

**Babushka Adoption
Public Charity Fund**

INDEPENDENT AUDITOR REPORT

We have performed audit of the attached financial statements of Babushka Adoption Public Charity Fund consisting of accounting balance statement as of December 31, 2008, profit and loss report, and the cash flow report for the year expiring on the mentioned date. The Public Fund management is fully responsible for reliability of the financial statements 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 do not contain any substantial distortion. Audit included examination based on the testing of proofs of amounts and disclosures contained in the reports. Audit also included 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 constitutes sufficient basis for our opinion.

In our opinion, the financial statements represent true and unbiased picture of the Babushka Adoption's financial status as of December 31, 2008, 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 issued on 15.11.2007.

Registration Certificate No.58373-3301-000

issued by the Kyrgyz Republic Ministry of Justice
on 10.08.2007.

Elena Puhireva, Director,

Optima Audit LLC _____

Certificate No. 00118

issued on 25.12.2006.

March 25, 2009.

In accordance with its obligations under Agreement No. 16 of January 20, 2009, Optima Audit LLC performed audit of financial statements of Babushka Adoption Public Charity Fund (“Fund”) for the period from 01.01.2008 to 31.12.2008.

The purpose of the audit was to confirm the following:

- correspondence between the Fund’s source 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 01.01.2008 to 31.12.2008 were provided to us for audit purposes:

- constituent documents;
- cash source documents;
- bank documents;
- 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 1 hereto below contains transcripts of certain items of the Fund’s financial reports as well as certain points related to the Fund’s activities.

ANNEX 1.

SECTION 1. FUND’S ACTIVITIES BASICS

Babushka Adoption Public Charity Fund is a non-profit organization (in accordance with the Kyrgyz Republic laws) 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. FUNDING SOURCES FOR THE FUND’S ACTIVITIES

Total funding provided in 2008 amounted to **12,486,149.26 soms** (as converted to the local currency based on the Kyrgyz Republic National Bank exchange rate). Funds were received from the following sources (see the table below):

Table “Funding in 2008”

Funding source	Amount (som equivalent)
Fundraising and sale of the inherited house	1,801,088.00
Sponsors (national and international organizations and individuals)	10,685,061.26
Total	12,486,149.26

Fundraising included:

the house sale for USD 45,000

charitable event – USD 2,700 (tickets sold to foreign and local citizens, lottery)

presents from the Fund’s friends for administrative costs in amount of USD 700

SECTION 3. APPROPRIATE USE OF FUNDS

Fund's goals

According to the Fund's Charter approved by Minutes of Meeting of the Babushka Adoption Public Charity Fund Supervisory Council on 14.06.2002 and re-registered with the Kyrgyz Republic Ministry of Justice on 23.10.2008, 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.

The Fund is entitled to 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 the Fund's objectives

According to the audit findings, the Fund carried out the following activities in 2008:

- charitable assistance to pensioners in care
- activities aimed at the Fund operation management (administrative costs).

Charitable payments to pensioners in care

The audit was aimed to confirm that procedures of providing financial support to pensioners were in line with all regulations applied to such activities, particularly:

- source documents include those certifying that charitable support was actually received by the person in care (pensioners' signatures)
- nature and amounts of such payments have appropriately been disclosed in the provided source documents.

Auditors had trips with the Fund's staff responsible for payments to pensioners in care in order to assess the procedure of such payments.

Based on results of the said trips, a conclusion may be made that the payment and support delivery procedures are appropriate: persons in care acknowledged the receipt of support by their signatures. In case of absence of persons in care, funds were not given to other persons and were kept until next payment.

Persons in care expressed their appreciation and gratitude towards the Fund and handed over their letters of gratitude and congratulations.

Administrative costs

Administrative costs were paid for by the Fund in cash (except for deductions to the Social Fund and income tax paid from the settlement account). Supporting documents were provided for all expenditures: receipts, checks and invoices.

Costs reimbursed to social workers for their transportation to persons in care for assistance at home are supported by signatures of persons who received the money.

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

SECTION 4. FINANCIAL REPORTING 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.

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

SECTION 5. TRANSCRIPT OF CERTAIN FINANCIAL REPORTING ITEMS

“Funds” item in accounting balance statement

Funds of the Fund are kept in cash in the Fund's cash boxes in Bishkek head office and and Isfana branch office, Batken, as well as on the Fund's settlement accounts.

We recorded the cash balance in the Fund's cash box in Bishkek within the cash inventory process. Necessary deeds were provided by the Fund regarding the Batken branch office.

Cash balance on the Fund's accounts were confirmed by bank certificates.

In financial reporting process for 2008, cash in foreign currency was converted into local currency at the Kyrgyz Republic National Bank rate as of December 31, 2008.

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

Table “Exchange Rate as of 31.12.2008”.

Currency	NBKR rate as of 31.12.08
Swiss francs	36.6799
US dollars	39.4181
Euro	55.4790

The following table shows the Fund's cash balance as of 31.12.2008 with account of conversion:

Table “Cash Balance as of 31.12.2008.».

Cash custody places	Foreign currency	Local currency
Cash box. soms		118,069.83
Euro	1,045.00	57,975.56
US dollars	180.00	7,095.26
Cash total		183,140.65
Demirbank, soms		11,802.47
Demirbank, Swiss francs	978.54	35,892.75
Demirbank, euros	4,223.07	234,291.7
Demirbank, US dollars	160.70	6,334.49
Halyk Bank, Holland, Euro	5,430	301,250.97
UBS, Swiss francs	112,864.33	4,139,852.34
UBS, euros	26,230.66	1,455,250.79
UBS, US dollars	18,262.13	719,858.47
Total of cash on accounts		6,904,533.98
Cash balance total		7,087,674.63

Thus, the Fund's total cash balance as of 31.12.2008 is 7,087,674.63 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.

Inventory balance is 7,530 soms as of 31.12.2008.

Inventory balance was confirmed during the inventory process conducted jointly with the Fund staff.

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 the 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 31.12.2008 (in the table below):

Table “main Assets as of 31.12.2008.

Category	Book value as of 31.12.2008 (soms)
Building	306,815.74
Equipment	7,516.77
Office equipment	167,350.78
Furniture and accessories	10,999.92
Vehicles	157,495.08
Main assets total	650,178

The availability of main assets in the Fund’s Bishkek office was confirmed during the inventory process conducted by auditors jointly with the Fund staff. The availability of main assets in the Isfana office was confirmed by the inventory deed prepared by the board consisting of the Batken branch staff.

Balance statement item “Current Liabilities”

The Fund has no any current liabilities as of 31.12.2008.

Balance statement item “Long-term Liabilities”

The balance of unspent donor funds acknowledged by auditors amounted to 5,770,347 soms by the beginning of the reporting period.

Total funding provided to the Fund in 2008 amounts to 11,737,077 soms.

The table below shows the Fund’s expenditures in 2008:

Table “Fund’s Expenditures in 2008”.

Expenditure item	Amount, soms
Sponsor support to people in care	5,506,367.54
Administrative costs	1,672,437.24
Costs related to exchange rate	421,958.62
Main assets amortization	140,644.89
Total	7,741,408.29

Administrative costs in 2008 included the following (soms):

Table “Fund’s Administrative Costs in 2008”.

Expenditure item	Amount
Bank services	24,711.35
IT-specialist's remuneration	32,400.00
Auditors' remuneration	28,871.20
Staff material support	5,000.00
Postage	56,666.99
Other and administrative costs	165,551.06
Stationery	600.00
Communication (telephone, fax)	4,400.00
Salary	1,019,033.64
Expenditures related to computers and office equipment	2,240.00
Utilities	3,107.41
Vehicle maintenance (repairs, service, fuel)	86,801.71
Web-page and domain support	6,633.13
Staff training	17,531.11
Tax and benefits payments	195,031.38
Insurance	17,908.26
Transportation	5,950.00
Total	1,672,437.24

SECTION 6. BUDGET EXECUTION

The table below presents the 2008 budget execution by the Fund (in US dollars):

Table "Budget Execution in 2008".

Expenditure item	Approved budget in USD	Actual expenditures in USD
Administrative costs total	7,860	6,503.24
Office repairs and maintenance (Bishkek, Batke)	1,000	1,254.83
Utilities	420	84.6
Travel expenses	1,400	0
Representation costs	140	0
Bank services	700	631.69
Office equipment: purchase, repairs and maintenance	1,700	2,457.55
Other administrative costs	1,400	1,048.27
Transportation	150	205.3
Auditors' remuneration	800	800
IC software support	150	21
Total for Babushka Adoption program activities	204,500	185,620.94
Charitable payments to old women	165,000	149,284.16
Vehicle maintenance, Bishkek	2,100	2,372.96

Training (Bishkek, Batken)	1,400	180.15
Salaries, social insurance fees (Bishkek, Batken)	36,000	33,783.67
Total for Fundraising	5,600	4,426.64
Project promotion (letters, posters, brochures)	2,800	3,499.26
Consultants	2,800	927.38
Total	217,960	196,550.82

Thus, the Fund's total expenditures amounted to USD 196,550.82 or 7,178,805 soms in 2008.

SECTION 7. ANALYSIS OF UNSPENT CASH BALANCE ON THE FUND'S ACCOUNTS

Cash balance in amount of CHF 171,204.29 was fixed on the Fund's settlement accounts with the UBS bank in Switzerland as of 01.01.2009.

Considering the dynamics of cash balance growth on the Fund's settlement accounts, it has been increasing by about 30% per year since 2004 towards previous balance. The information is given in the table below:

Table "Cash Growth Dynamics on the Fund's Settlement Accounts by Each Year End in 2002-2008 (CHF)".

Period	Settlement account cash balance by the period end (CHF)
2002	38,532.45
2003	41,375.31
2004	37,950.32
2005	74,279.10
2006	94,661.26
2007	121,179.20
2008	171,204.29

According to terms and conditions of agreements concluded with the Fund, our Company (Optima Audit LLC) performed audit of the Fund's financial documents for the period from 01.01.2007 to 31.12.2008. Hence, we can only provide explanation regarding the Fund's cash balance increase for the years 2007 and 2008.

This section contains reasons for the Fund's cash balance increase as of 01.01.2009 and recommendations to the Fund.

Explanation

1. Cash Receipt Analysis

During the period from 01.01.2007 to 31.12.2008, the Fund received funds from various sources. In 2007, such sources included sponsors such as local and international organizations and individuals, OSCE, International Women's Club. The total funding amount provided to the Fund in 2007 was 7,084,670 soms (as converted into the national currency at the Kyrgyz Republic National Bank exchange rate). In 2008, in addition to sponsor funding, the Fund had proceeds from the sale of the house inherited in 2007, as well as from fundraising activities. The total amount the Fund received in 2008 was 12,486,149 soms (this funding amount is also reflected in soms based on the NBKR exchange rate as of the end of 2008).

To analyze the sponsor funding received, each amount is divided by an amount payable to persons in care and by that payable to cover the Fund's administrative costs. Thus, all the Fund's receipts should be divided by amounts payable to persons in care and those intended to cover administrative costs. The table below shows the analysis of receipts in 2007 and 2008.

Table “Analysis of the Fund’s Receipts in 2007-2008 (soms)”.

Item	2007	2008	Total for 2 years	CHF equivalent
Payments to persons in care	4,272,529.07	7,797,780.97	12,070,310.04	329,071.51
Administration	2,812,140.93	2,887,280.29	5,699,421.22	155,382.68
Inherited house sale		1,697,827.00	1,697,827.00	46,287.67
Fundraising		103,261.00	103,261.00	2,815.19
TOTAL	7,084,670.00	12,486,149.26	19,570,819.26	533,557.05

Thus, within 2007 to 2008, the Fund received funds in amount of 19,570,819 soms of which **12,070,310** soms were payable to persons in care.

2. Funds Retirement Analysis

The table below contains data regarding spending of funds received by the Fund in 2007-2008.

Table “Analysis of the Fund’s Funds Retirement within 2007-2008 (soms)”.

Item	2007	2008	Total for 2 years	CHF equivalent
Payments to persons in care	4,252,405.16	5,506,367.54	9,758,772.70	266,052.33
Administration	2,453,314.84	1,672,437.00	4,125,751.84	112,479.91
TOTAL	6,705,720.00	7,178,804.54	13,884,524.54	378,532.24

Thus, within 2007-2008, the Fund spent funds in amount of 13,884,524 soms including **9,758,772** soms for payments to persons in care.

3. Analysis of the Budget Economy and Balance Accumulation an Settlement Accounts

The table below shows balance of unspent funding for 2007-2008:

Table “The Fund’s Unspent Funds Received in 2007-2008”.

	Total receipts within 2007-2008	Total retirement within 2007-2008	Cash balance as of 01.01.2009	CHF equivalent
Funding for payments to persons in care	12,070,310.04	9,758,772.70	2,311,537.34	63,019.18 (*)
Administration	5,699,421.22	4,125,751.84	1,573,669.38	42,902.77
Inherited house sale	1,697,827.00		1,697,827.00	46,287.67
Fundraising	103,261.00		103,261.00	2,815.19
TOTAL	19,570,819.26	13,884,524.54	5,686,294.72	155,024.82

The above table shows that within 2007-2008 the sponsor funding designed for charity support to persons in care but not spent amounted to CHF 63,019.19. The other saved Fund’s money in amount of CHF 92,005.63 (155,024.82 – 63,019.18 = 92,005.63) were designed for administrative costs.

(*) The unspent charity funding in amount of CHF 63,019 consists of amounts transmitted by sponsors in advance, i.e. for future payments in 2010 and 2011 to persons in care. Transcripts of advance payments are contained in the attachment to this Report. According to Attachment 2 to this Report, the funding amounts to CHF 96,310.65. This amount is an accumulated total for the period since 2004. There also is a possible exchange rate difference error for the entire period since charity funding was received both in national and foreign (USD, EUR, CHF) currencies, while the funding has been reflected in soms in the Fund’s database since 2008.

Thus, the unspent funds on the Fund's settlement accounts in amount of CHF 171,204.29 can be explained by the following:

1. Fund's proceeds for the inherited house sale in amount of CHF 46,287.67
2. Fundraising proceeds in amount of CHF 2,815.19
3. Administrative costs savings in amount of CHF 42,902.77 (for 2007-2008)
4. CHF 63,019.18 for charity payments received by advance payment for future payments to persons in care.

Total: **CHF 155,024.82.**

The remaining amount of CHF 16,179.47 (171,204.29-155,024.82) can be explained by administrative cost savings within 2004-2006 and the exchange rate difference since all above calculations were made based on the NBKR rate as of 31.12.2008, while, during the entire Fund's existence period, transactions were made both in local and foreign currencies using then current exchange rate effective on each transaction date.

SECTION 8. RECOMMENDATIONS TO THE FUND

When transmitting funds for persons in care by advance payment, sponsors do not increase the number of such persons, and the Fund may not pay such funds to other persons in care without prior consent from sponsors and the Supervisory Council. We believe it more reasonable to agree on the mechanism of using the accumulated sponsor funding received in advance for future payments. As a method of using such funds, we think, the number of persons in care may be increased per sponsor, and the funds may be disbursed to new persons in care, with sponsor consent. Otherwise, the amount of payments to existing persons in care may be increased.

Elena Puhireva, Director,

Optima Audit LLC _____