Foundation for Armenian Science and Technology

Financial statements

for the year ended 31 December 2019
together with independent auditor’s report

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Independent auditor's report

To the Board of Trustees of
Foundation for Armenian Science and Technology

Opinion

We have audited the financial statements of Foundation for Armenian Science and Technology (hereinafter, the "Foundation"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Foundation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Foundation for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 22 March 2019.

Responsibilities of management and the Board of Trustees 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 Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

The Board of Trustees are responsible for overseeing the Foundation'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 Foundation'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 Foundation'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 Foundation's 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.

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We communicate with the Board of Trustees 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.

Ernst & Young CJSC
Yerevan, Armenia

General Director
Partner (Assurance) Eric Hayrapetyan

11 March 2020

Statement of financial position

As at 31 December 2019

(in thousands of Armenian drams)

	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property and equipment	6	217,973	234,905
Intangible assets	7	6,152	3,176
		224,125	**238,081**
Current assets			
Cash and cash equivalents	8	217,374	31,972
Prepayments	9	14,944	11,247
Inventories		460	1,568
		232,778	**44,787**
Total assets		**456,903**	**282,868**
Non-current liabilities			
Lease liability	3	18,591	–
Endowment funds	10	147,684	186,715
		166,275	**186,715**
Current liabilities			
Restricted funds	10	138,616	–
Unrestricted funds	10	–	3,663
Endowment funds	10	76,441	51,366
Lease liability	3	8,086	–
Advances received		1,669	–
Accounts payable and provisions	11	63,712	40,304
		288,524	**95,333**
Total liabilities		**454,799**	**282,048**
Equity			
Retained earnings		2,104	820
Total equity		**2,104**	**820**
Total equity and liabilities		**456,903**	**282,868**

Signed and authorized for issue on behalf of the Board of Trustees

Armen Orujyan — Founding CEO

Anna Grigoryan — Finance Director, "Smart Consulting" LLC

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11 March 2020

The accompanying notes on pages 5 to 18 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2019

(in thousands of Armenian drams)

	Notes	*2019*	*2018*
Incoming resources from restricted funds	12	59,454	57,101
Incoming resources from unrestricted funds	12	824,042	570,271
Incoming resources from endowment funds	12	66,744	21,430
Other income		4,169	−
Administrative and other expenses	13	(671,800)	(503,679)
Project related expenses	14	(278,481)	(145,123)
Operating profit		**4,128**	**−**
Interest expense	3	(4,128)	−
Net gain on foreign exchange translation		1,284	−
Profit for the year		**1,284**	**−**
Total comprehensive income for the year		**1,284**	**−**

The accompanying notes on pages 5 to 18 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2019

(in thousands of Armenian drams)

	Total equity
Retained earnings as of 1 January 2018	**820**
Total comprehensive income for the year	–
Retained earnings as of 31 December 2018	**820**
Total comprehensive income for the year	1,284
Retained earnings as of 31 December 2019	**2,104**

The accompanying notes on pages 5 to 18 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2019

(in thousands of Armenian drams)

	Notes	2019	2018
Cash flows from operating activities			
Cash receipts from donors	12	1,071,237	800,879
Cash receipts from sale of tickets and provided trainings		5,838	–
Cash paid to suppliers and employees		(751,575)	(506,928)
Taxes paid other than income tax		(111,143)	(98,396)
Net cash from operating activities		**214,357**	**195,555**
Cash flows from investing activities			
Purchase of property and equipment	6	(13,539)	(224,481)
Purchase of intangible assets	7	(4,849)	(4,752)
Net cash used in investing activities		**(18,388)**	**(229,233)**
Cash flows from financing activities			
Payment of principal portion of lease liability	18	(7,723)	–
Interest paid on lease liability	18	(4,128)	–
Net cash used in financing activities		**(11,851)**	**–**
Effect of exchange rates changes on cash and cash equivalents		1,284	(321)
Net increase/(decrease) in cash and cash equivalents		**185,402**	**(33,999)**
Cash and cash equivalents at the beginning of the year	8	31,972	65,971
Cash and cash equivalents at the end of the year	8	**217,374**	**31,972**

The accompanying notes on pages 5 to 18 are an integral part of these financial statements.

(in thousands of Armenian drams)

1. Corporate information

Foundation for Armenian Science and Technology (the "Foundation") was incorporated in the Republic of Armenia on 20 June 2017 as a not-for-profit organization and was set up in accordance with regulations of the Republic of Armenia.

The Founders of the Foundation are as follows:

- RVVZ Foundation;
- "AYB" Educational Foundation;
- Arthur Alaverdian;
- "Luys" cultural, scientific, educational foundation;
- Noubar Boghos Afeyan.

The Board consists of 7 members. As at 31 December 2019 the Foundation had 32 employees.

Foundation is conceived as a comprehensive platform to foster the technological and scientific breakthrough in Armenia and beyond. Foundation aims to revive the Armenia's strong science, technology, engineering and mathematics traditions, establishing a favourable regime for the innovative environment, fostering science and technology education, and actively developing a venture capital ecosystem. One of the most pivotal tasks of Foundation is to engage tech and scientific communities in raising the profile of Armenia as a hub for technological and scientific discoveries and developments.

The Foundation's address is Hakob Hakobyan str., 3 Building, Yerevan, 0033, Republic of Armenia.

2. Basis of preparation of financial statements

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Foundation is required to maintain its records and prepare its financial statements for regulatory purposes in Armenian drams ("AMD") in accordance with Armenian accounting legislation and related instructions.

The financial statements have been prepared under the historical cost convention as disclosed in the accounting policies below.

The financial statements are presented in thousands of Armenian drams and all values are rounded to the nearest thousand, unless otherwise indicated.

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks.

Advance payments

The Foundation receives advance payments in the scope of organised projects, which are carried at original invoice amount and generally are short term.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

Depreciation of an asset begins when the asset is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Class	***Useful lives in yeas***
Machinery and equipment	5-8 years
Vehicles	10 years
Office equipment	5-8 years
Other fixed assets	5-8 years
Leasehold improvement	Shorter of useful life and the term of underlying lease

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and maintenance are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

When each major inspection is performed, its cost is recognized as a component in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income or expense in the year the asset is derecognized.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with indefinite useful lives are not amortized but tested for impairment annually either individually, or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The useful life of the intangible assets should be calculated since the asset becomes ready to use. The amortization ends on earlier of the dates:

a) When the intangible asset is classified as held for sale;

b) When the intangible asset is derecognized.

The terms for useful life are as follows:

Class	***Useful lives in yeas***
Software	5-8 years
Licenses	1-5 years
Other intangible assets	5-10 years

Financial assets and liabilities

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The Foundation has financial assets such as cash and cash equivalents, which arise directly from its operations.

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired;
- The Foundation has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Foundation either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Foundation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Foundation's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Foundation could be required to repay.

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Foundation's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding. IFRS 9 requires the Foundation to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. The allowance for bank accounts and deposits is calculated based on bank's Long-term counterparty risk rating.

Financial liabilities are initially recognized at fair value less directly attributable transaction costs and have not been designated as 'at fair value through profit or loss'.

The Foundation's principal financial liabilities comprise accounts payable. A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Accounts payable and provisions

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognized initially at fair value and subsequently carried at amortised cost using the effective interest method.

Provisions are recognized when the Foundation has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Foundation has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Foundation. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss for the year.

Incoming resources

Restricted income funds are received for particular purpose and are not available for general use of the Foundation. These funds are initially recorded as a liability and recognized as revenue in the statements of comprehensive income as long as Foundation performs obligations prescribed by restricted funds donations agreements. As a rule revenue from such donations are recognized simultaneously with related costs incurred to perform obligations. One form of restricted funds is an "Endowment fund", which provided to finance acquisition of property, plant and equipment and intangible assets to be used in the Foundation's activities. Endowment Fund donations are recorded initially as a liability and recognized as revenue in the statement of comprehensive income in line with recognition of depreciation and amortization expenses for respective assets. Unrestricted income funds are available for the general purposes as set out in Foundation's governing documents. Therefore, donations into the Unrestricted funds are recognized as revenue when there is sufficient evidence that a promise to donate was made and received.

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognized in manner that depicts the pattern of transfer of goods and services to customers. The amount recognized should reflect the amount to which the entity expects to be entitled in exchange for those goods and services. In order to meet the core principle of revenue recognition Foundation applies the following five-step model:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct;
- Determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer;
- Allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract;
- Recognize revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognized as the performance obligation is satisfied.

Equity

Equity of the Foundation at each reporting date represents its net assets at that date and generally consists from accumulated foreign exchange gains or losses. Net assets of the Foundation are not distributable to its founders neither in ordinary course of business nor at liquidation.

Expenditures

Fees, commissions and other expenses are generally recorded on an accrual basis when the service has been provided. Expenditures are recorded based on the applicable service contracts.

Employee benefits

Wages, salaries, contributions to the State budget of RA, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the respective services were rendered by the employees of the Foundation. Employees receive pension benefits from the State pension fund of the Republic of Armenia in accordance with the laws and regulations. Contributions are made by the Foundation to the Government's Pension fund at the statutory rates in force during the year. Such contributions are expensed as incurred.

Foreign currency transactions

The financial statements are presented in Armenian dram, which is the Foundation's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to general unrestricted income funds. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of Central Bank of Armenia on the date of the transaction are included in gains less losses from forex operations. The official CBA exchange rates as of 31 December 2019 and as of 31 December 2018 were as follows: 479.70 drams to 1 USD, 537.26 drams to 1 EUR and 7.77 drams to 1 RUR, respectively and 483.75 drams to 1 USD, 553.65 drams to 1 EUR and 6.97 drams to 1 RUR, respectively.

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

Changes in accounting policies

The Foundation applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Foundation has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of amendments is described below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Foundation is the lessor.

The Foundation adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Foundation applies the standard on office premise lease contract concluded in December 2017 with 5 years term.

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

Assets	
Property and equipment	34,400
Total assets	**34,400**
Liabilities	
Lease liabilities	34,400
Total liabilities	**34,400**
Equity	–
Total adjustment on equity	**–**

There is no impact on the statement of comprehensive income.

(a) Nature of the effect of adoption of IFRS 16

The Foundation has lease contract for office premise. Before the adoption of IFRS 16, the Foundation classified the lease at the inception date as operating lease. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term.

The Foundation recognized right-of-use asset and lease liability for the lease previously classified as operating lease. The right-of-use asset was recognized based on the amount equal to the lease liability, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liability was recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Foundation upon adoption of IFRS 16, which have been applied from the date of initial application:

i. Foundation as a lessee

Right-of-use assets

The Foundation recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Foundation is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Foundation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Foundation and payments of penalties for terminating a lease, if the lease term reflects the Foundation exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Foundation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Foundation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Foundation applies judgement in evaluating whether it is reasonably certain to exercise the option to renew.

Set out below, are the carrying amounts of the Foundation's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	***Lease liabilities***
As at 1 January 2019	**34,400**	**34,400**
Additions	−	−
Depreciation expense	(8,600)	−
Interest expense	−	4,128
Payments	−	(11,851)
As at 31 December 2019	**25,800**	**26,677**

The weighted average incremental borrowing rate applied to lease liability recognized at the date of initial application is 12%.

The Foundation had total cash outflows for leases of 11,851 in 2019 (2018: 8,048).

(in thousands of Armenian drams)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Interpretation did not have an impact on the financial statements of the Foundation.

4. Significant accounting judgements, estimates and assumptions

In the process of applying the Foundation's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Useful life of property and equipment

The Foundation assesses the remaining useful lives of items of property and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property and equipment recognized in endowment funds.

Impairment of assets and accounting for provisions

The Foundation regularly reviews its assets to assess impairment. The Foundation uses its experienced judgment to estimate the amount of any impairment loss where needed. Similarly, the Foundation estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of counterparties, or national or local economic conditions that correlate with defaults on assets. The Foundation uses its experienced judgment to adjust observable data for assets to reflect current circumstances.

Leases − estimating the incremental borrowing rate

The Foundation cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Foundation would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Foundation 'would have to pay', which requires estimation when no observable rates are available.

The Foundation estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

5. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Foundation's financial statements are disclosed below. The Foundation intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

The amendments to the definition of material is not expected to have a significant impact on the Foundation's financial statements.

(in thousands of Armenian drams)

6. Property and equipment

Property and equipment and related accumulated depreciation consist of the following:

	Machinery and equipment	*Vehicles*	*Leasehold improvement*	*Office equipment*	*Construction in process*	*Right-of-use assets*	*Other*	*Total*
Cost								
Balance as at 1 January 2018	**2,411**	**19,898**	**–**	**–**	**7,635**	**–**	**1,039**	**30,983**
Additions	30,081	–	28,702	52,354	89,484	–	22,602	**223,223**
Transfers	–	–	97,119	–	(97,119)	–	–	**–**
Balance as at 31 December 2018	**32,492**	**19,898**	**125,821**	**52,354**	**–**	**–**	**23,641**	**254,206**
Impact of IFRS 16 adoption	–	–	–	–	–	34,400	–	**34,400**
Balance as at 1 January 2019	**32,492**	**19,898**	**125,821**	**52,354**	**–**	**34,400**	**23,641**	**288,606**
Additions	4,489	–	4,029	2,973	–	–	2,048	**13,539**
Disposals and write-offs	(878)	–	–	(3,262)	–	–	(342)	**(4,482)**
Balance as at 31 December 2019	**36,103**	**19,898**	**129,850**	**52,065**	**–**	**34,400**	**25,347**	**297,663**
Accumulated depreciation								
Balance as at 1 January 2018	**(279)**	**(70)**	**–**	**–**	**–**	**–**	**(36)**	**(385)**
Depreciation charge	(3,416)	(1,990)	(10,292)	(2,357)	–	–	(861)	**(18,916)**
Balance as at 31 December 2018	**(3,695)**	**(2,060)**	**(10,292)**	**(2,357)**	**–**	**–**	**(897)**	**(19,301)**
Disposals and write-offs	12	–	–	344	–	–	46	**402**
Depreciation charge	(11,265)	(1,990)	(29,572)	(6,405)	–	(8,600)	(2,959)	**(60,791)**
Balance as at 31 December 2019	**(14,948)**	**(4,050)**	**(39,864)**	**(8,418)**	**–**	**(8,600)**	**(3,810)**	**(79,690)**
Net book value								
Balance as at 31 December 2018	**28,797**	**17,838**	**115,529**	**49,997**	**–**	**–**	**22,744**	**234,905**
Balance as at 31 December 2019	**21,155**	**15,848**	**89,986**	**43,647**	**–**	**25,800**	**21,537**	**217,973**

The gross book value of fully depreciated property and equipment that is still in use is 58 as at 31 December 2019 (2018: 58).

(in thousands of Armenian drams)

7. Intangible assets

Intangible assets and related accumulated amortization consist of the following:

	Software	*Web-site development*	*Licenses*	*Total*
Cost				
Balance as at 1 January 2018	**1,448**	**760**	**–**	**2,208**
Additions	2,839	–	1,222	**4,061**
Balance as at 31 December 2018	**4,287**	**760**	**1,222**	**6,269**
Additions	691	3,357	801	**4,849**
Balance as at 31 December 2019	**4,978**	**4,117**	**2,023**	**11,118**
Accumulated amortization				
Balance as at 1 January 2018	**(265)**	**(314)**	**–**	**(579)**
Amortization charge	(1,264)	(446)	(804)	**(2,514)**
Balance as at 31 December 2018	**(1,529)**	**(760)**	**(804)**	**(3,093)**
Amortization charge	(576)	(266)	(1,031)	**(1,873)**
Balance as at 31 December 2019	**(2,105)**	**(1,026)**	**(1,835)**	**(4,966)**
Net book value				
Balance as at 31 December 2018	**2,758**	**–**	**418**	**3,176**
Balance as at 31 December 2019	**2,873**	**3,091**	**188**	**6,152**

The gross book value of fully amortized intangible assets that is still in use is 3,499 as at 31 December 2019 (2018: 2,326).

8. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Currency	*31 December 2019*	*31 December 2018*
Current accounts in banks	USD	189,327	31,419
Current accounts in banks	AMD	28,047	553
Cash and cash equivalents		**217,374**	**31,972**

Current accounts are held at Ameriabank CJSC, which has a Long-term counterparty risk rating of Ba2.

9. Prepayments

Prepayments comprise the following:

	31 December 2019	*31 December 2018*
Prepayments for web-site development	5,264	–
Prepayments for insurance	3,034	1,558
Prepayments for professional services	2,970	650
Advance payments to employees	452	5,411
Other prepayments	3,224	3,628
Total prepayments	**14,944**	**11,247**

(in thousands of Armenian drams)

10. Restricted and unrestricted funds

Restricted income funds are received for particular purpose of donations and are not available for general use of the Foundation. The amount of restricted income funds that will be used in future for its particular designated purpose as at 31 December 2019 equals 138,616 (2018: 0).

One form of a restricted fund is an “endowment”. This fund represents restricted donations invested into acquisition of property and equipment and intangible assets for the use in ordinary activities of the Foundation. The amount of endowment funds as at 31 December 2019 equals 224,125 (2018: 238,081).

Unrestricted income funds are available for the general purposes of donations as set out in Foundation’s governing documents. The general fund is free to use for any of the donation’s purposes.

Gain from exchange differences from income funds received for the year ended 31 December 2019 equals 1,284 (2018: 0).

11. Accounts payable and provisions

Accounts payable and provisions comprise the following:

	31 December 2019	*31 December 2018*
Unused vacation reserve	47,512	25,518
Tax payables	14,550	10,970
Trade payables	1,237	3,790
Other	413	26
Total accounts payable and provisions	**63,712**	**40,304**

Accounts payable are mainly denominated in AMD, are non-interest bearing and are generally on 30-60 days term.

12. Incoming resources from donations

Resources received from donations comprise:

	2019	*2018*
Individuals	239,102	366,536
Armenian companies	800,920	434,343
Foreign companies	31,215	–
	1,071,237	**800,879**
Non-cash donations		
Non-cash donations received from individuals	–	1,421
Non-cash donations received from Armenian companies	–	339
Total resources received from donations	**1,071,237**	**802,639**

Resources recognized as incoming resources from unrestricted donations in the Statement of comprehensive income for 2019 in the amount of 824,042 (2018: 570,271) represent the donations used during the reporting period. Resources recognized as incoming resources from restricted donations in the Statement of comprehensive income for 2019 in the amount of 59,454 (2018: 57,101) represent the donations used during the reporting period. Resources recognized as incoming resources from endowment donations in the Statement of comprehensive income for 2019 equal 66,744 (2018: 21,430).

(in thousands of Armenian drams)

13. Administrative and other expenses

Administrative and other expenses comprise the following:

	2019	*2018*
Staff costs	411,748	328,741
Depreciation and amortization	62,664	21,430
Business trip expenses	57,521	41,822
Vacation reserve costs	47,787	30,008
Office supplies and utility costs	11,433	5,583
Marketing expenses	6,723	6,404
Professional services	5,160	54,644
Banking and insurance expenses	4,819	2,546
Loss on property and equipment disposal	4,080	–
Post and communication	4,069	1,987
Other	55,796	10,514
Total administrative and other expenses	**671,800**	**503,679**

14. Project related expenses

Project related expenses comprise the following:

	2019	*2018*
Event organization expenses	72,860	56,254
Travelling expenses	44,772	34,590
Staff costs	42,085	3,190
Travel grants expenses	34,186	–
Fellowship expenses	30,137	15,003
Marketing expenses	30,084	12,117
Rental expenses	6,480	18,184
Other	17,877	5,785
Total project related expenses	**278,481**	**145,123**

15. Commitments, contingencies and operating risks

Operating environment of the Foundation

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Management believes it is taking appropriate measures to support the sustainability of the Foundation’s business in the current circumstances.

Legal proceedings

During the year, the Foundation was not involved in court proceedings arising in the ordinary course of its activity. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have any effect on the result of operations or financial position of the Foundation and which have not been accrued or disclosed in these financial statements.

16. Financial risk management

The Foundation’s principal financial assets comprise cash and cash equivalents. The main purpose of these financial instruments is to use them for Foundation’s donation activity. The Foundation has also financial liabilities such as accounts payable, which arise directly from its operations.

The main risks arising from the Foundation’s financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Trustees monitors each of these risks which are summarized below.

Interest rate risk

The Foundation’s income and operating cash flows are substantially independent of changes in market interest rates.

(in thousands of Armenian drams)

16. Financial risk management (continued)

Foreign exchange risk

The Foundation attracts significant foreign currency denominated donations from donors, therefore it is exposed to foreign exchange risk in that respect. In the period from 1 January 2019 till 31 December 2019 the Foundation had significant currency transactions regarding payments for services and equipment.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, will all other variables held constant, of the Foundation’s profit (due to changes in the carrying amount of monetary assets and liabilities).

2019	***Change in rate, (%)***	***Effect on profit***
US Dollar	3	5,648
Euro	6,5	44
US Dollar	(3)	(5,648)
Euro	(6,5)	(44)

2018	***Change in rate, (%)***	***Effect on profit***
US Dollar	5	1,568
Euro	5	3
US Dollar	(5)	(1,568)
Euro	(5)	(3)

The Foundation does not have any arrangements to mitigate foreign exchange risks of the Foundation’s operations and is exposed to foreign exchange risk to the extent of open currency position.

Credit risk

The Foundation cooperates only with recognized, creditworthy third parties.

The Foundation’s exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of respective financial instruments.

Liquidity risk

The Foundation conducts ongoing monitoring of risk of losses resulting from its inability to fulfil its financial obligations in full due to shortage of liquidity assets. Foundation’s financial liabilities comprise financial payables that have maturity less than one month.

17. Fair value of financial instruments

Fair values of cash and cash equivalents and accounts payable approximate their carrying amounts due to their short maturity.

The Foundation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(in thousands of Armenian drams)

17. Fair value of financial instruments (continued)

Fair value hierarchy for financial instruments measured at value, which approximates their fair values as at 31 December 2019:

	Total	***Level 1***	***Level 3***
Assets for which fair values are disclosed			
Cash and cash equivalents	**217,374**	217,374	–

	Total	***Level 1***	***Level 3***
Liabilities for which fair values are disclosed			
Other financial payables	**1,237**	–	1,237

Fair value hierarchy for financial instruments measured at value, which approximates their fair values as at 31 December 2018:

	Total	***Level 1***	***Level 3***
Assets for which fair values are disclosed			
Cash and cash equivalents	**31,972**	31,972	–

	Total	***Level 1***	***Level 3***
Liabilities for which fair values are disclosed			
Other financial payables	**3,816**	–	3,816

18. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Foundation's Founders are disclosed in Note 1. Other related parties represent entities related to the Founders. Related parties may enter into transactions which unrelated parties might not. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Foundation has appropriate procedures in place to identify and properly disclose transactions with related parties.

The volumes of related party transactions, related expenses and income for the period from 1 January 2019 till 31 December 2019 are as follows:

	Key management personnel	***Other related parties***
Statement of financial position		
Cash and cash equivalents	–	217,374
Advances received	–	119
Statement of comprehensive income		
Administrative and other expenses (Staff costs)	324,841	–
Administrative and other expenses (Other expenses)	–	1,108
Statements of cash flows		
Cash receipts from donors	118,955	914,148

(in thousands of Armenian drams)

18. Related party transactions (continued)

The volumes of related party transactions, related expense and income for the period from 1 January 2018 till 31 December 2018 are as follows:

	Key management personnel	*Other related parties*
Statement of financial position		
Cash and cash equivalents	–	31,972
Statement of comprehensive income		
Administrative and other expenses (Staff costs)	198,373	–
Administrative and other expenses (Professional services)	–	51,979
Statements of cash flows		
Cash receipts from donors	1,421	795,879

The Foundation enters into transactions with related parties under terms equivalent to those that prevail in arm's length transactions. Most of related party transactions relate to charity donations received. Outstanding balances at year-end are unsecured and settlement occurs in cash.

19. Changes in liabilities arising from financing activities

	Note	*Total liabilities from financing activities*
Carrying amount at 31 December 2018		**–**
Recognition of lease liability	3	34,400
Payment of principal portion of lease liability		(7,723)
Interest paid on lease liability		(4,128)
Other		4,128
Carrying amount at 31 December 2019		**26,677**

The "Other" line includes the effect of accrued interest on lease liability.

20. Events after the reporting period

There were no events after the reporting period that may require adjustment of or disclosure in the Foundation's financial statements for the year ended 31 December 2019.