

Financial Statements and Independent Auditor's Report Armenian Caritas Benevolent NGO

31 December 2017



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Independent auditor's report

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

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 2017, 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 matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Organization as of 31 December 2017, 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 11 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.

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 Gyulbudachyan

Managing Partner

18 October 2018

Emil Vassilyan, FCCA

Engagement Partner



Armenian Caritas Benevolent NGO

Members of the board of trustees as of 31 December 2017

Rafael Minassyan	President	Ordinary of Armenian Catholic Church in Armenia, Georgia and Eastern Europe
Zvart Najaryan	Member	-
Zhirayr Habibyan	Member	-
Vardges Yeghyayan	Member	-
Michel Davudyan	Member	-

Statement of financial position

In thousand drams	Note	As of 31 December 2017	As of 31 December 2016
Assets			
<i>Non-current assets</i>			
Property and equipment	4	1,610,946	1,686,263
		<u>1,610,946</u>	<u>1,686,263</u>
<i>Current assets</i>			
Borrowings provided	5	35,214	9,341
Receivables from donors	6	28,153	17,313
Advances and prepayments		8,601	471
Current income tax assets		1,525	-
Bank deposits	7	149,620	243,672
Cash and bank balances	8	127,487	41,354
		<u>350,600</u>	<u>312,151</u>
Total assets		<u><u>1,961,546</u></u>	<u><u>1,998,414</u></u>
Liabilities, reserves and grants			
<i>Non-current liabilities</i>			
Grants related to assets	9	1,610,946	1,686,263
		<u>1,610,946</u>	<u>1,686,263</u>
<i>Current liabilities</i>			
Accounts payable	10	4,681	4,395
Current income tax liabilities		-	1,729
		<u>4,681</u>	<u>6,124</u>
<i>Reserves and grants</i>			
Grants related to income	11	345,919	306,027
		<u>345,919</u>	<u>306,027</u>
Total liabilities, reserves and grants		<u><u>1,961,546</u></u>	<u><u>1,998,414</u></u>

The financial statements were approved on 10 October 2018 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 9 to 26.

Statement of comprehensive income

In thousand drams

	Note	Year ended 31 December 2017	Year ended 31 December 2016
<i>Income</i>			
Income from grants	12	1,327,272	1,018,155
		<u>1,327,272</u>	<u>1,018,155</u>
<i>Expenses</i>			
Program expenses	13	(1,151,135)	(910,289)
Administration expenses	14	(171,947)	(100,766)
Other expenses		(376)	(16)
		<u>(1,323,458)</u>	<u>(1,011,071)</u>
Result before income tax		<u>3,814</u>	<u>7,084</u>
Income tax expense	15	<u>(3,814)</u>	<u>(7,084)</u>
Result of the year		<u>-</u>	<u>-</u>

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 9 to 26.

Statement of cash flows

In thousand drams

	Year ended 31 December 2017	Year ended 31 December 2016
<i>Cash flows from operating activities</i>		
Cash receipts from donors	1,255,012	956,755
Borrowings repaid from beneficiaries	11,844	5,445
<i>Total cash receipts from operations</i>	<u>1,266,856</u>	<u>962,200</u>
<i>Cash used in operating activity</i>		
Cash paid to and on behalf of employees	(383,708)	(333,326)
Cash used in project implementation	(664,081)	(540,840)
Cash paid to the State budget	(139,664)	(119,210)
Borrowings provided to beneficiaries	(35,603)	(10,155)
Other cash (payments)/receipts, net	(10,633)	(8,121)
Donations refunded to donors	(753)	-
Total cash used in operations	<u>(1,234,442)</u>	<u>(1,011,652)</u>
<i>Net cash from/(used in) operating activities</i>	<u>32,414</u>	<u>(49,452)</u>
<i>Cash flows from investing activities</i>		
Acquisition of non-current assets	(41,161)	(19,516)
Movement in bank deposits	76,154	(113,620)
Interest received	18,726	31,243
<i>Net cash from/(used in) investing activities</i>	<u>53,719</u>	<u>(101,893)</u>
<i>Net increase/(decrease) in cash and bank balances</i>	86,133	(151,345)
Cash and bank balances at the beginning of the year	41,354	192,699
Cash and bank balances at the end of the year	<u>127,487</u>	<u>41,354</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 26.

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 2017 the Organization implemented 58 projects (2016: 61), 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 2017 was 99 (2016: 97).

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 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 2017.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Organization.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2017

Amendments to IAS 12 *Income Taxes*

The IASB has issued *Recognition of Deferred Tax Assets for Unrealized Losses*, which makes narrow-scope amendments to IAS 12 *Income Taxes*. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits;
- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;
- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are required to be applied retrospectively. There has not been a material impact on the Organization's financial statements from these Amendments.

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.

IFRS 9 *Financial Instruments*

The IASB released IFRS 9 *Financial Instruments*, representing the completion of its project to replace 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.

The Organization's management have yet to assess the impact of this new standard on the Organization's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

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 provided IFRS 15 *Revenue from Contracts with Customers* is also applied. The Organization’s management have not yet assessed the impact of IFRS 16 on these financial statements.

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 Organization 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 Organization shall determine a date of the transaction for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

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 484.10 drams for 1 US dollar and 580.10 drams for 1 euro as of 31 December 2017 (31 December 2016: 483.94 drams for 1 US dollar, 512.20 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

Property and equipment held for use for administrative purposes 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 an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Properties in the course of construction for production, 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 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.

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 for the year 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 management's 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	Construction in progress	Total
<i>Cost</i>					
as of 1 January 2016	88,394	93,874	140,616	220,297	543,181
Additions	1,282,198	37,551	80,251	-	1,400,000
Disposals	-	-	(2,500)	-	(2,500)
Internal movement	220,297	-	-	(220,297)	-
as of 31 December 2016	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
<i>Accumulated depreciation</i>					
as of 1 January 2016	29,910	74,332	126,203	-	230,445
Charge for the year	5,924	10,588	9,961	-	26,473
Eliminated on disposal	-	-	(2,500)	-	(2,500)
as of 31 December 2016	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
<i>Carrying amount</i>					
as of 31 December 2016	1,555,055	46,505	84,703	-	1,686,263
as of 31 December 2017	1,496,491	39,978	74,477	-	1,610,946

Addition in land and buildings during the year represents the acquisition of private house in Vanadzor at the amount of drams 20,556 thousand (Addition in 2016 represents expenditures at the amount of drams 1,282,198 thousand capitalized on the building of the new therapy center "Emil's Aregak" for the children with multiple disabilities in Gyumri).

The annual depreciation increased due to the exploitation of the mentioned above therapy center from the beginning of the current year.

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 2017 the cost of fully depreciated assets amounted to drams 189,277 thousand (2016: drams 176,398 thousand).

5 Borrowings provided

In thousand drams

	2017	2016
Balance at the beginning of year	27,943	23,233
Borrowings provided within the scope of projects	35,603	10,155
Borrowings repaid	(11,844)	(5,445)
	51,702	27,943
Allowance for doubtful borrowings	(16,488)	(18,602)
Balance at the end of year	35,214	9,341

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. These borrowings are secured by the pledged items, which were procured using the borrowers' funds. As of 31 December 2017 the number of borrowers was 50 (as of 31 December 2016: 30).

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	2017	2016
Balance at the beginning of year	18,602	19,446
Increase/(decrease) in the allowance during the year	(1,143)	3,612
Repaid during the year	(971)	(4,456)
Balance at the end of year	16,488	18,602

The list of doubtful borrowings is disclosed below.

In thousand drams

Project	Borrower name	Initial borrowing provided	Contract date	Maturity date	Amount of allowance	
					As of 31 December 2017	As of 31 December 2016
Migration and Development Innovative Fund	Artur Srapyan	2,400	12/20/2012	12/20/2013	30	80
Migration and Development Innovative Fund	Karapet Ghazaryan	2,400	12/24/2013	12/24/2014	750	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	550	550
Migration and Development Innovative Fund	Hakob Sargsyan	1,200	03/07/2014	03/07/2015	-	1,200
Migration and Development Innovative Fund	Davit Hovsepyan	1,200	03/07/2014	03/07/2015	90	110
Migration and Development Innovative Fund	Gagik Karapetyan	1,660	06/06/2014	06/06/2015	410	490
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	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	150
Aramazd-3 Social Education Project	Garik Danielyan	1,500	10/15/2014	10/15/2015	1,500	1,500
Aramazd-3 Social Education Project	Ordi Aslanyan	2,000	12/22/2014	12/22/2015	1,100	1,300
Aramazd-3 Social Education Project	Vachagan Galstyan	2,000	04/22/2015	04/21/2016	483	959
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	4,700	4,700
Aramazd-4 For Community With Community	Artur Meliksetyan	1,500	06/20/2016	06/18/2017	312	-
					<u>16,488</u>	<u>18,602</u>

6 Receivables from donors

Receivables from donors arise when the funds received from a certain donor have been expired, whereas the Organization continues to incur expenses on certain projects funded by those donors, to ensure the smooth operations of those projects. For this purpose, the Organization uses the unused funds received from other 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.

Management of the Organization believes that these amounts will be collected from donors.

7 Bank deposits

Bank name	Principal amount (in thousand drams)	Deposit date	Maturity date	Deposit rate (%)	Balance as of 31 December (in thousand drams)				Accrued interest (in thousand drams)	
					2017		2016		2017	2016
					Principal	Interest	Principal	Interest		
Inecobank CJSC										
Deposit 1	100,000	01/15/2015	01/15/2016	15.00%	-	-	-	-	-	575
Deposit 2	114,959	01/15/2016	07/16/2016	15.00%	-	-	-	-	-	8,675
Deposit 3	128,777	07/16/2016	01/16/2017	13.50%	-	-	128,777	8,002	714	8,002
Deposit 4	50,000	10/27/2015	04/27/2016	16.50%	-	-	-	-	-	2,645
Deposit 5	53,600	11/01/2016	05/01/2017	12.00%	-	-	53,600	1,057	2,115	1,057
Deposit 6	48,769	12/23/2017	12/23/2018	8.15%	48,769	87	-	-	87	-
Deposit 7	100,000	11/30/2017	11/30/2018	9.00%	100,000	764	-	-	764	-
ACBA Credit Agricole Bank CJSC										
Deposit 1	50,000	02/25/2016	08/25/2016	14.10%	-	-	-	-	-	3,496
Deposit 2	50,000	09/01/2016	09/04/2017	13.60%	-	-	50,000	2,236	4,602	2,236
					148,769	851	232,377	11,295	8,282	26,686

8 Cash and bank balances

In thousand drams

	As of 31 December 2017	As of 31 December 2016
Cash in hand	3,047	3,155
Bank accounts	124,440	38,199
	<u>127,487</u>	<u>41,354</u>

All cash and bank balances are denominated in Armenian dram.

9 Grants related to assets

In thousand drams

	2017	2016
Balance at the beginning of the year	1,686,263	312,736
Addition	-	1,366,492
Transferred from grants related to income (refer to note 11)	42,495	33,508
Realized to income (refer to note 12)	(117,812)	(26,473)
Balance at the end of the year	<u>1,610,946</u>	<u>1,686,263</u>

10 Accounts payable

In thousand drams

	As of 31 December 2017	As of 31 December 2016
Taxes and duties payable	225	289
Employee benefits payable	4,456	4,106
	<u>4,681</u>	<u>4,395</u>

11 Grants related to income

In thousand drams

	2017	2016
Balance at the beginning of the year	306,027	356,841
Donation received in cash from donors	1,255,012	956,755
Other donations received	26,748	308
Donations accrued/grants receivable from donors	10,840	17,313
Transferred to grants related to assets (refer to note 9)	(42,495)	(33,508)
Realized to income (refer to note 12)	(1,209,460)	(991,682)
Unused balance returned to donors	(753)	-
Balance at the end of the year	<u>345,919</u>	<u>306,027</u>

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 2017	Year ended 31 December 2016
Assistance to the children	407,243	328,816
Support to elderly	285,930	187,526
Migration and trafficking violence	196,899	119,667
Community development	162,973	110,194
Health care dispensary	76,076	57,504
Water and sanitation	16,200	57,826
Other	102,587	79,481
	<u>1,247,908</u>	<u>941,014</u>
For administration expenses	7,104	15,741
	<u>1,255,012</u>	<u>956,755</u>

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 2017	Year ended 31 December 2016
Caritas Austria	439,134	202,847
Caritas Germany	177,957	172,984
Renovabis	139,602	90,773
Caritas France	69,593	41,294
Caritas Spain	63,598	102,497
CNEWA	44,343	12,300
BC Italy	33,478	111,797
Kinder Missionswerk	32,148	12,437
Caritas Belgium	30,717	25,889
Medicor	28,425	24,900
JT International Luxembourg	15,600	9,900
CRS	8,948	27,950
Netherland	7,575	7,334
Cardinal Frings	7,179	4,644
Caritas Romania	4,815	3,565
Caritas Europe	3,763	4,268
Caritas Italy	-	13,038
Cordaid	-	10,640
Fr. Rafael	-	9,571
Private	-	9,308
UN Austria	-	5,138
Bonn-Lessenich	-	2,383
Caritas Albania	-	1,208
Other	148,137	50,090
	<u>1,255,012</u>	<u>956,755</u>

12 Income from grants

In thousand drams

	Year ended 31 December 2017	Year ended 31 December 2016
Income from grants related to assets (refer to note 9)	117,812	26,473
Income from grants related to income (refer to note 11)	1,209,460	991,682
	<u>1,327,272</u>	<u>1,018,155</u>

13 Program expenses

In thousand drams

	Year ended 31 December 2017	Year ended 31 December 2016
Assistance to the children	376,038	368,210
Migration and trafficking violence	195,407	58,431
Support to elderly	169,406	163,129
Community development	100,796	56,244
Water and sanitation	110,074	79,979
Health care dispensary	67,579	136,661
Other	131,835	47,635
	<u>1,151,135</u>	<u>910,289</u>

14 Administration expenses

In thousand drams

	Year ended 31 December 2017	Year ended 31 December 2016
Salaries and employee benefits	26,742	49,463
Office expenses	6,567	7,681
Depreciation expense	117,812	26,473
Travel and accommodation	8,966	1,230
Audit and consulting	3,600	3,600
Bank charges	274	261
Other	7,986	12,058
	<u>171,947</u>	<u>100,766</u>

15 Income tax expense

In thousand drams

	Year ended 31 December 2017	Year ended 31 December 2016
Current tax	3,814	7,084
	<u>3,814</u>	<u>7,084</u>

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended 31 December 2017	Effective tax rate (%)	Year ended 31 December 2016	Effective tax rate (%)
Result before taxation (under IFRSs)	<u>3,814</u>		<u>7,084</u>	
Tax calculated at a tax rate of 20% (2016: 20%)	763	20.00	1,417	20.00
(Non-taxable)/non- deductible items, net	<u>3,051</u>	<u>80.00</u>	<u>5,667</u>	<u>80.00</u>
Income tax expense	<u>3,814</u>	<u>100.00</u>	<u>7,084</u>	<u>100.00</u>

16 Financial instruments

16.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.5.

16.2 Categories of financial instruments

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

Financial assets

In thousand drams

	As of 31 December 2017	As of 31 December 2016
Held-to-maturity investments:		
Bank deposits	149,620	243,672
Loans and receivables:		
Receivables from donors	28,153	17,313
Borrowings provided	35,214	9,341
Cash and bank balances	127,487	41,354
	<u>340,474</u>	<u>311,680</u>

Financial liabilities

In thousand drams

	As of 31 December 2017	As of 31 December 2016
Financial liabilities measured at amortized cost:		
Accounts payable	4,456	4,106
	<u>4,456</u>	<u>4,106</u>

17 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 2017	As of 31 December 2016
Financial assets at carrying amounts		
Term deposits	149,620	243,672
Accounts receivable	28,153	17,313
Borrowings provided	35,214	9,341
Bank balances	124,440	38,199
	<u>337,427</u>	<u>308,525</u>

As of the reporting date there is no significant credit risk in respect of accounts receivables, since it mainly consists from a receivable from Caritas International offices.

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 16,488 thousand as of 31 December 2017 and drams 18,602 thousand as of 31 December 2016. Management believes that the carrying amount of the borrowings are fully recoverable.

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 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.

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 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.

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

19.1 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 2017	Year ended 31 December 2016
Salaries and bonuses	17,681	17,246
	<u>17,681</u>	<u>17,246</u>

In thousand drams

	Year ended 31 December 2017	Year ended 31 December 2016
Outstanding balances	986	372
	<u>986</u>	<u>372</u>