Financial Statements and Independent Auditor's Report

“Children of Armenia” Charitable Fund

31 December 2018

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Independent auditor's report

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 2018, and the statement of comprehensive income, 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 2018, 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.

Other Matter

The prior year financial statements of the Fund as of and for the year ended 31 December 2017 were audited by another auditor, whose report dated 21 March 2018 expressed an unmodified audit opinion on these financial statements.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Gagik Gyulbudaghyan	Emil Vassilyan, FCCA
Managing Partner	Engagement Partner

15 March 2019

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Members of the Board of Trustees as of 31 December 2018

The list of the members of the Board of Trustees as of 31 December 2018 is presented below:

- Richard Bezjian Chairman
- Ovsanna Yeghoyan Member
- Serob Khachatryan Member

Statement of financial position

In thousand drams	Note	As of 31 December 2018	As of 31 December 2017
Assets			
Non-current assets			
Property and equipment	4	2,720,394	2,270,187
Intangible assets		96	17
Advances for non-current assets		538	38,458
		2,721,028	2,308,662
Current assets			
Inventories	5	22,881	18,498
Accounts receivable	6	11,839	7,878
Cash and bank balances	7	54,364	128,540
		89,084	154,916
Total assets		2,810,112	2,463,578
Liabilities and net assets			
Non-current liabilities			
Grants related to assets	8	2,721,028	2,270,204
		2,721,028	2,270,204
Current liabilities			
Accounts payable	9	46,426	134,361
Current income tax liabilities		-	417
Grants related to income	10	24,308	40,246
		70,734	175,024
Net assets			
Accumulated result		18,350	18,350
		18,350	18,350
Total liabilities and net assets		2,810,112	2,463,578

The financial statements were approved on 15 March 2019 by:

Korioun Khachadourian
Acting Executive Director

Hermine Tovmasyan
Chief Accountant

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"ДЕТИ АРМЕНИИ"
"CHILDREN OF ARMENIA"
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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 23.

Statement of comprehensive income

In thousand drams	Note	Year ended 31 December 2018	Year ended 31 December 2017
Income from grants	11	1,012,107	650,097
Program expenses	12	(944,129)	(578,038)
Gross result		67,978	72,059
Other income		273	21
General and administrative expenses	13	(68,356)	(75,072)
Other financial items		(1,332)	888
Finance income		1,918	2,712
Finance costs		(43)	(6)
Result before taxation		438	602
Income tax expense		(438)	(547)
Result for the year		-	55
Other comprehensive result		-	-
Total comprehensive result for the year		-	55

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 23.

Statement of changes in net assets

In thousand drams	Accumulated result	Total
as of 1 January 2017	18,295	18,295
Result for the year	55	55
as of 31 December 2017	18,350	18,350
Result for the year	-	-
as of 31 December 2018	18,350	18,350

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 23.

Statement of cash flows

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities		
Result for the year	-	55
Adjustments for:		
Depreciation and amortization	107,259	30,288
Loss on disposal of property and equipment	168	-
Finance income	(1,918)	(2,712)
Foreign exchange (gain)/loss	1,332	(888)
	106,841	26,743
Change in the following items		
Change in inventories	(4,383)	16,938
Change in receivables	(3,961)	14,084
Change in payables	(88,598)	115,036
Grants related to assets	450,824	602,029
Grants related to income	(15,938)	(77,673)
Cash generated from operations	444,785	697,157
Cash flows from investing activities		
Proceeds from borrowings	-	176
Acquisition of property and equipment	(519,793)	(662,782)
Interest income received	1,918	2,712
Net cash used in investing activities	(517,875)	(659,894)
Net increase/(decrease) in cash and bank balances	(73,090)	37,263
Foreign exchange effect on cash	(1,086)	793
Cash and bank balances at the beginning of the year	128,540	90,484
Cash and bank balances at the end of the year	54,364	128,540

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 23.

Notes to the financial statements

1 Nature of operations and general information

“Children of Armenia” charitable fund (the Fund”) was founded in 2003 by Garo Armen, who is also the founder of “Children of Armenia Fund New York”. “Children of Armenia Fund New York” is the main donor of the Fund.

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 2018 was 36 employees (2017: 27 employees).

The legal address of the Fund is 1 North Avenue, 8^{th} floor, suite number 24, 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”).

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 14 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 2018.

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 2018

IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

When adopting IFRS 9, the Fund has applied transitional relief and opted not to restate prior periods.

On the date of initial application, 1 January 2018, the financial instruments of the Fund there have been no changes to the classification or measurement of financial assets as a result of the application of IFRS 9. There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which the Fund initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the Fund shall determine a date of the transaction for each payment or receipt of advance consideration.

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 after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Fund's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Fund's financial statements.

IFRS 16 *Leases*

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Fund's management have not yet assessed the impact of IFRS 16 on these financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatment*

IFRIC 23 provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

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 483.75 drams for 1 US dollar as of 31 December 2018 (31 December 2017: 484.10 drams for 1 US dollar). Non-monetary items are not retranslated and are measured at historic cost.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss 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 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 profit or loss as incurred.

Depreciation 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 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

All leases of the Fund are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred.

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

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

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

In the periods presented the Fund does not have any financial assets categorized as 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.

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 cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

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

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Fund’s financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

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 15.2.

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 Foundation 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 14 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	Buildings not available for use	Total
Cost							
as of 1 January 2017	7,994	-	69,607	83,788	31,683	898,613	1,091,685
Additions	16,649	-	48,108	-	20,994	1,178,438	1,264,189
as of 31 December 2017	24,643	-	117,715	83,788	52,677	2,077,051	2,355,874
Additions	31,631	100,849	88,798	-	138,195	198,140	557,613
Disposals	-	-	(528)	(2,297)	-	-	(2,825)
Internal movement	-	2,274,614	(987)	-	987	(2,274,614)	-
as of 31 December 2018	56,274	2,375,463	204,998	81,491	191,859	577	2,910,662
Accumulated depreciation							
as of 1 January 2017	-	-	34,062	10,216	11,138	-	55,416
Charge for the year	-	-	16,263	8,127	5,881	-	30,271
as of 31 December 2017	-	-	50,325	18,343	17,019	-	85,687
Charge for the year	-	45,090	31,617	8,149	22,382	-	107,238
Eliminated on disposal	-	-	(360)	(2,297)	-	-	(2,657)
Internal movement	-	-	(243)	-	243	-	-
as of 31 December 2018	-	45,090	81,339	24,195	39,644	-	190,268
Carrying amount							
as of 31 December 2017	24,643	-	67,390	65,445	35,658	2,077,051	2,270,187
as of 31 December 2018	56,274	2,330,373	123,659	57,296	152,215	577	2,720,394

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

Internal movements in the “Buildings and constructions” are related to the “Smart” centre building in Lori marz amounting to drams 2,274,614 thousand in total, which was transferred into use on 27 May 2018. This includes construction expenses for the current year at the amount of drams 198,140 thousand, as well as capitalized expenses on the cost of the building at the amount of drams 100,849 thousand (Additions of 2017 include expenses on the construction of the “Smart” centre building at the amount of drams 1,178,438 thousand, which is included in the class of “Buildings not available for use”).

Additions of 2018 in other classes of the property and equipment are computer equipment received from the “Children of Armenia Fund New York” at the amount of drams 17,174 thousand, computer equipment acquired from other suppliers at the amount of drams 71,624 thousand, furniture at the amount of drams 138,195 thousand (2017: computer equipment of drams 36,862 thousand, furniture of drams 3,994 thousand, others of drams 28,246 thousand).

5 Inventories

In thousand drams	As of 31 December 2018	As of 31 December 2017
Goods for contribution	20,109	15,798
Materials	1,564	1,363
Fuel	1,208	1,337
	22,881	18,498

Inventories of the Fund are not pledged.

6 Accounts receivable

In thousand drams	As of 31 December 2018	As of 31 December 2017
Advances	7,660	7,790
Receivables from the State budget	4,179	88
	11,839	7,878

All amounts are short-term. Management believes that the receivables from the State budget are fully recoverable.

7 Cash and bank balances

In thousand drams	As of 31 December 2018	As of 31 December 2017
Cash in hand	428	345
Bank accounts	53,936	128,195
	54,364	128,540

Refer to note 16 for the currencies in which the cash and bank balances are denominated.

8 Grants related to assets

In thousand drams	2018	2017
Balance at the beginning of the year	2,270,204	1,036,303
Additions	196,687	637,050
Reclassification from grants related to income (refer to note 10)	361,564	627,139
Used during the year	(107,427)	(30,288)
Balance at the end of the year	2,721,028	2,270,204

9 Accounts payable

In thousand drams	As of 31 December 2018	As of 31 December 2017
Payables on acquisition of non-current assets	14,084	105,931
Payables on acquisition of inventories	2,713	187
Employee benefits	-	326
Liability for unused vacation days	15,619	7,915
Taxes and duties payable	2,090	15,302
Other	11,920	4,700
	46,426	134,361

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 16 for more information about the Fund’s exposure to foreign currency risk.

10 Grants related to income

In thousand drams	2018	2017
Balance at the beginning of the year	40,246	117,919
Additions	1,250,306	1,169,275
Reclassification from grants related to income (refer to note 8)	(361,564)	(627,139)
Used during the year	(904,680)	(619,809)
Balance at the end of the year	24,308	40,246

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

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
“Children of Armenia Fund New York”	1,199,070	1,113,821
“Family Health International 360” LLC	20,435	-
“HSBC Bank Armenia” CJSC	12,079	3,676
United Nations Development Program	5,941	-
Other	12,781	51,778
	1,250,306	1,169,275

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 2018	As of 31 December 2017
“Children of Armenia Fund New York”	12,919	6,040
US Embassy in Armenia	4,973	27,753
“HSBC Bank Armenia” CJSC	1,923	-
United Nations Development Program	1,892	-
“Orran” Benevolent NGO	1,194	1,194
Other	1,407	5,259
	24,308	40,246

11 Income from grants

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Income from grants related to income (refer to note 10)	904,680	619,809
Income from grants related to assets (refer to note 8)	107,427	30,288
	1,012,107	650,097

12 Program expenses

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Educational programs	246,752	229,951
Health programs	130,659	149,134
“Smart” initiatives	436,950	110,499
Social programs	125,310	88,454
Agricultural programs	4,458	-
	944,129	578,038

13 General and administrative expenses

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Professional and consulting expenses	19,777	47,553
Employee benefits	28,544	13,515
Lease and utility expenses	5,269	4,228
Service and depreciation expenses	3,958	2,617
Bank and insurance expenses	883	963
Trip and representative expenses	107	19
Other expenses	9,818	6,177
	68,356	75,072

14 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.

14.1 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.

14.2 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.

15 Financial instruments

15.1 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.

15.2 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 2018	As of 31 December 2017
Financial assets measured at amortized cost:		
Cash	53,936	-
	53,936	-
Loans and receivables (amortized cost) (according to IAS 39)		
Cash	-	128,195
	53,936	128,195

Financial liabilities

In thousand drams	As of 31 December 2018	As of 31 December 2017
Financial liabilities measured at amortized cost:		
Accounts payable	44,336	119,059
	44,336	44,336

16 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 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
	US dollar		Another currency	
Financial assets				
Bank balances	18,454	115,109	7	-
Net position	18,454	115,109	7	-

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 2018	As of 31 December 2017
Financial assets at carrying amounts		
Bank balances	53,936	128,195
	53,936	128,195

The credit risk for bank balances and term deposits is considered negligible, since the counterparties are reputable banks which have a credit rating by Moody's Investors Service/Standard & Poor's.

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 2018	As of 31 December 2017
	Non-interest bearing	Non-interest bearing
Less than 6 months	7,301	513
6 months to 1 year	22,951	12,615
More than 1 year	14,084	105,931
	44,336	119,059

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.

17 Commitments

17.1 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 2018	As of 31 December 2017
Within one year	29,733	28,844
1 to 5 years	46,467	76,200
	76,200	105,044

18 Contingencies

18.1 Business 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, regional instability and international economic crisis.

Deterioration of economic situation of countries collaborating with the Republic of Armenia led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependent. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Fund. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Fund may be affected.

Management of the Fund believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Fund.

18.2 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 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.

18.3 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.

19 Related parties

The Fund 's related parties include “Children of Armenia Fund New York”, Board of Trustees of the Fund (members are Karen Fidanyan, Narek Sadoyan, Karen Varagyan), as well as key management as described below.

19.1 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.

19.2 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 2018	Year ended 31 December 2017
Entities under common control		
Acquisition of grants	1,209,086	1,113,811
	1,209,086	1,113,811

In thousand drams

Outstanding balances	As of 31 December 2018	As of 31 December 2017
Entities under common control		
Grants related to income	12,915	6,918
	12,915	6,918

19.3 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 2018	Year ended 31 December 2017
Salaries and bonuses	27,653	20,192
Liability for unused vacation days	5,304	3,248
	32,957	23,440