

**Union Of Communities of Armenia
Non-Governmental Organization**

Financial Statements and

Independent Auditor's Report

For the years ended on December 31, 2017, 2018, 2019

Table of Contents

3	Independent Auditor’s Report
5	List of Founders
6	Statement of Financial Result and Net Asset
7	Statement of Financial Position
8	Cash Flow Statement
9	List of Annotations to Financial Statements
10	Annotations to Financial Statements

Location of the Organization	Republic of Armenia
Legal Form	Non-Governmental Organization
Description of main activities	The nature of the Union’s activity is presented in Annotation 1
President	Emin Yeritsyan



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Independent Auditor's Report

To the Governing Bodies of "Union of Communities of Armenia" Non-governmental organization

Opinion

We have audited the Financial Statements of the Union of Communities of Armenia Non-governmental organization (hereinafter referred to as the "Organization"), which include the statements of financial position as of December 31, 2017, 2018, 2019, the statements of financial result and net asset, cash flow statements, for the year ended on the same date, as well as the annotations to the financial statements, including the summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the true and fair view of the financial position of the Organization as of December 31, 2017, 2018, 2019, as well as the financial result and cash flows for the year ended on the same date, in accordance with the International Financial Reporting Standard for Small and Medium-sized entities (IFRS for SMEs).

Basis of Opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISAs"). Our responsibility deriving from these standards are additionally described in the Paragraph "Auditor's Responsibilities for the Audit of the Financial Reports".

We are independent of the Organization in accordance with the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants (IESBA Code) and have maintained other ethics requirements prescribed by the IESBA norms. We are sure that the audit evidence we have obtained is sufficient and appropriate to provide our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs for SMEs, and for such internal control that 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 report, 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 any realistic alternative for not doing so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

Our objective is to obtain reasonable assurance about whether the financial reports, in all material respects, as are free from material misstatement, whether due to fraud or error, and to present 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 arising from fraud or error 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 reports.

As a 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 reports, 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 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 that circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's whole internal control.
- Evaluate the appropriateness of accounting policies used as well as 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 report 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 financial reports, including the disclosures, and whether financial reports 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.




.....
Director


.....
Auditor

13 August, 2020

Yerevan

List of Founders

The founders of the organization are 502/five hundred and two/ municipalities of the Republic of Armenia.

“Union of Communities of Armenia” Non-Governmental Organization
Statement of Financial Result and Net Asset
About the Years ended on December 31, 2017, 2018, 2019

	Annotations	2019 Thousand AMD	2018 Thousand AMD	2017 Thousand AMD
Income from grants, membership fees	3	44,491	71,087	75,978
Other Incomes	3	45	-	-
Administrative Expenses	4	(50,409)	(70,138)	(59,189)
Realization Expenses		(55)	(28)	(26)
Other Expenses		(42)	(130)	-
Operating surplus /(deficit)		(5,970)	791	16,763
Other profit/(loss), net		-	-	(1,000)
Surplus before Taxation		(5,970)	791	15,763
Profit tax expenses	5	-	-	-
Net Surplus of the Year		(5,970)	791	15,763
Accumulated surplus of the beginning of the year		(1,701)	(2,492)	(16,891)
Transfer accumulated profit/(loss)		-	-	(1,364)
Accumulated surplus of the end of the year		(7,671)	(1,701)	(2,492)

The financial statements were approved by the Management on May 29, 2020.

Emin Yeritsyan
President



Tax Accounting LTD
Chief Accountant

"Union of Communities of Armenia" Non-Governmental Organization
 Statements of Financial Position
 As of December 31 2017,2018,2019

	Annotations	2019 Thousand AMD	2018 Thousand AMD	2017 Thousand AMD
Assets				
Current Assets				
Cash	6	240	3,712	937
Other Current Assets		-	16	727
Non-Current Assets				
Core Funds		80	213	-
Total Assets		320	3,925	937
Liabilities				
Current Liabilities				
Accounts Payable		4,141	2,638	1,864
Current Tax Liabilities		1,040	2,988	845
Non-Current Liabilities				
Loans	7.1	2,810	-	720
Total Liabilities		7,991	5,626	3,429
Own Funds				
Accumulated Surplus		(7,671)	(1,701)	(2,492)
Total Own Funds		(7,671)	(1,701)	(2,492)

The financial statements were approved by the management on May 29, 2020.

 Emin Yeritsyan
 President



 Tax Accounting LTD
 Chief Accountant

"Union of Communities of Armenia" Non-Governmental Organization
Cash Flow Statement
About the Years ended on December 31, 2017, 2018, 2019

	2019 Thousand AMD	2018 Thousand AMD	2017 Thousand AMD
Cash flows from operating activities	(6,263)	4,206	8,033
Received Grants	22,545	51,757	56,523
Membership Fees	21,946	19,330	18,662
Operating other	58	518	11
Business trip expenses	(1,265)	(14,906)	(20,671)
Membership fees	(591)	-	-
Rent expenses	(2,865)	(3,454)	(1,867)
Amounts paid to suppliers	(4,562)	(7,450)	(19,626)
Payments to employees	(27,778)	(30,689)	(18,997)
Bank commissions	(51)	(12)	(60)
Paid taxes	(13,661)	(10,888)	(5,898)
Other payments	(39)	-	(44)
Cash flows from financial activities	2,810	(720)	(9,650)
Inflows from Loans	9,275	4,200	5,900
Outflows from Loans	(6,465)	(4,920)	(14,550)
Donations	-	-	(1,000)
Net increase in cash	(3,453)	3,486	(1,617)
Exchange rate differences	(3)	-	-
Cash of the beginning of the year			
Cash of the end of the year	3,696	210	1,827
	240	3,696	210

The financial statements were approved by the Management on May 29, 2020.

Emin Yeritsyan
President



Tax Accounting LTD
Chief Accountant

“Union of Communities of Armenia” Non-Governmental Organization
Cash Flow Statement
About the Years ended on December 31, 2017, 2018, 2019

TABLE OF CONTENTS

1. ABOUT THE ORGANIZATION.....	10
2. PREPARATION BASIS.....	11
3. INCOMES.....	14
4. EXPENSES.....	14
5. PROFIT TAX.....	14
6. CASH.....	14
7. RELATED-PATY TRANSACTIONS.....	15
8. CONTINGENT LIABILITIES.....	15

“Union of Communities of Armenia” NGO
Annotations to Financial Statements
About the year ended on December 31, 2019 (continuation)

1 About the Organization

“Union of Communities of Armenia” Non-governmental organization (Organization) was established as a result of reorganization of “Union of Communities of Armenia” Union of Legal Entities (211.150.05154, registered on 07.09.2009, Taxpayer Identification Number 03534085), according to the RA legislation, and is its legal successor.

The Charter of the Organization was registered in the State Register of Legal Persons of the Ministry of Justice of the RA on 01.02.2019, registration number 211.171.1056247, code of the legal entity 39339430, Taxpayer identification Number 03534085.

The legal address of the Organization is Barekamutyun square 1, Abovyan Municipality, Abovyan city, Republic of Armenia.

The operational address of the Organization is Charents 1, Room 201, 0025, Yerevan, Republic of Armenia.

The governing bodies of the organization are:

- ✓ The General Assembly;
- ✓ The Republican Council;
- ✓ The Board;
- ✓ The President;
- ✓ The Executive Director.

The oversight over the financial activities and the legality of the activities of the organization is exercised by the Oversight Committee, which has four members elected by the General Assembly for a term of five years.

The average number of employees of the Organization in 2019 was 7 / seven / people, of which 2 / two / people were key employees (in 2018 9 people, of which 5 were key employees, in 2017 7 people, of which 6 were key employees).

The average number of the members of the Organization in 2019 was 502 communities (502 communities in 2018, 502 communities in 2017).

Business Environment

The political and economic events in Armenia, as well as the reforms of the legal, tax and legislative systems, led to stable growth rates in 2018-2019. The sectors of trade, services and industry played a key role in the economy.

The Management of the Organization considers that in the current conditions appropriate measures are taken to ensure the economic stability of the Organization.

1.1 Main Activities

The goals of the organization are:

- Carry out advocacy and lobbying activities;
- Organize meetings, assemblies, conferences, seminars, exhibitions, fairs and other events;
- Organize experience exchange, training and capacity building activities, provide consulting services;
- Establish committees, working groups and other working bodies to develop a common position on the development of its policies, including laws and legal acts;
- Maintain contact with members and the public through existing relevant means of communication, including print and electronic publications, website, mass media and social networks;
- Cooperate with local self-government bodies, associations of local authorities of other countries and international organizations, join local and international organizations and participate in their activities;
- To promote cross-border cooperation between the local self-government bodies, regional bodies of Armenia and neighboring countries, ensuring bilateral and multilateral relations with the local self-government bodies of neighboring countries and their associations.

2. Preparation Basis

The main provisions of the accounting policy adopted for the preparation of financial statements are presented below. They have been applied consistently to all periods presented unless otherwise indicated. The financial statements are presented in AMD, which is also the functional currency of the Organization. IFRSs do not currently contain specific accounting and financial reporting guidelines for nonprofit and non-governmental organizations. If IFRSs do not provide guidance to nonprofit organizations on accounting for specific transactions, accounting policies should be based on the general principles of IFRSs, according to the International Accounting Standards Board (IASB).

The financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standard for Small and Medium-sized entities (IFRS for SMEs).

Measurement Basis

The financial statements have been prepared under the historical cost basis.

Principle of Going Concern

The financial statements have been prepared on a going concern basis.

The Use of Judgments, Assessments and Assumptions

In order to prepare the presented financial statements in accordance with the requirements of the IFRS for SMEs, the Management of the Organization has made several judgments, assessments and assumptions regarding the presentation of assets and liabilities as well as disclosure of contingent liabilities and assets. Actual results may differ from these assessments.

Currency transactions

Currency transactions are converted into AMD at the exchange rate established as of the date of the transaction. The exchange rate is the average exchange rate of the given day published by the Central Bank of the Republic of Armenia. As of the reporting date:

- a) Monetary items in foreign currencies are presented (recalculated) using the closing (reporting date) exchange rate;*
- b) Non-monetary items denominated in foreign currencies that are recorded at their original cost are presented at the exchange rate of the date of the transaction.*

The profits and losses from currency exchange rate differences arising as a result of the repayment of foreign exchange transactions or revaluation of monetary items at the exchange rate set at the reporting date are recognized in the financial results.

The national currency of the Republic of Armenia is the Armenian dram (AMD), which is the functioning currency of the Organization, as it best reflects the economic content of the events underlying the financial statements and transactions of the Organization.

These financial statements are presented in AMD, as the management believes that this currency is more useful to users of the financial statements of the Organization. All financial information presented in AMD is rounded to thousand points.

Financial Tools

The Organization has the following non-derivative financial tools:

- accounts payable;
- received loans;
- cash and equivalents.

Cash consists of current account balances.

Cash equivalents for cash flow statements are short-term, highly realizable investments that are easily converted into cash on a pre-announced amount of cash and the risk of changing which value is insignificant. Cash equivalents are held to meet short-term monetary liabilities, not for investment or other purposes. The organization classifies investments as cash equivalents if they are easily converted into cash with known amounts in advance and the risk of changing which value is insignificant.

State Grants

The Organization records the funds received from the founders, local and international organizations as grants, which are recognized and measured at fair value. Grants are recognized as income on a systematic basis over the periods during which they reimburse respective expenses for which the grants were received.

Operating Lease

The Organization has not chosen the method to switch to IFRS 16 because the Management believes that the lease agreements are not attributed to IFRS 16 requirements, so all leases are treated as operating leases. Operating lease payments are recognized as an expense on a straight-line basis. Lease expenses, such as maintenance and insurance costs, are recorded at the time they are made.

Compensations to employees

Short-term compensations to employees are compensations that are payable in full within twelve months after the end of the annual reporting period in which the employees provided the relevant services.

“Union of Communities of Armenia” NGO
Annotations to Financial Statements
About the year ended on December 31, 2019 (continuation)

They include:

- a) salaries,
- b) Paid annual leaves and paid leaves related to incapacity for work.
- c) Revenues paid on a civil law basis.

Profit Tax

The profit tax of the organization for the reporting year consists of the current tax. Current tax is recognized as compensation or expense and is included in profit or loss for that period.

“Union of Communities of Armenia” NGO
Annotations to Financial Statements
About the year ended on December 31, 2019 (continuation)

3 Incomes

	2019 Thousand AMD	2018 Thousand AMD	2017 Thousand AMD
From income-related grants	22,545	51,757	56,523
From Membership Fees	21,946	19,330	18,662
From Assets-Related Grants	-	-	793
From Trainings	45	-	-
	44,536	71,087	75,978

The received grants are grants from international partners, as well as grants from Armenian organizations, which are used to cover the relevant project costs (in particular, salaries, business trip fees, suppliers' fees, rent payments, etc.).

4 Expenses

	2019 Thousand AMD	2018 Thousand AMD	2017 Thousand AMD
Labor Costs	40,751	45,169	25,432
Business Trip and Representation Expenses	2,290	17,277	25,772
Utility and Office Expenses	529	800	530
Auditing and Consulting	960	600	600
Depreciation, Repair Costs	334	668	881
Non-refundable taxes	222	193	85
Post and Communication	1,739	1,535	3,062
Rent Payments	2,122	2,100	2,312
Banking and Insurance Services	51	12	60
Other Administrative Costs	1,411	1,784	455
	50,409	70,138	59,189

5 Profit Tax

The organization has not made a profit in the reporting period.

6 Cash

	2019 Thousand AMD	2018 Thousand AMD	2017 Thousand AMD
In settlement account (AMD)	237	3,696	210
In settlement account (USD,EUR)	3	-	-
	240	3,696	210

7 Related-Party Transactions

7.1 Commercial transactions

According to the loan agreement No. 01, signed on 20.01.2017, the loan of 8,900 thousand AMD was received from the president of the Organization Emin Yeritsyan in 2019, which was partially repaid in the amount of 6,090 thousand drams. As of 31.12.2019, the debt balance is 2,810 thousand drams.

7.2 Salary and other Compensations

	2019	2018
	Thousand AMD	Thousand AMD
Annual salary fund of the Management staff	21,812	23,949
	21,812	23,949

The annual salary fund of the key management staff was 21 812 thousand AMD in 2019, 8 639 thousand AMD of which was main salary, and 13 173 thousand AMD as the salary for the implementation of projects (in 2018 it was 23 949 thousand AMD, of which 9 043 thousand AMD as the main salary, and 14 905 thousand AMD as the salary for the implementation of projects, in 2017 it was 17 618 thousand AMD, of which 9 699 thousand AMD as the main salary, and 7 919 thousand AMD as the salary for the implementation of projects).

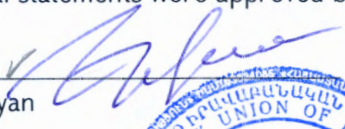
8 Contingent Liabilities

- ❖ There are no lawsuits against the Organization as of December 31, 2019, as well as the date of the audit report of the financial statements. At the same time, as of the above dates, the Organization has not any lawsuit against a third party.
- ❖ The tax legislation of the Republic of Armenia is frequently amended, which in some cases requires interpretation. Often different tax and competent authorities have different interpretations. Taxes are subject to revision and study by tax authorities. The tax authorities are authorized by law to impose fines or penalties.

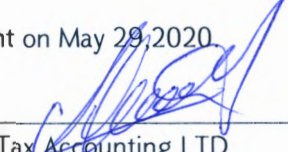
The above-mentioned circumstances may cause greater tax risks in Armenia than in other countries. The management is convinced that it has made appropriate allocations for tax liabilities based on their interpretation of the tax legislation. However, the interpretations of the tax authorities may differ, and their impact may be significant.

"Union of Communities of Armenia" NGO
Annotations to Financial Statements
About the year ended on December 31, 2019 (continuation)

The financial statements were approved by management on May 29, 2020.


Emin Yeritsyan
President




Tax Accounting LTD
Chief Accountant