS 3)*
- *Onerous contracts – costs of fulfilling a contract (Amendments to IAS 37)*
- *Annual improvements to IFRS Standards 2018-2020 cycle (Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16)*
- *Classification of liabilities as current or non-current (Amendments to IAS 1)*

## 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 reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 522.59 drams for 1 US dollar as of 31 December 2020 (31 December 2019: 479.70 drams for 1 US dollar).

Exchange differences arising on the settlement and retranslation of monetary items, are included in the result for the period.

### 3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When the unit of property and equipment comprises major components with different useful lives they are accounted for as separate components of property and equipment.

Properties not available for use, which are maintained for rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Fund's accounting policy.

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 the result.

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 result as incurred.

Depreciation is charged to the result or is added to the cost of other asset 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 and constructions	- 20 years
Computers and equipment	- 3 years
Vehicles	- 10 years
Fittings	- 5 years.

As no finite useful life for land can be determined, related carrying amounts are not depreciated.

### 3.3 Intangible assets

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

Amortization is charged to profit or loss or is added to the cost of other asset on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 10 years for the computer software.

### 3.4 Leased assets

The Fund makes the use of leasing arrangements principally for the provision of office space. The rental contract for office space is typically negotiated for terms of 3 years. The Fund does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis.

The Fund assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

### 3.5 Inventories

Inventories are assets held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Items such as spare parts, stand-by equipment and servicing equipment are also recognized as inventories unless they meet the definition of property and equipment.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

### 3.6 Financial instruments

#### *Recognition and derecognition*

Financial assets and financial liabilities are recognized when the Fund 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.

#### *Classification and initial measurement of financial assets*

All financial assets are initially measured at fair value adjusted for transaction costs.

Financial assets are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the Fund's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in the result for the year are presented within finance costs, finance income or other financial items. A summary of the Fund's financial assets by category is given in note 16.2.

#### *Subsequent measurement of financial assets*

##### *Financial assets at amortized cost*

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Fund's cash and most other receivables fall into this category of financial instruments.

#### *Financial assets at fair value through profit or loss (FVTPL)*

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category.

#### *Accounts receivable and contract assets*

The Fund makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Fund uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses by using a provision matrix.

#### *Classification and measurement of financial liabilities*

The Fund's financial liabilities include loans and borrowings, trade and other payables and finance lease liabilities. A summary of the Fund's financial liabilities by category is given in note 16.2.

#### *Accounts payable*

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

### 3.7 Grants

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

Grants with a primary condition to purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other 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 Fund with no future related costs are recognized in profit or loss in the period in which they become receivable.

Grants received from donors, which as of a reporting date have not been used, are recognized in the statement of financial position of the Fund as deferred income (current liability) and are systematically transferred to the result of the year, along with the grants usage.

Other 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.

Refer to note 15 for the management's judgments on grants recognition and calculation.

### 3.8 Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

### 3.9 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

- (a) wages, salaries and bonuses;
- (b) paid annual leaves and paid disability leaves;

#### *Paid absences*

The expected cost of short-term employee benefits in the form of paid absences is recognized as follows:

- (a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.
- (b) in the case of non-accumulating paid absences, when the absences occur.

#### *Bonuses*

The expected cost of bonus payments is recognized when and only when the Fund has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

### 3.10 Income recognition

#### *Income from grants*

Refer to note 3.7 for income recognition policy.

## 4 Property and equipment

In thousand drams

	Land	Buildings and constructions	Computers and equipment	Vehicles	Fittings	Construction in progress	Improvement of the leased asset	Total
<i>Cost</i>								
as of 1 January 2019	56,274	2,375,463	204,998	81,491	191,859	577	-	2,910,662
Additions	3,845	101,201	68,243	-	22,445	4,266	-	200,000
Disposals	(2,570)	-	(6,437)	(20,250)	-	(191)	-	(29,448)
Internal movement	-	600	410	-	(601)	(409)	-	-
as of 31 December 2019	57,549	2,477,264	267,214	61,241	213,703	4,243	-	3,081,214
Additions	-	16,517	90,491	8,533	55,497	106,198	62,716	339,952
Disposals	-	-	(10,349)	-	(13,560)	-	-	(23,909)
as of 31 December 2020	57,549	2,493,781	347,356	69,774	255,640	110,441	62,716	3,397,257
<i>Accumulated depreciation</i>								
as of 1 January 2019	-	45,090	81,339	24,195	39,644	-	-	190,268
Charge for the year	-	79,473	39,407	7,901	35,004	-	-	161,785
Eliminated on disposal	-	-	(6,402)	(7,868)	-	-	-	(14,270)
Internal movement	-	-	27	-	(27)	-	-	-
as of 31 December 2019	-	124,563	114,371	24,228	74,621	-	-	337,783
Charge for the year	-	83,167	54,620	7,518	40,287	-	8,225	193,817
Eliminated on disposal	-	-	(9,022)	-	(10,821)	-	-	(19,843)
as of 31 December 2020	-	207,730	159,969	31,746	104,087	-	8,225	511,757
<i>Carrying amount</i>								
as of 31 December 2019	57,549	2,352,701	152,843	37,013	139,082	4,243	-	2,743,431
as of 31 December 2020	57,549	2,286,051	187,387	38,028	151,553	110,441	54,491	2,885,500

As of the reporting date the Fund does not have any pledged items of the property and equipment.

Additions in the “Buildings and constructions” are related to the “COAF SMART” center-complex building in the Lori region amounting to drams 16,517 thousand (2019: drams 101,201 thousand).

Additions in the “Construction in progress” include construction works of “COAF SMART” Conference Center in Lori region amounting to drams 106,198 thousand (2019: drams 4,266 thousand).

In 2020 the Fund carried out a capital renovation works of drams 62,716 thousand in the leased office space, which is presented in the “Improvement of the leased asset”.

Depreciation expense has been charged to program expenses at the amount of drams 156,727 thousand, general and administrative expenses at the amount of drams 37,090 thousand (2019: program expenses at the amount of drams 143,423 thousand, general and administrative expenses at the amount of drams 18,362 thousand).

## 5 Inventories

In thousand drams

	As of 31 December 2020	As of 31 December 2019
Goods for contribution	15,966	19,417
Raw materials	1,573	7,695
Fuel	2,037	2,290
	<u>19,576</u>	<u>29,402</u>

Inventories of the Fund are not pledged.

## 6 Accounts receivable

In thousand drams

	As of 31 December 2020	As of 31 December 2019
Advances	15,984	8,419
Accounts receivable from the State budget	-	2
Grants receivable	5,883	-
Other	310	1,407
	<u>22,177</u>	<u>9,828</u>

All amounts are short-term.

## 7 Bank deposits

In thousand drams

	Commence- ment date	Maturity date	Interest	As of 31 December 2020			As of 31 December 2019		
				Principal amount	Accrued interest	Financial income 2020	Principal amount	Accrued interest	Financial income 2019
HSBC Bank Armenia CJSC	03.06.2019	03.06.2021	8.5%	36,000	4,837	3,060	36,000	1,777	1,777
				<u>36,000</u>	<u>4,837</u>	<u>3,060</u>	<u>36,000</u>	<u>1,777</u>	<u>1,777</u>

## 8 Cash and bank balances

In thousand drams	As of 31 December 2020	As of 31 December 2019
Cash in hand	522	1,992
Bank accounts	141,184	43,088
	<u>141,706</u>	<u>45,080</u>

Refer to note 17 for the currencies in which the bank balances are denominated.

## 9 Grants related to assets

In thousand drams	2020	2019
Balance at the beginning of the year	2,775,478	2,721,028
Funds received during the year	1,373	3,277
Reclassification from grants related to income (refer to note 11)	320,143	213,670
Used during the year (refer to note 12)	(197,982)	(162,497)
Balance at the end of the year	<u>2,899,012</u>	<u>2,775,478</u>

## 10 Accounts payable

In thousand drams	As of 31 December 2020	As of 31 December 2019
Payables on acquisition of non-current assets	-	4,361
Payables on acquisition of inventories	234	820
Employee benefits payable	-	160
Liability for unused vacation days	1,874	12,226
Payables to the State budget	22,453	35,380
Lease payables	4,427	-
Payables for services received	8,211	26,089
Other	23	1,672
	<u>37,222</u>	<u>80,708</u>

No interest is charged on accounts payable.

The Fund has financial risk management policies to ensure that all payables are paid within the credit timeframe.

Refer to note 17 for more information about the Fund's exposure to foreign currency risk.

## 11 Grants related to income

In thousand drams	2020	2019
Balance at the beginning of the year	41,378	24,308
Funds received during the year	1,642,329	1,384,591
Funds to be received	5,883	-
Transfer to grants related to assets	(320,143)	(213,670)
Used during the year	(1,182,373)	(1,153,851)
Balance at the end of the year	<u>187,074</u>	<u>41,378</u>

Additions in the grants related to income include the funds received from the following donors:

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
“Children of Armenia Fund New York”	1,477,754	1,269,536
Delegation of the European Union to Armenia	71,326	-
U.S. Embassy in Armenia	47,663	34,241
Agency of Local Democratic Offices	12,869	-
“Family Health International 360” LLC	8,734	9,002
“Austrian Development Agency” LLC	5,277	-
“Energize Global Services” CJSC	4,941	-
“Advance Armenia” Foundation	4,883	-
“HSBC Bank Armenia” CJSC	-	14,904
United Nations Development Program	-	26,074
DVV International Office in Armenia	3,226	7,975
Other	5,656	22,859
	<u>1,642,329</u>	<u>1,384,591</u>

The balance at the end of the year of the grants related to income include the unused balances of the funds received from the following donors:

In thousand drams	As of 31 December 2020	As of 31 December 2019
“Children of Armenia Fund New York”	135,764	17,173
Delegation of the European Union to Armenia	31,515	-
U.S. Embassy in Armenia	16,261	4,369
“Family Health International 360” LLC	3,403	-
“HSBC Bank Armenia” CJSC	123	10,962
United Nations Development Program	-	8,866
Other	8	8
	<u>187,074</u>	<u>41,378</u>

## 12 Income from grants

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Income from grants related to income (refer to note 11)	1,182,373	1,153,851
Income from grants related to assets (refer to note 9)	197,982	162,497
	<u>1,380,355</u>	<u>1,316,348</u>

## 13 Program expenses

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Educational programs	193,400	349,453
Health programs	195,389	147,124
“COAF-Smart” initiatives	633,421	590,512
Social programs	191,573	141,112
Infrastructure development	27,318	-
Economic development	45,080	-
Agricultural programs	9,087	9,512
	<u>1,295,268</u>	<u>1,237,713</u>

## 14 General and administrative expenses

In thousand drams	Year ended 31 December 2020	Year ended 31 December 2019
Professional and consulting fees	6,131	6,481
Employee benefit expenses	33,073	35,443
Lease and utility expenses	5,217	5,000
Service and depreciation expenses	5,700	3,875
Trip and representative expenses	56	355
Other expenses	21,852	13,242
	<u>72,029</u>	<u>64,396</u>

## 15 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 15.1 Critical accounting estimates

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Useful lives of property and equipment*

Management has estimated useful lives of the property and equipment. Management believes that estimated useful lives of the property and equipment are not materially different from economical lives of those assets. If actual useful lives of property and equipment are different from estimations, financial statements may be materially different.

### 15.2 Critical judgments in applying accounting policies

The following are the judgements made by management in applying the accounting policies of the Fund that have the most significant effect on the financial statements.

#### *Recognition of grants*

As disclosed in note 3.7, grants are not recognized until there is reasonable assurance that the Fund will comply with the conditions attaching to them and the grants will be received. For each grant agreement management estimates the probability that it will satisfy the conditions attached to the grant, and that the grant will be received. In doing so, management relies on the previous experience with the donor, as well as the capabilities of the Fund to completely implement the grant. If management estimates that the Fund will be able to satisfy the conditions attached to the grant, and that the donor is ready to completely transfer the grant amounts, such grants are immediately recognized in the financial statements (as grants receivable and deferred income), when the respective grant agreement is signed. However, if the management is mistaken in its estimates, the financial statements may be adjusted, and those adjustments may be significant to the financial statements of the Fund.

## 16 Financial instruments

### 16.1 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 note 3.

## 16.2 Categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each category are as follows:

### *Financial assets*

In thousand drams	As of 31 December 2020	As of 31 December 2019
<i>Amortized cost</i>		
Cash and bank balances	141,706	45,080
Bank deposits	36,000	36,000
	<u>177,706</u>	<u>81,080</u>

### *Financial liabilities*

In thousand drams	As of 31 December 2020	As of 31 December 2019
<i>Amortized cost</i>		
Accounts payable	14,769	45,328
	<u>14,769</u>	<u>45,328</u>

## 17 Financial risk management

The Fund is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Fund does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Fund is exposed are described below.

### **Financial risk factors**

#### *a) Market risk*

The Fund is exposed to market risk, specifically to currency risk, which result from both its operating and investing activities.

#### *Foreign currency risk*

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

Most of the Fund's transactions are carried out in Armenian drams. Exposures to currency exchange rates arise from the Fund's overseas sales and purchases, which are primarily denominated in US dollars.

Foreign currency denominated financial assets and liabilities which expose the Fund to currency risk are disclosed below. The amounts shown are those reported to key management translated into Armenian drams at the closing rate:

Item	As of 31 December 2020	As of 31 December 2019	As of 31 December 2020	As of 31 December 2019
	US dollar		Another currency	
<i>Financial assets</i>				
Bank balances	53,838	1,475	30,764	-
Net position	<u>53,838</u>	<u>1,475</u>	<u>30,764</u>	<u>-</u>

### b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Fund. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of 31 December 2020	As of 31 December 2019
Financial assets at carrying amounts		
Bank balances	141,184	43,088
	<u>141,184</u>	<u>43,088</u>

The credit risk for bank balances and term deposits is considered negligible, since the counterparties are reputable banks which have the following credit rating by Moody's Investors Service/Standard & Poor's: "HSBC Bank Armenia" CJSC - ba3, "Converse Bank" CJSC - b1, "Ameriabank" CJSC - b2.

### c) Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its obligations.

The Fund's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Fund's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay.

In thousand drams	As of 31 December 2020	As of 31 December 2019
	Non-interest bearing	Non-interest bearing
Less than 6 months	4,661	980
6 months to 1 year	10,108	39,987
More than 1 year	-	4,361
	<u>14,769</u>	<u>45,328</u>

The Fund considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources. The Fund's cash resources significantly exceed the current cash outflow requirements.

## 18 Commitments

### 18.1 Operating lease commitments

#### *The Fund as lessee*

Office territory is received for operating lease until 2021. The Fund does not have an option to purchase the leased asset at the expiry of the lease period.

Non-cancelable operating lease commitments are disclosed below:

In thousand drams	As of 31 December 2020	As of 31 December 2019
Within one year	51,678	29,736
1 to 5 years	60,291	29,736
	<u>111,969</u>	<u>59,472</u>

## 19 Contingencies

### 19.1 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 Fund does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Fund property or relating to the Fund operations. Until the Fund obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse effect on the Fund's operations and financial position.

### 19.2 Taxes

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.

## 20 Related parties

The Fund's related parties include "Children of Armenia Fund New York", Board of Trustees of the Fund, "Energize Global Services" CJSC, which is founded by Mr. Richard Bezjian, the Chairman of the Board of Trustees of the Fund, as well as key management as described below.

### 20.1 Control relationships

The Fund is controlled by the Board of Trustees. "Children of Armenia Fund New York", which operates in the United States of America and is located in the USA, 10010 New York, 5th Avenue, 149 building, room No. 500, is under common control with the Fund.

## 20.2 Transactions with related parties

During the reporting year the Fund had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousand drams

Transactions	Year ended 31 December 2020	Year ended 31 December 2019
Entities under common control		
Acquisition of grants	1,482,695	1,274,397
	<u>1,482,695</u>	<u>1,274,397</u>

In thousand drams

Outstanding balances	As of 31 December 2020	As of 31 December 2019
Entities under common control		
Grants related to income	135,764	17,173
	<u>135,764</u>	<u>17,173</u>

## 20.3 Transactions with management and close family members

Key management received the following remuneration during the year, which is included in general and administrative expenses.

In thousand drams

	Year ended 31 December 2020	Year ended 31 December 2019
Salaries and bonuses	23,803	23,856
Liability for unused vacation days	-	2,813
	<u>23,803</u>	<u>26,669</u>