

**Babushka Adoption
Public Charity Fund**

INDEPENDENT AUDITOR REPORT

We have performed audit of the enclosed financial reports of Babushka Adoption Public Charity Fund consisting of accounting balance report as of December 31, 2007, profit and loss report, and the cash flow report for the year expiring on the mentioned date. The Public Fund management bears full responsibility for reliability of the financial reports submitted. We bear responsibility for our opinion regarding the above reports based on findings of the audit performed.

We performed audit in accordance with the International Audit Standards. These standards oblige us to plan and carry out audit in a manner allowing reasonable confidence that the reports submitted contain no any substantial distortion. Audit includes examination based on the testing of proofs of amounts and disclosures contained in the reports. Audit also includes evaluation of accounting principles and substantial assessed values presented by the management, as well as evaluation of general idea of financial reporting. We believe that findings of the audit presents sufficient basis for our opinion.

In our opinion, the financial reports represents true and unbiased picture of the Babushka Adoption's financial status as of December 31, 2007, as well as outcomes of the Fund's economic activities and cash flow for the year expiring on the mentioned date, in accordance with the International Financial Reporting Standards.

Optima Audit LLC

License No 0050 of 11.15.2007

Registration Certificate 58373-3301-000

Ministry of Justice of the Kyrgyz Republic

Of 08.10.2007

Elena Puhireva, Director,

Optima Audit LLC

Bishkek, Kyrgyzstan

Certificate No 00118

Of 12.25.2006

March 14, 2008

Accounting Balance Statement
of Babushka Adoption Public Charity Fund
as of December 31, 2007
(data presented in Kyrgyz soms)

ASSETS	December 31, 2007
<i>1. Floating assets</i>	
Funds	4,339,727
Inventory	75,950
Floating assets total	<u>4,415,677</u>
<i>2. Non-negotiable assets</i>	
Book value of main assets	1,412,560
Book value of intangible assets	10,447
Non-negotiable assets total	<u>1,423,007</u>
ASSETS TOTAL (section 1 + section 2)	<u>5,838,684</u>
<i>3. Current liabilities</i>	
Other current liabilities	68,337
Total of section 3, Current Liabilities	<u>68,337</u>
<i>4. Long-term liabilities</i>	
Long-term liabilities	5,770,347
Long-term liabilities total	<u>5,770,347</u>
LIABILITIES TOTAL	<u>5,838,684</u>
<i>5. Owned capital</i>	
Owned capital total	<u>0</u>
LIABILITIES AND OWNED CAPITAL TOTAL	<u>5,838,684</u>

A.T. Mambetalieva _____
**Director, Babushka Adoption Public Charity
Fund**

S.N. Mezentseva _____
**Chief Accountant, Babushka Adoption Public
Charity Fund**

Profit and Loss Report
of Babushka Adoption Public Charity Fund
as of December 31, 2007
(data presented in Kyrgyz soms)

Indicator	For the reporting period
<i>Main operating activity type</i>	
Proceeds	0
Service provision cost	0
Gross profit	0
<i>Operating costs for the period</i>	
General administrative costs	7,986,013
Operating costs total	7,986,013
Operating activities profit/loss	-7,986,013
<i>Non-operating activities income and expenditures</i>	
Investment income	7,084,670
Income/loss from exchange rate difference in foreign currency transactions	141,343
Other non-operating incomes and expenditures	760,000
Non-operating activities incomes and expenditures total	7,986,013
Income/loss before taxation	0
Profit tax expenditures	0
Net profit/loss for the reporting period	0

A.T. Mambetalieva _____

Director, Babushka Adoption Public Charity Fund

S.N. Mezentseva _____

Chief Accountant, Babushka Adoption Public Charity Fund

Cash Flow Report

of Babushka Adoption Public Charity Fund

as of December 31, 2007

(data presented in Kyrgyz soms)

Indicator	Reporting period
1. Operating activities	
Proceeds from product, work and service sale	0
Other receipts from operating activities	0
Gross operating activities receipts total	0
Reimbursed operating costs	
Payments for supply	
Reimbursed operating costs	7,794,500
Other payments for operating activities	
Profit tax payment	
Other drawn out cash	
Gross operating activities payments total	7,794,500
Net operating activities cash flow	-7,794,500
2. Investment activities	
Security sale proceeds	
Interests and dividends	
Repayment of loans and receivable bonds	
Other proceeds from investment activities	7,442,028
Gross investment activities proceeds total	7,442,028
Payments made in main assets purchase	155,833
Loan provision	
Gross investment activities payments total	155,833
Investment activities net cash flow	7,286,195
3. Financial activities	
Founders' contribution	
Credits and loans received	
Gross financial activities proceeds total	0
Credit and loan repayment	
Financial activities gross payments total	0
Financial activities net cash flow	
Unrealized profit and loss from exchange rate difference	141,343
Net funds status change	- 366,962
<i>Balance funds available by the reporting period end</i>	<i>4,339,727</i>
<i>Balance funds available by the beginning of the reporting period</i>	<i>4,706,689</i>

A.T. Mambetalieva _____

Director, Babushka Adoption Public Charity
Fund

S.N. Mezentseva _____

Chief Accountant, Babushka Adoption Public
Charity Fund

In accordance with its obligations under Agreement No. 2 of January 18, 2008, Optima Audit LLC performed audit of financial reports of Babushka Adoption Public Charity Fund (“Fund”) for the year 2007.

In accordance with the terms of reference, the purpose of the audit is to confirm the following:

- correspondence between the Fund’s basic documents and accounting and tax data;
- availability of proper document support of expenditures incurred by the Fund;
- appropriate accounting level in accordance with International Financial Reporting Standards.

The following documents for the period from 01.01.2007 to 31.12.2007 were provided to us for audit purposes:

- constituent documents;
- basic cash documents (in local currency, euro and US dollars);
- bank documents (bank certificates on multicurrency account No. 1181000300048642 issued by DKIB-Center of Demir Kyrgyz International Bank);
- bank documents of Demir-Halk Bank (Nederland) N.V.;
- agreements, orders and instructions;
- tax reports;
- reports to Social Fund;
- documents confirming transfer of sponsor funds to pensioners in the Fund’s care;
- documents confirming expenditures incurred by the Fund during the period.

The Annex below contains transcripts of certain items of the Fund’s financial reports as well as certain points related to the Fund’s activities.

ANNEX TO THE INDEPENDENT AUDITOR REPORT

Section 1. Fund’s Activities Basis

Babushka Adoption Public Charity Fund is a legal entity in accordance with the Kyrgyz Republic laws, registered with the Kyrgyz Republic Ministry of Justice on July 27, 2000. The Fund is a non-profit organization not aimed at producing any profit. All incomes received by the Fund in the course of its activities are used for implementation of its chartered objectives.

Section 2. Methodological Basis to Reflect Transactions

The audit allowed finding out that the Fund’s accounting policy approved in 2003 did not completely disclose specific features of reflection of certain financial and economic activity operations of the Fund, neither did that serve as a sufficient basis to reflect certain operations related to the Fund’s activities.

Such operations include the following:

1. Procedures for classification of wearing and not valuable assets and main assets
2. Procedures to reflect funding received
3. Procedures to reflect exchange rate difference in foreign currency transactions.

In accordance with the Law on Accounting (No. 76, April 29, 2002), one of the major goal of accounting is adopting an accounting policy and its further consistent implementation by all legal entities existing in the Kyrgyz Republic.

Furthermore, Decree No. 6 of the Kyrgyz Republic Government Commission for Financial Reporting Standards of March 26, 2002, On Approval of Recommendation for Entity Accounting Policy Development also sets forth that economic entities shall on their own develop an accounting policy that fits them and is best able to reflect their financial status and operations outcomes.

Therefore, we recommend modifications to the current Accounting Policy so that it completely reflects special features of the Fund’s operations.

Section 3. Fund's Activities Funding Sources

During the year 2007, the Fund received funding from the following sources:

- local and foreign organizations and individuals (sponsors)
- OSCE
- International Women's Club.

Total funding provided in 2007 amounted to 7,084,670 (as converted to the local currency based on the Kyrgyz Republic National Bank exchange rate).

Section 4. Authorized Use of Funds

Fund's goals

In accordance with the Fund's Charter approved by Minutes of Meeting of the Babushka Adoption Public Charity Fund Supervisory Council on 14.06.2002, the Fund pursues the following objectives:

- providing assistance to needy and lonely people
- improvement of material status of aged and elderly people and those with low income
- social rehabilitation of aged, elderly and disabled persons
- helping those in natural disasters, social and ethnic conflicts, refugees, and forced migrants
- engagement in international charity projects, as well as in activities lead by international charity organizations.

To fulfill the above listed objectives, the Fund may carry out the following activities:

- providing financial support to pensioners with low income
- providing health care services to lonely, aged and elderly persons
- arrangement of free catering for lonely, aged and elderly persons
- other.

Fulfillment of Fund's objectives

We performed a total inspection of the Fund's basic documents confirming the nature and amounts of expenditures related to fulfillment of its objectives. According to basic documents, expenditures were incurred in carrying out of the following activities:

- charitable payments to pensioners in care
- activities aimed at arrangement of the Fund's functioning (administrative costs).

Charitable payments to persons in care

In the course of audit, we carried out specific measures which confirmed that procedures of providing financial support to pensioners were in line with all regulations applied to such activities, particularly:

- all payments to pensioners are supported with signatures
- nature and amounts of such payments have appropriately been disclosed in the provided basic documents.

Our activities included trips with the Fund's staff to sites where meetings were arranged with persons in care to make charitable payments to them. We also interviewed some persons in care who acknowledged regular material support provided by the Fund. They also expressed their appreciation and gratitude towards those providing financial support.

As for persons unable to attend such meetings due to their physical condition, staff attended their homes.

Furthermore, during the whole reporting period (01.01.2007 to 31.12.2007), we performed a total inspection and calculations of payments to persons in care as reflected in registers. No variance was found in data comparing to those reflected in the Fund's accounting records.

Administrative costs

All expenditures were incurred by the Fund in cash. Supporting documents were completed appropriately: receipts, checks and invoices were provided to confirm nature and amounts of expenditures incurred. Where payments were made to individuals, their signatures on receipts, agreements and copies of patents (in case of patent-based business) were presented to confirm such payments.

Thus, according to the inspection findings, the Fund incurred its expenditures for the set purposes and in line with terms and conditions of the Fund financing.

Section 5. Submission of financial reports and accounting procedures

The Fund's accounting procedures are in line with International Financial Reporting Standards. The accountant followed all main principles of accounting and financial reporting.

Basic documents were as well completed in accordance with legal requirements: cash receipts and expenditure orders contain necessary information which demonstrates appropriate level of operation supervision by the Fund. Expenditures incurred by the Fund are supported with receipts and other supporting documents.

Thus, the Fund's accountant's high professional level was also noted in audit.

Section 6. Transcripts of certain financial reporting items

This section contains transcripts of certain items of financial reports.

“Funds” item in accounting balance statement

Funds of the Fund are presented in cash currency in the Fund's cash boxes in Bishkek and Batken as well as by funds on the Fund's settlement accounts.

We acknowledged the Fund's cash balance in Bishkek during the inventory check performed in cooperation with the Fund's management. The Fund's staff also performed cash inventory check in Batken office of which a statement was submitted for our examination.

Cash balance on the office's accounts is confirmed by bank certificates.

In preparation of financial reports, cash in foreign currency was converted into local currency based on the Kyrgyz Republic National Bank rate effective on December 31, 2007.

The table below shows the currency rates the Fund used to convert foreign currency amounts for the financial reporting purposes:

Currency	NBKR rate of 31.12.07 года
Swiss francs	31.2723
US dollars	35.4988
Euro	52.0111

The following table shows the Fund's cash balance as of 31.12.2007 with account of conversion:

Cash custody places	In foreign currency	In local currency
Cash box, soms		19,745.83
Euro	75.00	3,900.83
US dollars	700.00	24,849.16
Cash total		48,495.82
Demirbank, soms		5,912.42
Demirbank,, Swiss francs	978.54	30,601.20
Demirbank, euros	7,585.57	394,533.84
Demirbank, US dollars	597,97	21,227.22

UBS, Swiss francs	63,286.16	1,979,103.78
UBS, euros	18,040.95	938,329.66
UBS, US dollars	25,959.27	921,522.93
Total of cash on accounts		4,291,231.05
Cash balance total		4,339,726.87

Thus, the Fund's total cash balance as of 31.12.2007 is 4,339,726.87 soms.

Balance statement item "Inventory"

According to Fund, inventory stock includes subjects of labor with over 1 year of useful life and value of over 30 minimum wages (3,000 soms) but less than 5,000 soms, as well as goods produced as a result of the Fund's activities (carpets).

The following balance of inventory stock was recorded as of 31.12.2007:

goods (carpets)	115,917 soms
Unrealized extra charge	- 39,967 soms

Total	75,950 soms
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Balance statement item "Main Assets"

The Fund's main assets accounting was kept in accordance with Article 16 of IFRS "Main Assets": main assets should be reflected with their initial cost minus accumulated wear. The Fund applies straight-line method for wear accrual.

The Fund applies the following method for main assets classification:

- main asset is that with over 1 year of useful life
- asset value exceeds 50 minimum wage amounts (5,000 soms).

The following categories of main assets are presented in financial reports as of 31.12.2007 (in the table below):

Category	Book value as of 31.12.2007 (soms)
Computers	163,405.99
Office equipment	15,307.19
Motor vehicles	192,236.64
Buildings and facilities	1,041,610.40
Main assets total	1,412,560.22

Regarding the Buildings and Facilities category, the report reflects book value of the Fund's office in amount of 319,610.02 soms and a house inherited by the Fund in amount of 722,000 soms.

Balance statement item "Non-negotiable Assets"

The Fund reports 1C Accounting Software as a non-negotiable asset with book value 10,446.54 soms as of 31.12.2007.

Balance statement item "Current Liabilities"

The Current Liabilities item reflects funds in amount of USD 1,925.04 (68,336.61 soms) transferred by an individual to the Fund's account in USB by mistake and due to return.

Balance statement item "Long-term Liabilities"

The balance of unspent donor funds acknowledged by auditors amounted to 5,514,777 soms by the beginning of the reporting period.

Total funding provided to the Fund in 2007 amounts to 7,084,670 soms.

Expenditures incurred by the Fund in 2007:

Sponsor support	4,435,200 soms
Administrative costs	1,720,110 soms
Other costs	2,316,843 soms
Total	8,472,153 soms

Administrative costs in 2007 included the following:

Office rent	22,907.48
Bank services	21,280.33
IT-specialist's remuneration	26,400
Auditors' remuneration	32,181.53
Legal adviser's remuneration	700
Travel expenditures	27,378
Correspondence shipment	47,203.05
Representation expenses	6,269.56
Other costs and administrative costs	95,260.44
Internet	24,143
Stationery	4,084
Communication (phone, fax)	22,693
A staff member treatment	6,000
Salaries, Batken	172,809.66
Utilities	10,051.23
Computer hardware and software and office equipment	28,750.77
Vehicle maintenance	97,190.5
Web-page maintenance	3,258.4
Staff training	14,350
Taxes and benefits payment	250
Contributions to Social Fund, Batken	199,645.1
Insurance fees	18,486.6
Salaries	828,687.74
Main assets writing-off	4,475.61
Office cleaning	400
Administration transport expenses	5,245
Fines, penalties	9
Administrative costs total	1,720.110

Other expenses included those related to exchange rate differences in foreign currency transactions (508,189 soms), main assets amortization (172,980), and amount of 1,635,673 soms reflected in balance statement as the 2006 balance entry.

Taking into account the funding provided and expenses incurred, **according to the balance statement as of 31.12.2007, the balance of unspent donor funds was as follows:**

Budget funds for administration	1,189,982 soms
Sponsor funds for those in care	4,580,365 soms
Total	5,770,347 soms

However, it should be noted that funding balance presented in the accounting balance statement do not correspond with actual budget balance as of 31.12.07 as the item was formed with account of other Fund's incomes and expenditures (those related to exchange rate differences in foreign currency transaction, amortization, 2006 balance entry).

In our opinion, to have the full picture of budget funds use the Fund should develop budget in Kyrgyz soms, and, when preparing the Budget Execution Report, reflect the amount of funding received and expenses incurred by the Fund based on actual exchange rate effective on the date of cash withdrawal.

In this case, the funding balance reflected in the Fund's accounting records will not correspond with the Budget Execution Report since these reports are developed based on different principles.

Thus, in accordance with the Kyrgyz Republic laws, in preparing financial reports (accounting balance statement), figures should be reflected such as main assets amortization and exchange rate differences, where currencies should be converted at the Kyrgyz Republic National Bank official exchange rate which is at all times different from that of market and banks which convert and withdraw the Fund's cash.

However, in preparing the Budget Execution Report, figures such as amortization should not be taken into account. Actual exchange rate used for actual currency exchange should be applied.

The Profit and Loss Report item "Non-operating Income"

In this item, the Fund has presented the income from the inherited property (barracks type house). According to the independent valuator statement, the assessed value of the house is 760,000 soms.

Section 7. Budget Execution

The table below presents the 2007 budget execution by the Fund (in US dollars):

Expenditures	Approved budget	Actual expenditures	Budget balance
Administrative costs total	9,860.00	11,596.33	-1,736.33
Office rent (Bishkek, Batke)	1,200	600	600.00
Office repairs and maintenance (Bishkek, Batke)	500	675.39	-175.39
Utilities	500	284.10	215.90
Stationery	300	108.14	191.86
Communication (phone, fax)	1,500	596.73	903.27
Internet	800	713.78	86.22
Travel expenses	1,000	718.46	281.54
Representation costs	500	275.34	224.66
Bank services	1,200	502.34	697.66
Office equipment: purchase, repairs and maintenance	500	4,839.28	-4,339.28
Other administrative costs	600	1,184.22	-584.22
Transport	260	156.55	103.45
Auditors' remuneration	700	842	-142.00
IC Software maintenance and support	300	100	200.00
Total for Babushka Adoption program activities	132,530.00	155,780.03	-23,250.03
Charitable payments to old women	95,000	119,790.11	-24,790.11
Vehicle maintenance, Bishkek	1,600	2,074.70	-474.70
Training (Bishkek, Batken)	1,500	460.10	1,039.90
Fuel, vehicle maintenance, Batken	1,800	549.45	1,250.55
Salaries, social insurance fees (Bishkek, Batken)	32,630	32,905.67	-275.67
Total for Fundraising	2,000	2,542.97	-542.97
Project promotion (letters, posters, brochures)	2,000	2,542.97	-542.97
Total	144,390.00	169,919.33	-25,529.33

According to the above data, the 2007 budget was approved in amount of USD 144,390. The Fund actual expenditures amounted to USD 169,919.33. The budget surcharge amounted to USD 25,529.33.

The surcharge is explained by the increasing number of persons in care in 2007. Due to that increase, the Fund's administrative costs increased respectively (salaries, project promotion, office repairs and maintenance, and other expenses). The audit costs increased due to audit services prices change in the Kyrgyz Republic.

Elena Puhireva, Director,

Optima Audit LLC _____