Financial Statements and Independent Auditor's Report

Armenian Caritas Benevolent NGO

31 December 2018

Contents

Grant Thornton

Independent auditor's report

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To the board of trustees of Armenian Caritas Benevolent Non-Governmental Organization

Qualified opinion

We have audited the financial statements of Armenian Caritas Benevolent Non-Governmental Organization (the "Organization"), which comprise the statement of financial position as of 31 December 2018, and the statement of comprehensive income, 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, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the accompanying financial statements give a true and fair view of the financial position of the Organization 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 Qualified Opinion

- As described in note 10 to the financial statements, the Organization received grants from different donors. The accounting for mentioned grants is maintained in separate MS Excel worksheets. We could not reconcile these worksheets with the respective balances depicted in 1C accounting software. Therefore, we were unable to determine whether the classification of expenses between different donor organizations and own funds is appropriate in the financial statements and whether any adjustments were necessary in respect of those grants.
- As described in note 5 to these financial statements, the Organization provided non-interest bearing borrowings to individuals for the development of small businesses. The accounting for mentioned borrowings is maintained in separate MS Excel worksheets. We could not reconcile these worksheets with the respective balances depicted in 1C accounting software. Therefore, we were unable to determine whether the classification and balances of borrowings are appropriate in the financial statements and whether any adjustments were necessary in respect of those borrowings.

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 Organization 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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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 fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 Organization'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 Organization'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 Organization 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

1 October 2019

Armenian Caritas Benevolent NGO
Members of the board of trustees as of 31 December 2018

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	1,539,729	1,610,946
		1,539,729	1,610,946
Current assets			
Borrowings provided	5	7,375	35,214
Receivables from donors		-	28,153
Advances and prepayments		22,970	8,601
Current income tax assets		-	1,525
Bank deposits	6	149,704	149,620
Cash and bank balances	7	234,072	127,487
		414,121	350,600
Total assets		1,953,850	1,961,546
Liabilities, reserves and grants			
Non-current liabilities			
Grants related to assets	8	1,539,729	1,610,946
		1,539,729	1,610,946
Current liabilities			
Accounts payable	9	4,338	4,681
		4,338	4,681
Reserves and grants			
Grants related to income	10	409,783	345,919
		409,783	345,919
Total liabilities, reserves and grants		1,953,850	1,961,546

The financial statements were approved on 1 October 2019 by:

Gagik Tarasyan
Director

Vardan Muradyan
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 27.

Statement of comprehensive income

In thousand drams	Note	Year ended 31 December 2018	Year ended 31 December 2017
Income			
Income from grants	11	1,536,580	1,327,272
		1,536,580	1,327,272
Expenses			
Program expenses	12	(1,347,443)	(1,151,135)
Administrative expenses	13	(183,477)	(171,947)
Other expenses		(671)	(376)
		(1,531,591)	(1,323,458)
Result before income tax		4,989	3,814
Income tax expense	14	(4,989)	(3,814)
Result of the year		-	-

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 27.

Statement of cash flows

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities		
Cash receipts from donors	1,554,750	1,255,012
Borrowings repaid from beneficiaries	24,419	11,844
Total cash receipts from operations	1,579,169	1,266,856
Cash used in operating activity		
Cash paid to and on behalf of employees	(425,133)	(383,708)
Cash used in project implementation	(818,615)	(664,081)
Cash paid to the State budget	(152,262)	(139,664)
Borrowings provided to beneficiaries	(6,500)	(35,603)
Other cash (payments)/receipts, net	(10,495)	(10,633)
Donations refunded to donors	-	(753)
Total cash used in operations	(1,413,005)	(1,234,442)
Net cash from operating activities	166,164	32,414
Cash flows from investing activities		
Acquisition of non-current assets	(50,222)	(41,161)
Cash inflow from sales of non-current assets	13	
Movement in bank deposits	(22,309)	76,154
Interest received	12,939	18,726
Net cash from/(used in) investing activities	(59,579)	53,719
Net increase/(decrease) in cash and bank balances	106,585	86,133
Cash and bank balances at the beginning of the year	127,487	41,354
Cash and bank balances at the end of the year	234,072	127,487

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 27.

Notes to the financial statements

1 Nature of operations and general information

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

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

During 2018 the Organization implemented 58 projects (2017: 58), which include “Assistance to the children”, “Water and sanitation”, “Support to elderly”, “Health care dispensary”, “Migration and trafficking violence”, “Community development”, etc.

The Organization receives grants primarily from the following donors: Caritas Austria, Caritas Germany, Caritas Spain, Caritas Belgium, Caritas France, Bishops Conference of Italy, Renovabis, etc.

The average number of employees of the Organization during 2018 was 98 (2017: 99).

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”).

The Organization has adopted new guidance for accounting for financial instruments (refer to note 2.5). This guidance was applied using the transitional relief allowing the entity not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognized in retained earnings.

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

These financial statements are presented in Armenian drams, 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 incomes and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates and the original estimates and assumptions will be modified as appropriate in the year in which circumstances change.

2.5 Adoption of new and revised standards

In the current year the Organization 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 Organization has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement and impairment are recognized in retained earnings.

The adoption of IFRS 9 has impacted the following areas:

- the classification and measurement of the Organization's financial assets.
- the impairment of financial assets applying the expected credit loss model. This affects the Organization's investments in debt-type assets measured at amortized cost.

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.

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

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 Organization.

Management anticipates that all of the relevant pronouncements will be adopted in the Organization'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 Organization'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 Organization's financial statements.

Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. The Organization's management have not yet assessed the impact of these amendments on these 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 Organization'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 and 553.65 drams for 1 euro as of 31 December 2018 (31 December 2017: 484.10 drams for 1 US dollar, 580.10 drams for 1 euro). 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 the result for the period.

3.2 Property and equipment

Properties in the course of administrative purposes 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 Organization'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 for the period.

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

Depreciation is charged to the result for the year 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	-	20 years
Vehicles	-	5 years
Furniture, computers, office equipment	-	3-5 years

3.3 Financial instruments

Recognition, initial measurement and derecognition

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

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

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

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

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets other than hedging instruments are divided into the following categories upon initial recognition:

- loans and receivables
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in the result or directly in other comprehensive income. Refer to note 16.2 for a summary of the Organization's financial assets by category.

Generally, the Organization recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognized in the result are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

i Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables as well as cash and bank balances.

Borrowings provided

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

The Organization has provided fully for all the overdue borrowings with a maturity period of more than one year (refer to note 5). The balance of the allowance is adjusted by recording debit or credit to grants related to income. Any amount written-off with respect to borrowers' account balances is charged against the existing allowance for doubtful accounts. All borrowings receivable for which collection is not considered probable are written-off.

Cash and bank balances

The Organization's cash and bank balances comprise cash in hand and bank accounts.

Receivables from donors

Receivables from donors are recognized at the amount of expenses incurred by the Organization, but not reimbursed by donors. Receivables from donors are initially recognized at fair value, and then subsequently are measured at amortized cost less provision for impairment, if any.

ii Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity and include deposits at commercial banks. Investments are classified as held-to-maturity if it is the intention of the Organization's management to hold them until maturity.

Deposits are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the deposit has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the deposit are recognized in the result.

Classification and subsequent measurement of financial liabilities

The Organization's financial liabilities include accounts payable.

Accounts payable

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

3.4 Grants

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

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 the result 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. Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Organization with no future related costs are recognized as income in the period in which they become receivable.

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

Unused balance for grants arises when the Organization spends (incurs expenses) less than it receives from the donor and is returned when the donor does not allow it to be used for another project and requires it to be paid back and is included in “Grants related to income” caption of Statement of financial position.

3.5 Interest accrued

Interest accrued on deposits are credited to grants related to income, since this is either required by the donor or represents managements intend to use the funds for purpose defined by the donors.

3.6 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.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable result. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable results will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable result nor the accounting result.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable results will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Organization expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.7 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;

(c) social security contributions and other social payments;

When employees render services to the Organization during the accounting period, the Organization recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Organization shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the amount is included in the cost of an asset.

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 Organization 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.

3.8 Income recognition

Income from grants

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

4 Property and equipment

In thousand drams	Land and buildings	Vehicles	Furniture, computers, equipment	Total
Cost				
as of 1 January 2017	1,590,889	131,425	218,367	1,940,681
Additions	20,556	7,150	15,166	42,872
Disposals	-	-	(4,550)	(4,550)
as of 31 December 2017	1,611,445	138,575	228,983	1,979,003
Additions	2,846	-	49,960	52,806
Disposals	-	-	(2,699)	(2,699)
as of 31 December 2018	1,614,291	138,575	276,244	2,029,110
Accumulated depreciation				
as of 1 January 2017	35,834	84,920	133,664	254,418
Charge for the year	79,120	13,677	25,015	117,812
Eliminated on disposal	-	-	(4,173)	(4,173)
as of 31 December 2017	114,954	98,597	154,506	368,057
Charge for the year	80,079	12,706	31,225	124,010
Eliminated on disposal	-	-	(2,686)	(2,686)
as of 31 December 2018	195,033	111,303	183,045	489,381
Carrying amount				
as of 31 December 2017	1,496,491	39,978	74,477	1,610,946
as of 31 December 2018	1,419,258	27,272	93,199	1,539,729

None of the Organization's property and equipment have been pledged as a security as of the reporting date.

Depreciation expense has been fully charged to administration expenses.

As of 31 December 2018 the cost of fully depreciated assets amounted to drams 211,150 thousand (2017: drams 189,277 thousand).

5 Borrowings provided

In thousand drams	2018	2017
Balance at the beginning of year	51,702	27,943
Borrowings provided within the scope of projects	-	35,603
Borrowings provided to employees	18,158	-
Borrowings repaid	(24,419)	(11,844)
	45,441	51,702
Allowance for doubtful borrowings	(38,066)	(16,488)
Balance at the end of year	7,375	35,214

Within the scope of the Migration and Development Innovative Fund, Aramazd and Support for Training of Parish Social Ministers projects, the Organization provides non-interest bearing borrowings to individuals for the development of small business and agriculture mainly in the cities of Yerevan and Gyumri. The maximum amount of the borrowing per contract is drams 2,500 thousand and the maturity period is maximum two years.

Received borrowings are repaid both during and at the end of the maturity period. As of 31 December 2018 the number of borrowers was 39 (as of 31 December 2017: 50).

The Organization has provided fully for all overdue borrowings because the historical experience is that receivables not collected in a due maturity date are generally not recoverable. In addition, when the Organization obtains an objective evidence that the borrowing is impaired but not overdue, the Organization provides fully for those borrowings.

According to management, the fair values of current borrowings equal to their carrying amounts.

Movement of the allowance for doubtful borrowings is presented below:

In thousand drams	2018	2017
Balance at the beginning of year	16,488	18,602
Increase/(decrease) in the allowance during the year	21,578	(1,143)
Repaid during the year	-	(971)
Balance at the end of year	38,066	16,488

The list of doubtful borrowings is disclosed below.

In thousand drams					Amount of allowance	
Project	Borrower name	Initial borrowing provided	Contract date	Maturity date	As of 31 December 2018	As of 31 December 2017
Migration and Development Innovative Fund	Artur Srapyan	2,400	12/20/2012	12/20/2013	-	30
Migration and Development Innovative Fund	Karapet Ghazaryan	2,400	12/24/2013	12/24/2014	580	750
Migration and Development Innovative Fund	Arsen Hovsepyan	2,000	08/02/2013	07/31/2014	2,000	2,000
Migration and Development Innovative Fund	Karine Tatulyan	1,200	03/02/2011	12/02/2012	450	450
Migration and Development Innovative Fund	Armen Tadevosyan	1,200	03/02/2011	04/02/2012	1,200	1,200
Migration and Development Innovative Fund	Susanna Margaryan	1,200	05/26/2011	07/26/2012	816	816
Migration and Development Innovative Fund	Eghishe Movsisyan	1,200	03/07/2014	03/07/2015	400	550
Migration and Development Innovative Fund	Davit Hovsepyan	1,200	03/07/2014	03/07/2015	40	90
Migration and Development Innovative Fund	Gagik Karapetyan	1,660	06/06/2014	06/06/2015	370	410
Migration and Development Innovative Fund	Tsoghik Badoyan	200	07/16/2014	07/16/2015	200	200
Migration and Development Innovative Fund	Arusyak Kirakosyan	200	07/16/2014	07/16/2015	-	200
Migration and Development Innovative Fund	Geteon Simonyan	200	07/16/2014	07/16/2015	200	-
Migration and Development Innovative Fund	Davit Tumasyan	200	07/16/2014	07/16/2015	200	200
Migration and Development Innovative Fund	Ani Darbinayn	200	07/16/2014	07/16/2015	200	200
Migration and Development Innovative Fund	Adam Madoyan	200	07/16/2014	07/16/2015	200	-
Migration and Development Innovative Fund	Ashot Harutyunyan	150	07/16/2014	07/16/2015	-	150
Aramazd-3 Social Education Project	Garik Danielyan	1,500	10/15/2014	10/15/2015	1,000	1,500
Aramazd-3 Social Education Project	Ordi Aslanyan	2,000	12/22/2014	12/22/2015	-	1,100
Aramazd-3 Social Education Project	Vachagan Galstyan	2,000	04/22/2015	04/21/2016	-	483
Aramazd-4 For Community With Community	Hasmik Rafaelyan	989	10/10/2013	10/31/2016	318	318
Aramazd-4 For Community With Community	Ashot Aghajanyan	1,120	02/09/2015	10/31/2016	829	829
Own capital	Father Rafayel Archbishop	4,700	08/29/2014	Indefinite	6,858	4,700
Aramazd-4 For Community With Community	Artur Meliksetyan	1,500	06/20/2016	06/18/2017	-	312
Migration and Development Innovative Fund	Gurgen Petrosyan	2,000	12/26/2016	1/26/2018	1,329	-
Migration and Development Innovative Fund	Ashot Martirosyan	1,700	05/02/2017	05/02/2018	100	-

In thousand drams Project	Borrower name	Initial borrowing provided	Contract date	Maturity date	Amount of allowance As of 31 December 2018	As of 31 December 2017
Migration and Development Innovative Fund	Rudik Osipov	2,500	10/19/2017	10/19/2018	2,000	-
Migration and Development Innovative Fund	Misha Poghosyan	2,120	11/07/2017	11/07/2018	1,460	-
Migration and Development Innovative Fund	Ararat Avalyan	2,500	10/17/2017	10/17/2018	2,500	-
Migration and Development Innovative Fund	Rouzanna Vardanyan	529	11/29/2017	11/29/2018	529	-
Migration and Development Innovative Fund	Harout Gaspar	2,500	11/03/2017	11/03/2018	2,500	-
Migration and Development Innovative Fund	Carlo Gaspar	2,500	10/25/2017	10/25/2018	2,500	-
Migration and Development Innovative Fund	Souren Hayrapetyan	2,120	12/14/2017	12/14/2018	2,120	-
Migration and Development Innovative Fund	Gevorg Demirchyan	2,500	11/10/2017	11/10/2018	2,500	-
Migration and Development Innovative Fund	Serine Aghakhani	2,125	10/19/2017	10/19/2018	2,125	-
Migration and Development Innovative Fund	Lilit Manucharyan	2,121	12/12/2017	12/12/2018	2,121	-
Migration and Development Innovative Fund	Gevorg Mehrabyan	1,250	10/09/2017	10/09/2018	250	-
Migration and Development Innovative Fund	Astghik Kurghinyan	1,000	10/16/2017	10/16/2018	171	-
					38,066	16,488

6 Bank deposits

					Balance as of 31 December (in thousand drams)				Accrued interest (in thousand drams)	
					2018		2017			
Bank name	Principal amount (in thousand drams)	Deposit date	Maturity date	Deposit rate (%)	Principal	Interest	Principal	Interest	2018	2017
Inecobank CJSC										
Deposit 1	128,777	07/16/2016	01/16/2017	13.50%	-	-	-	-	-	714
Deposit 2	53,600	11/01/2016	05/01/2017	12.00%	-	-	-	-	-	2,115
Deposit 3	50,000	09/01/2016	09/04/2017	13.60%	-	-	-	-	-	4,602
Deposit 4	48,769	12/23/2017	12/23/2018	8.15%	-	-	48,769	87	3,877	87
Deposit 5	100,000	11/30/2017	11/30/2018	9.00%	-	-	100,000	764	8,211	764
Deposit 6	49,000	12/25/2018	3/20/2020	9.20%	49,000	74	-	-	74	-
Deposit 7	100,000	12/06/2018	3/06/2020	9.20%	100,000	630	-	-	630	-
					149,000	704	148,769	851	12,792	8,282

7 Cash and bank balances

In thousand drams	As of 31 December 2018	As of 31 December 2017
Cash in hand	2,623	3,047
Bank accounts	231,036	124,440
Cash in transit	413	-
	234,072	127,487

All cash and bank balances are denominated in Armenian dram.

8 Grants related to assets

In thousand drams	2018	2017
Balance at the beginning of the year	1,610,946	1,686,263
Addition	2,482	-
Transferred from grants related to income (refer to note 10)	50,311	42,495
Realized to income (refer to note 11)	(124,010)	(117,812)
Balance at the end of the year	1,539,729	1,610,946

9 Accounts payable

In thousand drams	As of 31 December 2018	As of 31 December 2017
Taxes and duties payable	-	225
Employee benefits payable	4,338	4,456
	4,338	4,681

10 Grants related to income

In thousand drams	2018	2017
Balance at the beginning of the year	345,919	306,027
Donation received in cash from donors	1,551,177	1,246,730
Bank deposit interest	12,792	8,282
Other donations received	148	26,748
Donations accrued/grants receivable from donors	(37,372)	10,840
Transferred to grants related to assets (refer to note 8)	(50,311)	(42,495)
Realized to income (refer to note 11)	(1,412,570)	(1,209,460)
Unused balance returned to donors	-	(753)
Balance at the end of the year	409,783	345,919

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

Donations received in cash for the Projects are follows:

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Assistance to the children	583,857	407,243
Support to elderly	303,176	285,930
Migration and trafficking violence	310,251	196,899
Community development	80,603	162,973
Health care dispensary	79,935	76,076
Water and sanitation	149,096	16,200
Other	35,819	94,305
	1,542,737	1,239,626
For administration expenses	8,440	7,104
	1,551,177	1,246,730

Sources of donations received from Donors for the years ended 31 December 2017 and 31 December 2016 are detailed below:

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Caritas Austria	456,378	439,134
Caritas Germany	291,790	177,957
Renovabis	209,308	139,602
Caritas France	59,249	69,593
Caritas Spain	33,209	63,598
CNEWA	93,836	44,343
BC Italy	53,765	33,478
Kinder Missionswerk	24,374	32,148
Caritas Belgium	41,389	30,717
Medicor	41,475	28,425
JT International Luxembourg	14,600	15,600
CRS	14,767	8,948
Netherland	3,375	7,575
Cardinal Frings	9,209	7,179
Caritas Romania	-	4,815
Caritas Europe	4,440	3,763
Caritas Italy	8,252	-
Ministry of diaspora of Armenia	74,133	-
Other	117,628	139,855
	1,551,177	1,246,730

11 Income from grants

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Income from grants related to assets (refer to note 8)	124,010	117,812
Income from grants related to income (refer to note 10)	1,412,570	1,209,460
	1,536,580	1,327,272

12 Program expenses

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Assistance to the children	497,311	376,038
Migration and trafficking violence	264,154	195,407
Support to elderly	257,416	169,406
Community development	67,386	100,796
Water and sanitation	126,686	110,074
Health care dispensary	68,734	67,579
Other	65,756	131,835
	1,347,443	1,151,135

13 Administration expenses

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Salaries and employee benefits	28,755	26,742
Office expenses	8,104	6,567
Depreciation expense	124,010	117,812
Travel and accommodation	9,950	8,966
Audit and consulting	3,463	3,600
Bank charges	298	274
Other	8,897	7,986
	183,477	171,947

14 Income tax expense

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Current tax	4,989	3,814
	4,989	3,814

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2018	Effective tax rate (%)	Year ended 31 December 2017	Effective tax rate (%)
Result before taxation (under IFRSs)	4,989		3,814	
Tax calculated at a tax rate of 20% (2016: 20%)	998	20.00	763	20.00
(Non-taxable)/non-deductible items, net	3,991	80.00	3,051	80.00
Income tax expense	4,989	100.00	3,814	100.00

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 2.5.

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
Amortized cost		
Bank deposits	149,704	-
Borrowings provided	7,375	-
Cash and bank balances	234,072	-
	391,151	-
Held-to-maturity investments (in accordance with IAS 39)		
Bank deposits	-	149,620
Loans and receivables (amortized cost) (in accordance with IAS 39)		
Receivables from donors	-	28,153
Borrowings provided	-	35,214
Cash and bank balances	-	124,440
	-	337,427
Total financial assets	388,528	337,427

Financial liabilities

In thousand drams	As of 31 December 2018	As of 31 December 2017
Amortized cost		
Accounts payable	4,338	4,456
Total financial liabilities	4,338	4,456

16 Financial risk management

The Organization 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 Organization is exposed are described below.

Financial risk factors

a) Market risk

Foreign currency risk

The Organization is not exposed to foreign exchange risk, since as of the reporting date it has no significant financial liabilities denominated in foreign currencies.

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Organization. The effect of this risk for the Organization arises from different financial instruments, such as accounts receivable and term deposits. 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		
Term deposits	149,704	149,620
Accounts receivable	-	28,153
Borrowings provided	7,375	35,214
Bank balances	231,449	124,440
	388,528	337,427

The credit risk for cash and cash equivalents (including bank deposits) is considered negligible, since the counterparties are reputable banks.

The Organization has created an allowance for doubtful borrowings provided at the amount of drams 38,066 thousand as of 31 December 2018 and drams 16,488 thousand as of 31 December 2017. Management believes that the carrying amount of the borrowings are fully recoverable.

17 Contingencies

17.1 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 Organization. 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 Organization may be affected.

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

17.2 Insurance

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

17.3 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.

18 Related parties

18.1 Transactions with management and close family members

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

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Salaries and bonuses	18,077	17,681
	18,077	17,681

In thousand drams	Year ended 31 December 2018	Year ended 31 December 2017
Liability for unused vacation days	385	986
	385	986