

THE ARMENIAN EYECARE PROJECT

FINANCIAL STATEMENTS

Years Ended December 31, 2008 and 2007

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Armenian Eyecare Project  
Newport Beach, California

We have audited the accompanying statements of financial position of The Armenian Eyecare Project (a California Non-Profit Public Benefit Corporation) as of December 31, 2008 and 2007 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Armenian Eyecare Project as of December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Miller Giangrande LLP*

September 29, 2009

THE ARMENIAN EYECARE PROJECT  
 STATEMENTS OF FINANCIAL POSITION  
 December 31, 2008 and 2007

ASSETS

	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 393,389	\$ 417,988
Investments	516,095	960,182
Prepaid expenses	<u>-</u>	<u>56,382</u>
Total current assets	909,484	1,434,552
PROPERTY AND EQUIPMENT, net	1,204,342	1,514,932
DEPOSITS	<u>2,752</u>	<u>2,752</u>
Total assets	<u>\$ 2,116,578</u>	<u>\$ 2,952,236</u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ <u>-</u>	\$ <u>19,702</u>
Total current liabilities	-	19,702
UNRESTRICTED NET ASSETS	<u>2,116,578</u>	<u>2,932,534</u>
Total liabilities and net assets	<u>\$ 2,116,578</u>	<u>\$ 2,952,236</u>

THE ARMENIAN EYECARE PROJECT  
 STATEMENTS OF ACTIVITIES  
 For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>% of Revenue</u>	<u>2007</u>	<u>% of Revenue</u>
<b>REVENUES AND GAINS</b>				
Donations	\$ 225,375	13.11%	\$ 403,402	12.02%
Grants	459,116	26.70%	543,634	16.20%
Special events	238,390	13.86%	487,416	14.52%
Donations in-kind	933,455	54.28%	1,896,920	56.52%
Interest and dividend income	40,605	2.36%	48,511	1.45%
Net realized and unrealized gains (losses) on investments	<u>(177,313)</u>	<u>(10.31)%</u>	<u>(23,688)</u>	<u>(0.71)%</u>
Total revenues and gains	<u>1,719,628</u>	<u>100.00%</u>	<u>3,356,195</u>	<u>100.00%</u>
<b>EXPENSES</b>				
Program	1,823,595		2,622,015	
Fund development and marketing	522,168		613,457	
Administrative and general	<u>189,821</u>		<u>189,358</u>	
Total expenses	<u>2,535,584</u>		<u>3,424,830</u>	
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>				
	<u>(815,956)</u>		<u>(68,635)</u>	
<b>UNRESTRICTED NET ASSETS</b>				
	<u>2,932,534</u>		<u>3,001,169</u>	
<b>NET ASSETS</b>				
	<u>\$ 2,116,578</u>		<u>\$ 2,932,534</u>	

THE ARMENIAN EYECARE PROJECT  
 STATEMENTS OF CASH FLOWS  
 For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (815,956)	\$ (68,635)
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	318,178	316,172
Net investment (gains) losses	144,087	(16,026)
Donations of in-kind equipment	-	(230,624)
(Increase) decrease in:		
Unconditional promises to give	-	6,870
Prepaid expenses	56,382	(54,382)
Other assets	-	(2,752)
Increase (decrease) in:		
Accounts payable	<u>(19,702)</u>	<u>(42,172)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>(317,011)</u>	 <u>(91,549)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(7,588)	(80,417)
Purchase of investments	-	-
Proceeds from sale of investments	<u>300,000</u>	<u>335,000</u>
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 <u>292,412</u>	 <u>254,583</u>
 NET INCREASE (DECREASE) IN CASH	 (24,599)	 163,034
 BEGINNING CASH BALANCE	 <u>417,988</u>	 <u>254,954</u>
 ENDING CASH BALANCE	 <u>\$ 393,389</u>	 <u>\$ 417,988</u>

THE ARMENIAN EYECARE PROJECT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

NOTE 1: THE COMPANY

The Armenian Eyecare Project (AECF), A California Non-Profit Public Benefit Corporation was founded in 1992. The purpose of the AECF is to provide eye care and to assist in the prevention and treatment of blindness, eye disease and eye injuries in Armenia and such other places throughout the world as designated by the Board of Directors. From 1992 through January 22, 2002, the AECF was a United Armenian Fund (UAF) funded project. The AECF was incorporated on January 22, 2002.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and practices followed by the AECF are set forth below:

Public support and revenue

Contributions are generally available for unrestricted use in the related period unless specifically restricted by the donor. Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Equipment with a fair value greater than \$500 is capitalized while equipment with a fair value less than \$500 is expensed as program costs. All consumables, regardless of fair value, such as medical supplies and pharmaceuticals are expensed at their fair value and are reflected in program costs. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Cash and cash equivalents

For purposes of the Statement of Cash Flows the Company considers all highly liquid short-term investments purchased with a maturity of three months or less to be cash equivalents.

Concentration of credit risk from financial instruments

The Company maintains cash accounts with financial institutions which are members of the FDIC and, as such, insure deposits up to a maximum of \$250,000. The Company from time to time may have bank deposits in excess of the FDIC insurance limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

THE ARMENIAN EYECARE PROJECT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008 and 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Tax status

The specific and primary purposes of the AECF are charitable, meeting the requirements for exemption provided by Section 501(c)(3) of the Internal Revenue Service Code of 1986 and by Section 2370ld of the California Revenue and Taxation Code.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line method. Estimated useful lives of the assets are as follows:

Mobile hospital	10 years
Medical equipment	7 years
Vehicles	5-10 years
Office equipment, furniture and fixtures	5-7 years
Computer equipment	5 years
Computer software	3 years

The cost of normal maintenance and repairs is charged to operations as incurred, whereas expenditures which materially extend property lives are capitalized. When depreciable property is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in income.

NOTE 3: INVESTMENTS

Aggregate market value of investments as of December 31, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Unrestricted		
Reserve Fund Primary	\$ -	\$ 94,300
T-Fund Select Shares	91,063	-
FNMA Gtd Pass thru Pool	64,498	-
Russell 2000 Value Index Fund	49,170	116,292
Russell 1000 Value Index Fund	54,472	117,968

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NOTE 3: INVESTMENTS (continued)

Russell 1000 Growth Index Fund	51,884	127,638
Standard and Poors Depository	54,144	116,968
Eaton Vance Ltd. Duration Income Fund	-	59,720
Evergreen Managed Income Fund	-	118,686
Clough Global Allocation Fund	10,680	49,220
Ishares Trust Lehman Bond Fund	-	-
ACM Income Fund	<u>140,184</u>	<u>159,390</u>
Total unrestricted investments	<u>\$ 516,095</u>	<u>\$ 960,182</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 40,605	\$ 48,511
Realized gains (losses) on sales of investments	(27,615)	6,079
Net unrealized gains (losses)	<u>(149,698)</u>	<u>(29,767)</u>
Net investment gains (losses)	<u>\$ (136,708)</u>	<u>\$ 24,823</u>

NOTE 4: PROPERTY AND EQUIPMENT

The balance of property and equipment as of December 31, 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Mobile hospital	\$ 274,054	\$ 274,054
Medical equipment	2,051,252	2,051,252
Vehicles	72,687	72,687
Tent	12,052	12,052
Office equipment	28,531	27,485
Furniture and fixtures	37,205	36,695
Computer equipment	72,634	66,602
Computer software, website and database	<u>105,415</u>	<u>105,415</u>
Total property and equipment	2,653,830	2,646,242
Less accumulated depreciation	<u>(1,449,488)</u>	<u>(1,131,310)</u>
Property and equipment, net	<u>\$ 1,204,342</u>	<u>\$ 1,514,932</u>

Depreciation and amortization expense charged to operations for the years ended December 31, 2008 and 2007 totaled \$318,178 and \$316,172, respectively.



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NOTE 5: FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program services and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services benefited.

NOTE 6: U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) GRANT

During the year ending December 31, 2004 the AECP was awarded a \$750,000 cost sharing (matching) grant from USAID to provide support for a program in “Bringing Sight to Armenian Eyes”, for the period from October 1, 2004 through September 30, 2007. During the year ended December 31, 2007 the AECP was awarded an additional \$800,000 cost sharing (matching) grant from USAID. USAID has obligated a total amount of \$1,550,000 for program expenditures for the period from October 1, 2004 through September 30, 2011. According to the grant provisions, the AECP has agreed to expend an amount not less than \$10,731,946 (ratio of 6.92 to 1) of the total activity costs. If at the end of the funding period, the AECP has expended an amount of non-Federal funds less than the agreed upon amount or percentage of total expenditures, the Agreement Officer may apply the difference to reduce the amount of USAID incremental funding in the following funding period. If the award has expired or has been terminated, the Agreement Officer may require the AECP to refund the difference to USAID.

NOTE 7: COMMITMENTS AND CONTINGENCIES

On May 11, 2007 the Company entered into a five year non-cancellable operating lease for office space, requiring monthly rental payments in the amount of \$2,408, expiring May 31, 2012. Total rent expense for the years ended December 31, 2008 and 2007 totaled approximately \$70,599 and \$45,475 respectively.

Subsequent to the year ended December 31, 2008, the Company vacated the office space and settled the lease obligation with the landlord for \$6,250.

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NOTE 8: FUNCTIONAL EXPENSES

The following schedules summarize the functional expenses and their classification in the statements of activities for the years ended December 31, 2008 and 2007:

	<u>December 31, 2008</u>			
	<u>Program</u>	<u>Fund Development</u>	<u>Administrative and general</u>	<u>Total</u>
Banking	\$ 554	\$ 3,180	\$ 3,597	\$ 7,331
Computer expenses	8,582	43,188	9,715	61,485
Depreciation	300,671	763	16,744	318,178
Dues and subscriptions	-	-	-	-
Education	901	846	-	1,747
Equipment and supplies	16,268	2,195	10,956	29,419
Events and meetings	2,095	65,296	31	67,422
Insurance	25,665	190	69	25,924
Marketing and public relations	885	485	-	1,370
Office space	56,624	7,888	19,978	84,490
Personnel	301,315	108,418	77,205	486,938
Postage and shipping	3,314	81,746	2,118	87,178
Printing and production	110,591	113,688	113	224,392
Professional services	75,481	21,100	32,488	129,069
Publishing - textbooks	-	-	-	-
Taxes, licenses and fees	50	27	895	972
Telephone	2,406	1,545	3,700	7,651
Travel	27,569	-	263	27,832
Vehicles	11,522	-	11,949	23,471
Website	11,567	6,273	-	17,840
Other	-	-	-	-
	<u>956,060</u>	<u>456,828</u>	<u>189,821</u>	<u>1,602,709</u>
<b>In-kind expenses</b>				
Physician services	38,315	-	-	38,315
Education	-	-	-	-
Events and meeting	-	59,180	-	59,180
Professional services	29,367	161	-	29,528
Equipment and supplies	778,607	5,999	-	784,606
Travel	21,246	-	-	21,246
	<u>867,535</u>	<u>65,340</u>	<u>-</u>	<u>932,875</u>
<b>Totals</b>	<u>\$1,823,595</u>	<u>\$ 522,168</u>	<u>\$ 189,821</u>	<u>\$2,535,584</u>

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NOTE 8: FUNCTIONAL EXPENSES (continued)

December 31, 2007

	<u>Program</u>	<u>Fund Development</u>	<u>Administrative and general</u>	<u>Total</u>
Banking	\$ -	\$ 8,444	\$ 2,097	\$ 10,541
Computer expenses	9,822	4,364	24,147	38,333
Depreciation	291,737	9,042	15,393	316,172
Dues and subscriptions	70	134	380	584
Education	53,691	-	-	53,691
Equipment and supplies	34,451	5,596	11,076	51,123
Events and meetings	1,220	210,723	2,743	214,686
Insurance	4,275	1,068	14,337	19,680
Marketing and public relations	120	1,795	-	1,915
Office space	43,386	4,678	10,436	58,500
Personnel	330,894	88,685	61,214	480,793
Postage and shipping	30,199	39,736	1,915	71,850
Printing and production	39,425	123,185	464	163,074
Professional services	116,027	23,536	26,742	166,305
Publishing - textbooks	21,040	-	-	21,040
Taxes, licenses and fees	3	150	867	1,020
Telephone	386	2,431	7,211	10,028
Travel	57,008	-	1,851	58,859
Vehicles	21,642	-	3,893	25,535
Website	787	4,641	-	5,428
Other	<u>-</u>	<u>-</u>	<u>4,592</u>	<u>4,592</u>
	<u>1,056,183</u>	<u>528,208</u>	<u>189,358</u>	<u>1,773,749</u>
In-kind expenses				
Physician services	163,508	-	-	163,508
Education	900	-	-	900
Events and meeting	-	85,249	-	85,249
Professional services	114,008	-	-	114,008
Equipment and supplies	1,200,566	-	-	1,200,566
Travel	<u>86,850</u>	<u>-</u>	<u>-</u>	<u>86,850</u>
	<u>1,565,832</u>	<u>85,249</u>	<u>-</u>	<u>1,651,081</u>
Totals	<u>\$2,622,015</u>	<u>\$ 613,457</u>	<u>\$ 189,358</u>	<u>\$3,424,830</u>